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Representing television, film and interactive production in Canada

ACPFT
Porte-parole de l'industrie de la production télévisuelle, cinématographique et interactive au Canada

Association des Producteurs de Films et de Télévision du Québec

THE CANADIAN FILM AND TELEVISION PRODUCTION INDUSTRY

PROFILE | 2002

Canada

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CANADIAN INDEPENDENT PRODUCTION: THE CHALLENGES OF UNCERTAINTY

A report produced by the
Canadian Film and Television Production Association
and l'Association des producteurs de films
et de télévision du Québec,
in conjunction with the Department of Canadian Heritage

In association with PwC Consulting

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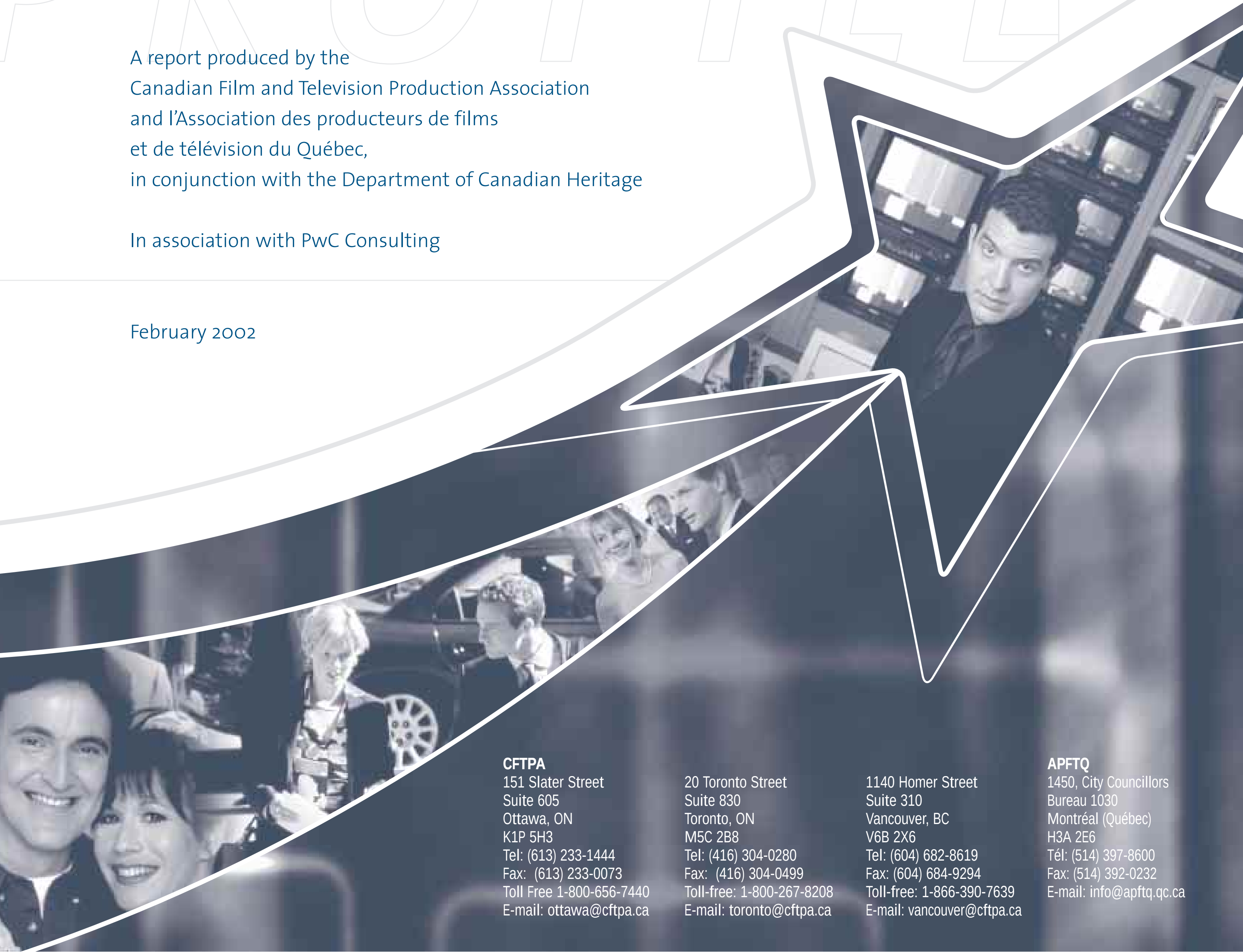

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PART 1

CANADIAN INDEPENDENT PRODUCTION: THE CHALLENGES OF UNCERTAINTY

Profile 2002 is the sixth annual industry profile of the Canadian film and television production sector. The Canadian production sector has experienced stable economic activity over the past year, though growth has been achieved mainly in location shooting while certified domestic productions have experienced more modest increases. The sector also continues to be a major employer in Canada, and its positive economic impact is especially felt in the country's regions through a balance of foreign location and certified Canadian productions.

In the foreseeable future, the production sector is moving into a period of uncertainty due to traumatic international events and the resulting economic downturn. Against this backdrop, pro-active policies are needed to underpin the Canadian production sector's strength by ensuring sustained activity. At the same time, policy must continue to promote a diversity of voices in programming, competitive access to broadcasting outlets and distribution systems, and stable funding mechanisms.

Profile 2002 provides a timely assessment of key production industry trends domestically and in international markets. As in past years, the CFTPA has collaborated with the Association des producteurs de films et de télévision du Québec as part of their ongoing commitment to provide reliable and credible information on the economic and cultural contribution of the Canadian film and television production sector in Canada and abroad. CFTPA and APFTQ collaborated very closely with the Department of Canadian Heritage and very much value its continuing support of this project. The Economic Profile once again has been produced in association with PwC Consulting.

The CFTPA and APFTQ represent together some 500 small, medium-sized, and large independent production companies from every region in Canada. The two associations work together to promote public policy measures and favourable economic conditions that foster the continued strength of Canada's diverse and dynamic film and television production sector.

PRODUCTION INDUSTRY TRENDS

The Canadian film and television production sector experienced stable overall growth over the past year. Economic activity has been due to familiar factors, such as Canadian currency attracting foreign location shooting, domestic fiscal policy stimulation from federal and provincial governments, and exceptionally well-trained and competitive production crews in Canada. Provincial fiscal incentives, such as service production tax credits, have been especially helpful in continuing to stimulate production activity in Canada's regions. Foreign location shooting, while strong, is still outpaced by Canadian certified productions.

DOMESTIC

Despite overall growth, the shock of recent international events, and the resulting impact on economic indicators such as consumer confidence and advertising spending, has had negative consequences for the Canadian production sector. While long-term predictions are subject to revision, the current climate of economic downturn and uncertainty will likely continue through most of 2002. This uncertain environment has had a particularly negative effect on the media industries, which depend heavily on advertising spending. As a result, the film and television production sector cannot escape the effects of these negative trends, since producers depend on advertising-dependent media companies as outlets for their products. Meanwhile, increased consolidation of the domestic and global distribution, broadcasting, and production sectors continues to pose significant challenges for Canadian independent producers as they seek access to their own domestic markets.

Needless to say, the most significant event in recent months was the terrorist attacks against the United States on September 11, 2001. The economy was the first structural casualty in the fallout of this traumatic historical event. In the United States and other Western countries, consumer confidence plummeted and, consequently, advertisers cut back spending. This trauma had an immediate impact on the media and entertainment industries, which are driven largely by advertising revenues. In Canada, these international shocks produced an immediate negative impact on the broadcasting sector. Publicly traded broadcasters have reported lower profits and their forecasts for the coming year are even more pessimistic due to advertising spending that is expected to be flat at best but more likely negative. Television networks such as CTV have announced layoffs as part of downsizing efforts to prepare for an economic downturn. The Canadian production sector has also been hit directly, as the U.S. studios have put some of their foreign location shootings on hold. These kinds of retrenchments in the Canadian, and global, media sector can be expected to continue in the short term.

In the fallout of this international shockwave, some have called into question previous trends towards large-scale media mergers, especially as many media giants have been caught off guard with massive debt loads during a sudden economic downturn. Over the past few years, the media sector has experienced massive consolidation through large-scale mergers and acquisitions that have produced powerful, vertically integrated media conglomerates. The example of AOL Time Warner in the United States is often cited as the quintessential example of consolidation and globalization in the media and entertainment industries.

In Canada, a similar thrust towards consolidation and vertical integration has also taken place. CanWest Global, for example, has consolidated its national network of television stations. It subsequently purchased the newspaper and Internet assets of Hollinger Inc., thus becoming the biggest media company in the country. CanWest Global is also vertically integrated through its acquisition of production house, Fireworks. At the same time, Bell Canada Enterprises bought both CTV Inc. and The Globe and Mail. CTV and The Globe and Mail were added to BCE's Internet service Sympatico in a newly created media holding, Bell Globemedia, which also owns, along with partner Cogeco, the French-language broadcaster TQS. On a smaller scale, Corus Entertainment, which is affiliated with the Shaw cable group, has acquired control of animation producer Nelvana. And in French Canada, Quebecor has acquired the Quebec-based cable TV giant, Videotron, which in turn controls the TVA television network, two production houses – TVA International and JPL Productions – plus a dozen specialty channels. Alliance Atlantis, which is the largest production house in Canada, has likewise vertically integrated with the launch of numerous specialty TV channels. As a result of these mergers and acquisitions, there is now a small cluster of powerful vertically integrated media giants in Canada.

The consolidation of these companies – CanWest-Hollinger, BCE-CTV, Shaw-Corus, Quebecor-TVA – could potentially affect the diversity of programming in Canada and poses serious competitive issues for independent producers. Some of these media giants, as noted, have direct interests in the production sector. As the "convergence" strategies of large-scale media groups appears to be in doubt, however, there could be serious consequences for independent producers seeking access to their distribution outlets. At a time when economic downturn gives vertically integrated media groups an incentive to pursue risk-reduction and cost-cutting strategies, it could well be independent producers who will suffer the most in a tighter economic environment. Vertically integrated media companies could choose, for example, to commission programming from either wholly owned or affiliated production companies. While it is true that some safeguards are in place to mitigate the impact of vertical integration, firm policy measures are needed to ensure that the independent production sector remains vital in a harsh economic climate. Policy should ensure that a diverse range of production companies have competitive access to markets.

In the current climate of global uncertainty, the creation of high-quality Canadian content, and its distribution in domestic movie theatres and on television screens, should be an even stronger goal of Canada's cultural policy. And past experience has amply demonstrated that Canada's independent production sector has shown the greatest commitment to the creation of high-quality Canadian content.

The Economic Profile, undertaken by PwC Consulting and published as Part 2 of this document, identifies the key trends and economic indicators of the past year, and expands on these figures providing additional data and statistical information about the sector. Some key trends include:

- Total production activity increased over the past year to nearly **$5 billion.**
- The Canadian production industry counted **134,400** direct and indirect jobs in 2000-2001 – some 51,700 direct jobs and 82,700 indirect jobs.
- Canadian certified production activity in 2000-2001 was **$2 billion,** experiencing modest growth from $1.9 billion the previous year.
- Non-certified productions and broadcaster in-house production represented activity of **$1.2 billion.** Non-certified productions alone exceeded **$300 million.** Broadcaster in-house productions counted for **$887 million,** up slightly from $850 million the previous year.
- British Columbia's production activity increased to **$1.2 billion.** In Atlantic Canada, production increased to **$176 million,** from $172 million the previous year. The Prairies experienced slower activity, decreasing to **$286 million,** compared with roughly $316 million the previous year.
- Ontario's production output increased in 2000-2001 to **$2 billion,** up from roughly $1.7 billion the previous year. The production sector in Quebec continued to grow, though more modestly, reaching activity of about **$1.35 billion**, compared with **$1.3 billion** the previous year.
- Total foreign revenues collected by Canadian producers increased slightly to **$2.2 billion.** Foreign location shooting increased to roughly **$1.8 billion** compared with $1.5 billion the previous year.

CANADIAN CERTIFIED PRODUCTIONS

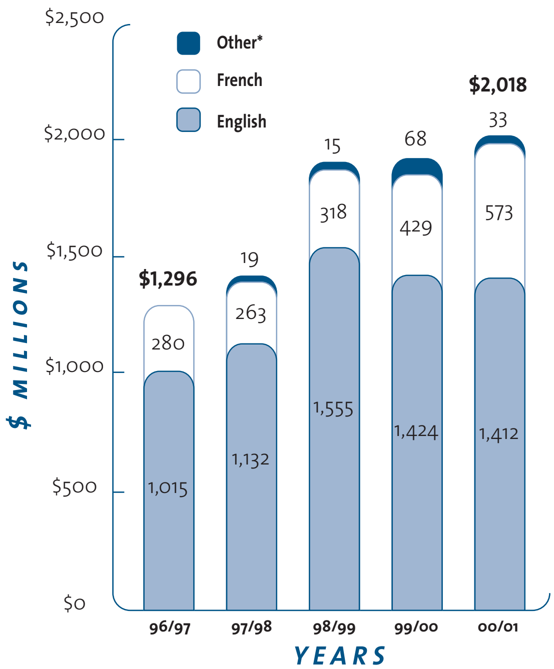
As in previous years, the **$5 billion** figure for total production activity is an industry-wide aggregate for economic activity in the production sector. It includes both Canadian certified and non-certified productions, as well as broadcaster in-house and location productions. Non-certified and location productions have enjoyed some growth, though more modest than in previous years, but remains robust. Policy mechanisms, based on a mixed system of financing combining fiscal incentives with direct public and private financing, continue to achieve both industrial and cultural objectives.

While foreign location productions are vital to sustain a strong infrastructure base in the Canadian production sector, certified productions are important to achieve the federal government's policy of encouraging the production and development of high-quality, regionally diverse domestic content that tells Canadian stories in movie theatres and on television. However, the level of Canadian certified productions continues to show signs of weakness in English Canada. In 2000-2001, certified productions in English declined slightly to **$1.4 billion,** while in French – certified productions increased to **$573 million** from $429 million the previous year. It should also be noted that certified productions declined in drama – a program genre often emphasized by cultural policy – to **$1.2 billion.** Also, the share of certified productions in the highest 8-10 point category – frequently dramas – declined to **60%** of total certified productions from 67% the previous year.

Decreased activity in certified productions may be due, in part, to avoidance of the complex and sometimes onerous administrative process associated with tax credit financing. A simplified tax credit calculation scheme would facilitate access to the fiscal incentives that stimulate production activity of certified productions. Discussion between the industry and government representatives are ongoing in an effort to simplify the tax credit system.

Exhibit 4

CAVCO Certified Production by Language



Source: PwC's estimates based on data collected from CAVCO
See exhibit notes 2 and 7.
* Other languages, including bilingual productions.

The **Canadian Television Fund,** while its structure has been the subject of discussion and debate, continues to play an indispensable role in stimulating the production of distinctly Canadian films and TV programs. A recent study of CTF activity by PricewaterhouseCoopers entitled the *Assessment of the Economic Impact of the Canadian Television Fund* produced some dramatic conclusions.

- For every $1 contributed by the CTF to a production, an average of $2 is contributed from other sources.
- Regionally the CTF assisted 93% of production in Atlantic Canada, 58% in the Prairie Provinces and 42% in B.C.

Clearly without the CTF, the financing model for Canadian content would be destroyed, resulting in a major decline of production activity and a major loss of jobs. There is no doubt the long-term renewal of the CTF should be a major policy goal if past successes hope to be achieved well into the future.

In 2000-2001, the CTF invested some **$210 million** in 486 projects to trigger **$683 million** in production activity, which produced an additional economic spinoff in the Canadian economy estimated at **$585 million.** CTF support, which represented 31% of total CTF financing last year, led to the creation of some **2,424 hours** of new programming – more than 1,000 hours in English and 1,300 hours in French. That represents an increase from the previous year, when the CTF invested $195 million in 380 projects to stimulate production activity totaling $618 million and creating 2,065 hours of new programming. As noted, however, last year saw a decline in certified Canadian productions in English-language drama.

Specifically, in 2000-2001 the CTF made available financing for productions that generated:

- **631 hours of drama**
- **513 hours of children's programs**
- **275 hours of performing arts and variety**
- **968 hours of documentaries**
- **37 hours of feature films**
- **65 hours of Aboriginal-language programs**

The table below provides a list of successful Canadian television programs, such as *DeGrassi: The Next Generation* (Epitome) and Gémeaux winner *Fortier* (Aetios), both of which were produced with financial support from the CTF.

English Language

Program and Producer	Broadcaster
DaVinci's Inquest (Haddock/Barna-Alper)	CBC
DeGrassi: The Next Generation (Epitome)	CTV
Blue Murder (Barna-Alper)	Global
After the Harvest (Sarrazin-Couture)	CTV
Made in Canada (Salter Street)	CBC
Blackfly (Salter Street)	Global
Lucky Girl (AAC/Tryptych)	CTV

French Language

Program and Producer	Broadcaster
Fortier (Aetios)	TVA
Willie (Avanti cinévidéo)	TVA
La vie, la vie (Cirrus)	Radio-Canada
Dans une galaxie près de chez vous (Zone3)	Vrak TV
Les 30 journées qui ont fait le Québec (Euréka)	Historia
Un gars, une fille (Avanti cinévidéo)	Radio-Canada
Emma (Point de mire)	TVA

Source: CFTPA, APTFQ, CTF

It is possible that certified productions in the dramatic genre may have suffered due to the CRTC's Television Policy, which provided Canadian private broadcasters with increased flexibility to meet domestic content requirements in prime time with productions in a large variety of categories. In 2000-2001, drama decreased slightly, from 638 hours the previous year to 631 hours. Producing high-quality drama in Canada – especially in English – confronts the familiar challenge of requiring significant investment in order to compete reasonably against imports of dramatic programming from the United States. Since U.S. producers can amortize their production costs in their domestic American market through broadcaster licence fees, they can export the same programs at relatively low cost to broadcasters in Canada and elsewhere. This creates an incentive for Canadian broadcasters to import cheaply purchased American programs, as opposed to investing higher dollar figures in licence fees for domestic Canadian programs. For this reason, public funding traditionally has been vital in Canada in order to ensure that Canadian dramas are produced and attain production qualities that can compete with U.S. imports.

Documentaries, performing arts and variety programs, meanwhile, have experienced a significant increase in production activity as broadcasters have shifted away from high-cost domestic dramas in favour of lower-cost "fact-based" programming. In the Canadian Television Fund documentary category, last year some 968 hours of programming were produced, up from 634 hours the previous year. Performing arts and variety programming also enjoyed an increase in production activity, to 275 hours from 180 hours the previous year.

The number of hours of children's programming continued to decline to its lowest production output in several years. Last year, 513 hours of certified children's programming were produced in Canada, a significant drop from 582 hours the previous year and 647 hours in 1998-1999. Children's programs benefiting from CTF support over the past year include *Eckhart II* (Crumbfest) and Gémeaux-award winning *Les Débrouillards* (Zone3).

FEATURE FILMS

After injecting an additional $50 million and consolidating previous funding into the new $100-million Canadian Feature Film Policy, a long-term goal of capturing 5% of the Canadian box office has been set. To achieve this goal, a performance component has been developed, allocated by the box-office results of Canadian feature films. Of equal importance is the establishment of a selective envelope to support Canada's cultural objectives.

In 2000-2001 certified Canadian feature film production experienced a slight decline to $316 million, down from $340 million the previous year. Foreign location shooting, on the other hand, increased to $857 million from $834 million the previous year.

Generally, feature film production has stabilized in Canada at roughly **$1.2 billion,** while television production has enjoyed a more solid increase in activity. Notable Canadian feature films last year were: *Century Hotel* (Victorious), *Maëlstrom* (Max Films), and *Nuit de noces* (Cinémaginaire).

The mixture of policy measures – direct financing, fiscal stimulus, and other incentives – continues to help Canadian independent producers access public financing that can be combined with private funds. Against the current backdrop of economic downturn and uncertainty, a long-term corporate funding regime, stronger development funding, and a predictable and efficient federal tax credit would ensure stable financing for Canadian producers who are building a dynamic domestic production industry by making high-quality Canadian content reflecting the diverse Canadian experience.

REGIONAL TRENDS

As in previous years, the CTF has played an important role in promoting independent production in Canada's regions by devoting a significant portion of its funding to projects originating outside Toronto and Montreal. Canada's provincial governments also continue to provide indispensable production funding through fiscal incentives, such as tax credits.

British Columbia production activity reached **$1.2 billion,** following a 23% growth rate the previous year from $881 million to $1.1 billion. The **Prairie provinces** experienced a decline in production activity to **$286 million,** down from $316 million the previous year.

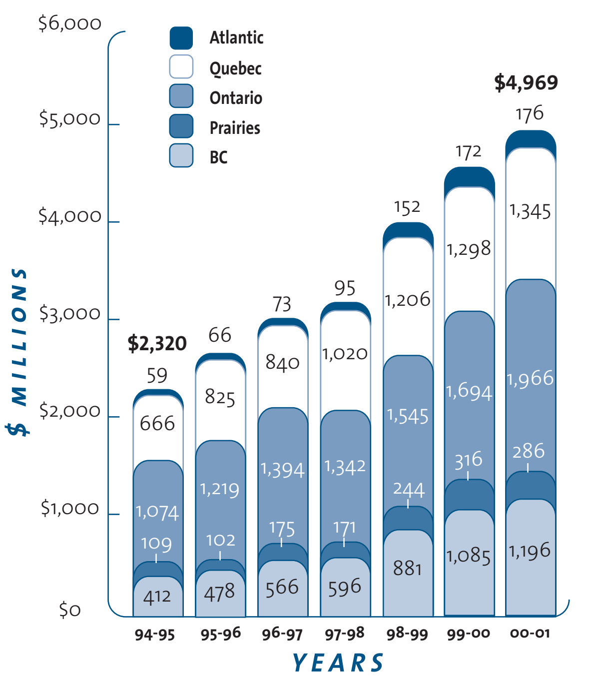
Ontario's production activity increased last year to **$2 billion,** up from roughly $1.7 billion the previous year. While Ontario experienced an increase in foreign location shootings, Canadian certified productions are declining in the province.

Quebec's total production activity continued to grow slightly, reaching just under **$1.35 billion,** up from just below $1.3 billion the previous year.

In **Atlantic Canada**, production activity increased slightly to **$176 million** from $172 million the previous year.

EXHIBIT 16

Volume of Film & Television Production By Region



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2, 6 and 11.

GLOBAL INDUSTRY

The global push towards industry consolidation and globalization continues to affect the film and television production industry. The trend towards large-scale mergers continues in the wake of the takeover of Time Warner by America Online. Today, virtually every Hollywood studio is part of a global entertainment conglomerate pursuing "convergence" strategies in the marketplace. As mentioned earlier, major media groups in Canada have similarly adopted convergence strategies.

These continuing trends pose serious challenges for independent producers as they seek to gain access to distribution outlets in order to reach markets. In many cases, convergence has masked strategies that can more properly be described as vertical integration, which raises concerns about competitive market access by non-affiliated companies in order to ensure a genuine diversity of voices. At the same time, issues such as foreign ownership may be on the table in forthcoming multilateral trade negotiations. And if Canada's foreign ownership rules are relaxed, deregulation could lead to buyouts of Canadian media groups by foreign corporate giants. Canada's producers, needless to say, would be directly affected by these developments.

Convergence remains a fashionable buzzword. The current climate of economic downturn has cast doubt on the short-term rewards of convergence strategies, especially given the premium prices paid for acquisitions of strategic media properties and heavy debt loads associated with many transactions. A softening advertising market has meant that, for many integrated media companies, strategic synergies and incremental revenues cannot be realized in the short term. The immediate reaction has been risk-reduction, cost-cutting, and layoffs to prepare for the effects of an economic downturn that could last for a year or longer.

Canadian independent producers have reason to be concerned about these trends, particularly if the result is increased levels of consolidation and vertical integration. Some market failures associated with vertical integration have already been felt in the production sector, both internationally and in Canada. For example, when producers attempt to sell their programs to television networks, broadcasters often insist on acquiring distribution rights, equity stakes, and back-end participation as a condition of broadcast licence fees. In many cases, broadcasters have adopted commercial risk-reduction strategies of self-dealing by buying programs produced either by wholly owned, or affiliated, production houses. Increased levels of consolidation and vertical integration could put more market power in the hands of media companies that control access to distribution systems.

INTELLECTUAL PROPERTY

The threat of Internet-based content distribution continues to exist. Video streaming systems such as iCraveTV and JumpTV have provided Canadian examples of the determination of Internet entrepreneurs to test the limits of copyright law by selling other people's copyrighted content via the Internet. The CFTPA and APFTQ play an active role in pressing government for a clear copyright policy in this area. Moreover, the government is in the midst of a major review of the *Copyright Act* as a whole.

Other new hardware technologies may also threaten broadcasters by allowing television viewers to store content and skip commercial advertising. The commercial strength of broadcasters has an obvious impact on their relationship with independent producers.

Policymakers continue to struggle with the implications of these new technologies. It will be necessary to strike an appropriate balance between showing openness to technological change and ensuring that rightsholders are fairly compensated for their work.

INTERNATIONAL TRADE

New technologies such as satellite and the Internet increasingly challenge territorial markets and drive global media companies to pursue transnational commercial strategies. As a result, national policies face mounting pressures as governments attempt to accommodate the realities of technological and commercial globalization. A most obvious forum where these pressures are brought to bear is multilateral trade bodies such as the World Trade Organization, which face increased pressures in favour of a more liberalized trade regime.

One particularly sensitive issue is foreign ownership restrictions in the media sector. The existence of foreign ownership restrictions has led to the consolidation of national media landscapes as a small group of large-scale domestic players acquired a limited number of media assets. The deregulation of foreign ownership rules would open up domestic markets to takeovers by foreign companies. In Canada, loosened foreign ownership rules could put serious pressure on domestic cultural policies, as foreign media giants could feel less obliged to cross-subsidize domestic Canadian content. At the same time, Canadian producers remain open to foreign investment and to foreign market opportunities, as growth is linked to international sales. A balance must be found between openness to foreign investment in Canada and seeking fair access to foreign markets.

INDUSTRY ISSUES

The current climate of economic uncertainty means that, now more than ever, the Canadian film and television production sector must work towards establishing a favourable policy environment domestically to strengthen Canadian companies. The Broadcasting Act, currently under review, is key to maintaining the foundation of the whole industry and its future particularly with regards to Canadian content and ownership issues.

Only solid financing opportunities and significant marketing resources will give Canadian content a chance to find success domestically and in foreign markets. As in past years, this can be achieved only through stable public financing that will trigger private investment in Canadian production. As noted, these policy mechanisms are particularly needed in the current context of pervasive uncertainty for Canada's independent producers, who depend on advertising-dependent media companies for access to market.

IMPACT OF CONSOLIDATION

The impact of global media consolidation has not spared the Canadian market. The number of major media companies in Canada is shrinking to a small group of giants: CanWest Global, BCE, Rogers, Shaw, Quebecor. Some of these Canadian media giants own significant players in the production sector, which predictably has raised concerns about self-dealing in favour of affiliated producers.

As noted, vertical integration of broadcasting and production can have serious consequences for producers who are not affiliated with major distribution outlets. If broadcasters schedule programs made by their wholly-owned or affiliated production companies, this means reduced shelf-space for unaffiliated producers. And given the need to ensure a diversity of voices in the production of high-quality Canadian content, it is important that non-affiliated producers are given fair access not only to markets, but also to financing so they can remain competitive.

The negative impact of vertical integration has been limited in Canada due to CRTC rules, which generally require through conditions of licence that the largest television groups acquire most of their priority programs, which are aired in prime-time, from non-affiliated producers. It is likely, however, that Canadian broadcasters will continue to vertically integrate into production, and therefore pressures on producers will continue to be felt as they seek access to markets via broadcast outlets.

ACCESS TO FINANCING

The issue of broadcaster-affiliated producers gaining access to public subsidies has been intensely debated in Canada. It is important to establish strict definitions of affiliated and non-affiliated producers, and stipulate applicable conditions of access to public funds. This will remedy any potential inequities and help encourage a diversity of voices on television and in movie theatres.

It should be noted that some of the broadcasters who have sought access to public subsidies for their affiliated producers are also publicly traded companies. These broadcasters can already raise financing through capital markets. Smaller independent producers do not have this luxury. Safeguards are therefore needed to ensure that unaffiliated producers have fair and equitable access to financing and markets in Canada and abroad. One step towards ensuring greater access to financing would be a simplified tax credit application process and more rapid receipt of benefits to producers. Policy must also recognize the challenges and budget realities of producing dramas in Canada and the corporate financing needs to produce Canadian programs.

ROLE OF BROADCASTERS

Even in the rapidly globalizing media industries, Canadian broadcasters remain the most important outlet for Canadian television programs made by domestic independent producers. As in all countries, Canadian television programs and feature films will better achieve success abroad if they first have been successfull commercially in their home domestic market. And Canadian broadcasters play an important role in ensuring that success.

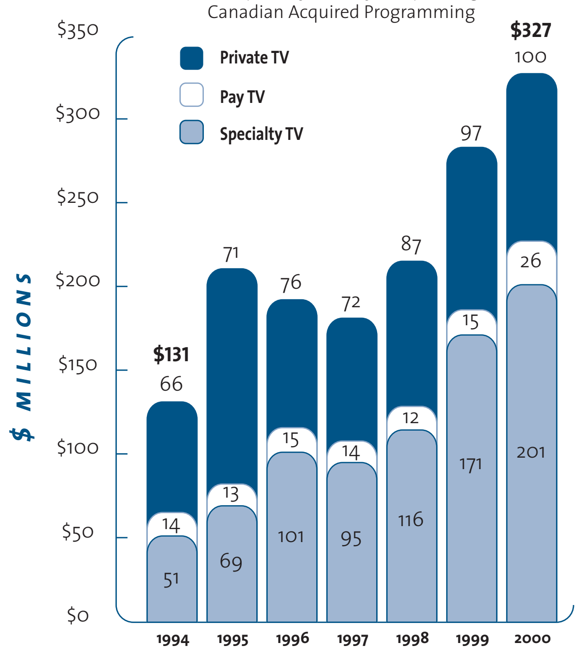
In 2000-2001, the Canadian Television Fund reports that Canadian broadcasters – both public and private – paid a total of **$181 million** in licence fees for certified productions. That figure represented about **27%** of total production budgets. The CBC/SRC continues to serve as a major window for high-quality, regionally diverse Canadian content. Last year, the CBC/SRC spent a total of **$46 million** in licence fees for certified programs made by independent producers. Private conventional broadcasters also play an important role as outlets for independent producers. In 2000-2001, private broadcasters spent $100 million on Canadian programming, including **$46 million** as licence fees. Educational broadcasters spent **$13 million** in licence fees.

As noted, there is increasing concern about the long-term future of drama on Canadian prime-time television following regulatory rules providing incentives for airing non-fiction or fact-based programming. The CRTC's Television Policy, announced in June 1999, widened the definition of "priority programs" and gave broadcasters an incentive to program fewer high-cost drama programs and focus their licence fees on lower-cost shows in the non-fiction category. While the Television Policy may have been well-intended, it has produced serious consequences for the production of high-quality Canadian dramas, which have long been considered to be the cornerstone of Canadian broadcasting policy.

Specialty channels also continue to play an important role in stimulating independent production in Canada. In 2000-2001, specialty channels spent **$201 million** on Canadian program acquisition, compared with $171 million the previous year. Pay TV channels spent **$26 million** on Canadian programming, a significant increase over the $15 million spent the previous year. Pay TV continues to benefit tremendously from satellite television services, which are all-digital and count roughly two million subscribers in Canada. Since most satellite TV customers subscribe to premium television, pay TV has significantly improved its revenue performance thanks to satellite TV subscriptions.

Exhibit 10

Private, Specialty and Pay TV Spending on Canadian Acquired Programming



Source: PwC's estimates based on data obtained from the CRTC.
See exhibit notes 4 and 7.

The table above shows the levels of investment, expressed as dollar investments, for private conventional TV, specialty channels, and pay TV channels on Canadian acquired programming.

In late 2000, the CRTC licensed 21 priority-carriage digital specialty channels – 16 in English and five in French – and hundreds of non-mandatory channels for digital distribution. In the fall of 2001, cable and satellite TV distributors launched dozens of these new channels in the hope that Canadian viewers would convert to digital television with the rollout of digital set-top boxes. While there is some reason to believe that new digital channels will provide market outlets for Canadian producers, it is believed their short-term economic viability will be severely challenged due to the relatively small base of digital subscribers in Canada. In the longer term, however, there can be little doubt that new digital channels will make a positive contribution to the Canadian broadcasting system, and provide opportunities for Canadian independent producers.

NEW MEDIA AND COPYRIGHT

Despite the highly-publicized high-tech meltdown, the new media sector continues to grow and holds tremendous commercial promise. The emergence of interactive television, in particular, will open up new forms of revenue streams, including e-commerce transactions. Negotiations between producers, broadcasters, and distributors about sharing revenues from interactive TV revenues will likely become contentious.

Needless to say, it is important that producers are compensated for the commercial use of their intellectual property, whether via conventional outlets or on the Internet.

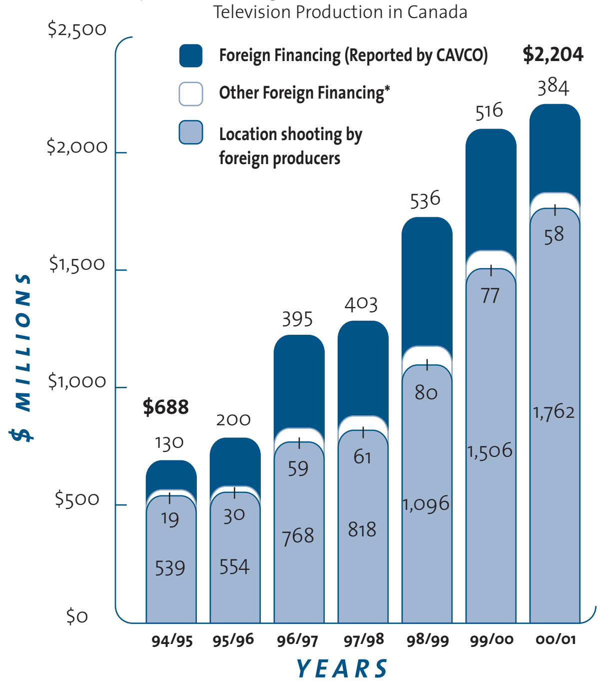
With the continuing threat from Web-based services such as JumpTV, policymakers must take timely measures to revise existing copyright legislation so that rightsholders will be protected when their work is distributed on new media systems such as the Internet.

INTERNATIONAL TRADE

It can be expected that multilateral trade talks will continue pushing for increased liberalization of the multilateral trading environment, including the media sector. The United States – Canada's biggest trading partner – will almost certainly advocate free trade in cultural products. Foreign ownership will be high on a number of national agendas. In Canada, some large-scale Canadian media companies, such as CanWest Global, favour less restrictive foreign investment so they can expand globally with fewer obstacles.

Exhibit 23

Export Value: Foreign Revenue Collected from Film and Television Production in Canada



Source: PwC's estimates based on data collected from CAVCO and the Department of Canadian Heritage. See exhibit notes 1, 2 and 7. * Other Foreign Financing refers to presales and distribution advances for non-CAVCO certified productions. The estimate is based on the level of CAVCO certified production.

The Canadian government has articulated a strong position in its discussions with its global trading partners to encourage the recognition of "cultural diversity". The CFTPA and the APFTQ continue to play a supportive role within the Coalition for Cultural Diversity, a pan-Canadian organization committed to the protection of domestic policy measures in the cultural sector.

Certain countries wish to negotiate culture within WTO negotiations, the Department of Foreign Affairs and International Trade is paying increased attention to the cultural sector in the context of multilateral trade issues. Independent producers, who are represented in these discussions on the cultural SAGIT, continue to assert that liberalized trade, while desirable, must be balanced off with a strong commitment by government to the strength and viability of Canada's domestic cultural industries.

As the table demonstrates, foreign financing sources for Canadian productions continues to be important. In the past year, major Canadian producers such as Alliance Atlantis have attracted foreign capital in the form of direct investment. The trend towards foreign investment and trans-national commercial alliances can be expected to accelerate as the media industries globalize. The global growth of Canadian production companies should be encouraged. At the same time, the production sector must be nourished in Canada's domestic market if international growth opportunities are to be seized by strong, commercially viable Canadian players. Co-productions continue to achieve important cultural and economic goals, and the CFTPA is playing a more significant role in building links for producers seeking to sell their products in established and emerging markets. In like manner, Canadian policy should be guided by the motto: Think global, act local.

MENTORSHIP

Canada has been remarkably successful in developing a highly skilled labour pool in the film and television production sector. Canadian film and television production industry supports 134,400 direct and indirect jobs in Canada – 51,700 direct jobs and 82,700 indirect jobs. As in previous years, over half of all Canadian production budgets go directly to salaries and wages in Canada.

Still, demand for skilled workers in the production sector outpaces the supply of labour. This is due, in part, to the recruiting efforts by foreign producers, including Hollywood studios, who compete for Canadian crews when they bring location shootings to Canada. Thanks to the comparative advantages of a stronger currency, American producers can easily outbid local Canadian producers for domestic crews when shooting in Canada.

MENTORSHIP PROGRAM

The CFTPA established the National Mentorship Program in 1995 to contribute to the development of industry professionals. The CFTPA NMP, in which the APFTQ also participates, administers and supports on-the-job mentorships/internships that allow individuals to obtain hands-on work experience, develop their skills, complement formal education and make important contacts. Since its inception the CFTPA National Mentorship Program has developed, co-ordinated and supported mentorships for entry level and mid-level career development.

The Mentorship Program has been particularly active over the past year. The National Mentorship Program, for example, is administering internships through BCE/CTV and CanWest Global. Also, the Mentorship Program and Corus Entertainment have joined together to create the Corus Entertainment Young Filmmakers Initiative. With $500,000 in grants over three years, this initiative provides young and aspiring Canadian filmmakers with the professional guidance and hands-on experience to produce their first film.

The Mentorship Program acknowledges the support of The Department of Foreign Affairs and International Trade (DFAIT), Human Resources Development Canada, The National Aboriginal Achievement Foundation, The Aboriginal People's Television Network, CanWest Global, and BCE/CTV.

THE ROAD AHEAD

There can be little doubt that the media industries, both in Canada and abroad, face serious challenges in the short-term fallout of traumatic international events and the resulting economic downturn. Against this backdrop, governments must play a pro-active role to minimize the negative impact of these trends. That can be achieved through policy measures aimed at strengthening the Canadian production sector.

Above all, Canadian producers must continue to have equitable access to financing and to their own domestic market. It is important, therefore, that existing policy mechanisms – such as fiscal incentives and corporate financing – remain in place and be implemented more efficiently while other forms of public financing are augmented and made permanent. The Canadian Television Fund and the newly created Canada Feature Film Fund should continue to play vital roles in stimulating the production of high-quality Canadian films and television programs that reflect Canada's diverse cultural experiences and stimulate the activity of a diverse range of domestic producers.

As in the past, it is essential that Canadian independent producers remain strong at home so they can seize opportunities abroad. In the current international context of uncertainty, it is more important than ever to achieve this goal.

CFTPA
Representing television, film and interactive production in Canada

ACPFT
Porte-parole de l'industrie de la production télévisuelle, cinématographique et interactive au Canada

Association des Producteurs de Films et de Télévision du Québec

THE CANADIAN FILM AND TELEVISION PRODUCTION INDUSTRY

PROFILE | 2002

ECONOMIC PROFILE

PREPARED BY PwC CONSULTING

PART 2

1 INTRODUCTION

PwC Consulting is pleased to participate for the sixth consecutive year in the publication of the CFTPA and the APFTQ annual profile of the Canadian film and television production industry. PwC Consulting is committed to providing yearly economic indicators on the performance of the Canadian film and television production industry to the production community and all government and financial communities that support it. The indicators in this Economic Profile provide an excellent starting point from which to assess regional or provincial production activity; the economic impact of federal and provincial support programs; and the competitive position of production companies. See Annex B for information on PwC Consulting.

1.1 HIGHLIGHTS OF THE 2002 EDITION

Nationally, the Canadian production industry reached nearly $5 billion (US $3.3 billion) in total volume of film and TV production in 2000-01, or 9% annual growth (All amounts are in Canadian dollars unless otherwise specified). The volume of film and television production includes the production budgets of CAVCO and non-CAVCO certified productions, foreign location shooting, and conventional broadcasters' and specialty and pay channels' in-house productions. Breaking down the $5 billion in film and television production **by sector,** CAVCO certified production represented over $2 billion (US $1.3 billion), foreign location shooting represented nearly $1.8 billion (US $1.2 billion) and non-CAVCO certified production and in-house production represented the balance with over $1.2 billion (US $0.8 billion).

Regionally, production levels remained strong. **Ontario** was the largest production centre in Canada, with nearly $2 billion (US $1.3 billion) in production activity or 40% of the $5 billion of total production in Canada. **Quebec** saw annual growth of 4%, reaching $1.35 billion (US $0.9 billion) in production or 27% of the $5 billion of total production activity in Canada. Production activity in **B.C.** reached nearly $1.2 billion (US $0.8 billion) in 2000-01. **Atlantic Canada** was strong, reaching $176 million (US $117 million) or 3% annual growth. The **Prairie Provinces** recorded $286 million (US $190 million) in volume of production in 2000-01. This represented an annual decline of 10% due primarily to a 50% decline in foreign location production in Alberta.

Internationally, the products and services of the Canadian film and television production industry continue to be in demand. The total amount of foreign revenue collected by the Canadian production industry (i.e. the **export value**) increased in 2000-01 to $2.2 billion (US $1.5 billion). This export value included $1.8 billion (US $1.2 billion) of foreign location shooting, and $400 million (US $266 million) of foreign distributor and broadcast presales. The strongest component of the export value was foreign location shooting, which grew by 17% in 2000-01.

Treaty co-production declined by 14% in 2000-01 to $534 million (US $355 million). This is the second year in row of decline in treaty co-production. Treaty co-production also dropped by 19% in 1999-00. However, these two back-to-back annual declines follow an all-time high of $762 million (US $507 million) in 1998-99. The United Kingdom and France continued to be the top two countries for Canadian treaty co-production. Australia and Germany maintained their third and fourth place rankings, respectively.

The Canadian film and television production industry continues to contribute to Canadian employment in all regions of Canada. In 2000-01 there were **51,700 direct jobs** in the film and television production industry. The Canadian film and television production industry also contributed to over **82,700 indirect jobs** in 2000-01, bringing the production industry's total contribution to Canadian employment to **134,400 direct and indirect jobs.**

1.2 NEW INDICATORS AND METHODOLOGICAL REVISIONS

There are some methodological updates and new indicators in the 2002 edition of the *Economic Profile,* as well as changes proposed for the 2003 edition that are worth noting.

- **Expanded production reporting by province (implemented in this edition)**

  Perhaps the most requested addition to the profile we receive is to report production by province rather than by region. Because certain production funding bodies in Canada do not report activity by province, it is not possible to report the total volume of production by province. However, we can report CAVCO certified and foreign location production by province, and so, this edition of the profile has expanded its reporting to include CAVCO and foreign location production by province.

- **Expanded production reporting by genre (implemented in this edition)**

  We have reported CAVCO certified production by genre since the 1999 edition of the profile. This year we have revised the "entertainment" category. In previous years, the entertainment category included fiction, music, variety and performing arts as reported by CAVCO. We are now dividing the "entertainment" category into two separate categories: "fiction", which is representative of drama and comedy productions, and "music, variety and performing arts".

- **GDP and Employment comparisons between industrial sectors (revised in this edition)**

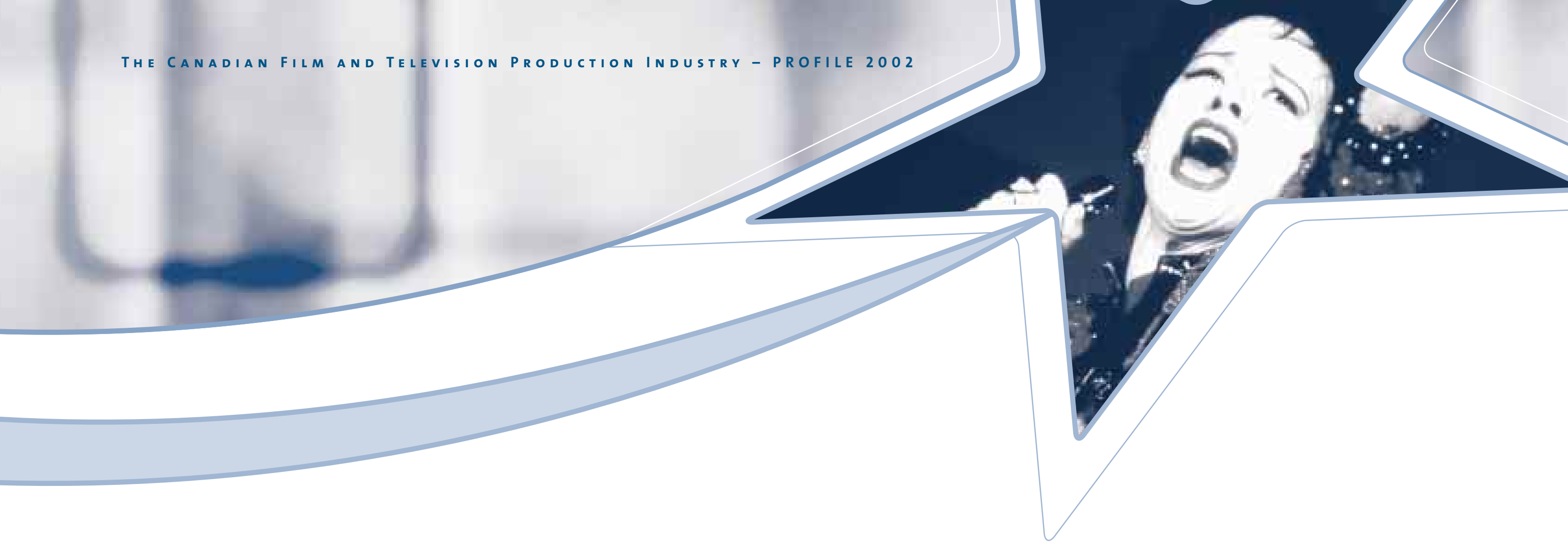
  Since the *Economic Profile's* inception six years ago, we have used Statistics Canada data to compare the production industry's gross domestic product (GDP) and employment growth rates with other industries and the economy as a whole. Statistics Canada is currently in the process of converting many surveys from the Standard Industrial Classification (SIC) system, to the North American Industry Classification System (NAICS). The Labour Force Survey, which reports employment by industry, switched to NAICS last year. GDP by industry data was reported under SIC last year, but now is reported in NAICS. From this year forward, both employment and GDP comparisons by industry will be under NAICS.

- **Revisions to CAVCO estimates by province (revised in this edition)**

  As outlined in exhibit note 2, our CAVCO production figures for the three most recent years include an estimate for CAVCO productions that have not yet been certified by CAVCO. We are now able to obtain reports from CAVCO that include productions submitted by province, but not yet certified by CAVCO. This has permitted us to improve the accuracy of our estimates by province.

- **Revisions to Non-CAVCO estimates (expected for the 2003 edition)**

  Non-CAVCO production is 'indigenous' production that is certified as Canadian by the CRTC rather than by CAVCO. Non-CAVCO production is enabled through provincial tax credits that don't require CAVCO certification or when Canadian production companies use service tax credits and obtain certification from the CRTC as Canadian to comply with broadcasting regulations. When we constructed the first edition of the profile six years ago, the instances where Canadian productions would not apply for CAVCO certification were relatively minor. At that time, industry representatives estimated non-CAVCO as a percentage of CAVCO certified production. Since then, we have continued to estimate non-CAVCO based on the levels of CAVCO production. However, the increase in provincial tax credits that has emerged over the last several years lead us to believe that there have been some significant changes in the levels of non-CAVCO production which are not being captured in our non-CAVCO estimates. We will continue to work with the CFTPA, CAVCO and the CRTC to devise a better way to estimate non-CAVCO production over the next year.



2 NATIONAL INDICATORS OF THE VOLUME OF FILM AND TELEVISION PRODUCTION

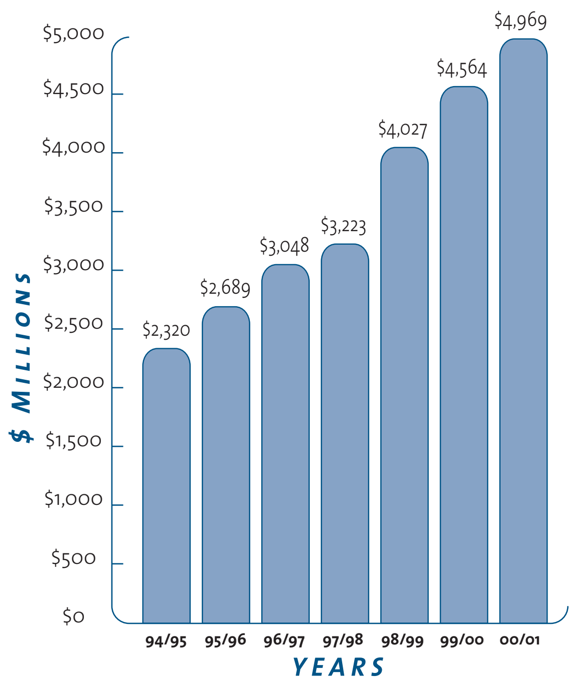
This section of the Economic Profile examines the volume of film and television production in Canada. Specific indicators include the production industry's overall growth, growth by production sector, and CAVCO certified production by language and points. The level of public financing for CAVCO certified productions is presented in this section as well.

2.1 TOTAL VOLUME OF FILM AND TELEVISION PRODUCTION IN CANADA

Growth in the Canadian film and television production industry remained strong in 2000-01, with nearly **$5 billion** (US $3.3 billion) in total volume of production activity and **9% growth** over the previous year (see Exhibit 1). Growth this year was lower than in previous years, as the industry has experienced an average annual growth for the last five years of 13%. The volume of film and television production figures detailed in Exhibit 1 include the production budgets of CAVCO and non-CAVCO certified productions, foreign location shooting, and conventional broadcasters' and specialty and pay channels' in-house productions.

Exhibit 1

Volume of Film and Television Production in Canada



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1 and 2

2.2 AVERAGE ANNUAL REAL GROWTH BY INDUSTRY SECTOR

The Canadian film and television production industry grew faster than the overall Canadian economy during the 1997 to 2000 period. While GDP figures for the film and television production industry are not available individually from Statistics Canada, the production industry is included in the aggregate category *Motion Picture and Video Production, Distribution and Post-Production Industry.*[1] Exhibit 2 indicates that the real GDP in the *Motion Picture and Video Production, Distribution and Post-Production Industry* grew by an average annual rate of **7.3%** between 1997 and 2000. During this same period, the Canadian economy grew by 4.4%; service-producing industries grew by 4.3%.

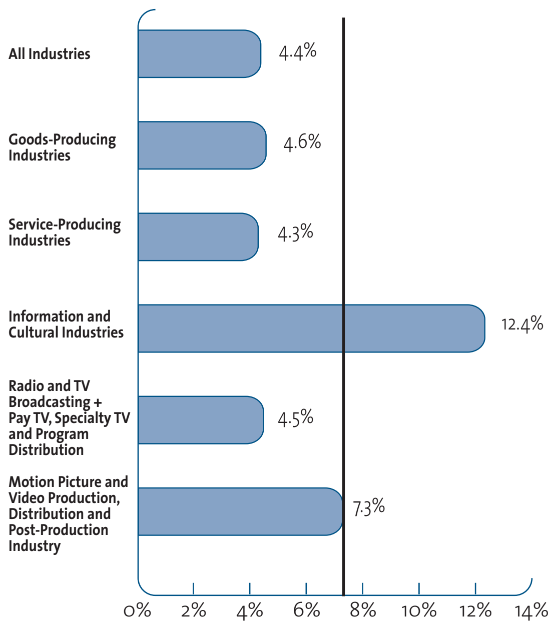
The Information and Cultural Industries Sector includes Publishing Industries, Motion Picture and Sound Recording Industries (including the *Motion Picture and Video Production, Distribution and Post-Production Industry*), Broadcasting and Telecommunications Industries, and Information Services and Data Processing Services

[1] Under the North American Industry Classification System (NAICS)

Industries. Between 1997 and 2000, the Information and Cultural Industries Sector grew by 12.4%.

The *Motion Picture and Video Production, Distribution and Post-Production Industry* also grew faster than the combination of the Television and Radio Broadcasting Industry and the Pay TV, Specialty TV and Program Distribution Industry[2].

Exhibit 2
Average Annual Growth of Real GDP by Industry 1997 to 2000



Source: Statistics Canada. See exhibit note 9.

2.3 VARIATIONS IN THE VOLUME OF PRODUCTION BY SECTOR

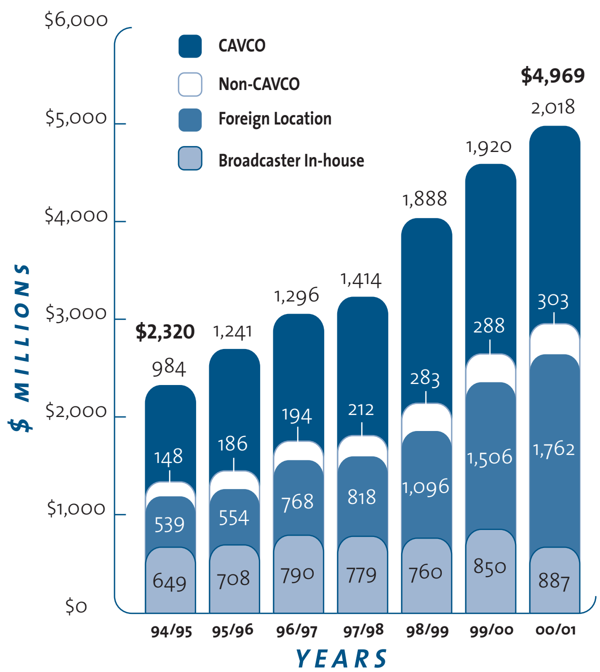
This section examines the components of the volume of production: CAVCO certified, non-CAVCO, foreign location, and in-house production (see Exhibits 3 and 3a).

CAVCO certified production continues to be the largest production segment in Canada, with over **$2 billion** in production in 2000-01 and a 41% share of the total volume of production. However, annual growth for CAVCO certified production was only 5% in 2000-01, less than half of the average annual growth rate over the last five years of 12%.

Foreign location production posted another year of significant growth, though less than in previous years. Total foreign location production reached nearly **$1.8 billion** in 2000-01, an increase of 17% over 1999-00. This is less than the average annual growth rate for the last five years at 23% and significantly less than the annual growth rate in 1999-00 of 37%. Foreign location production increased its share of overall production slightly, from 33% in 2000 to 35% in 2001.

Broadcaster in-house production increased by 4% this year to reach **$887 million.** Broadcaster in-house includes in-house productions from private broadcasters, the CBC/SRC, and specialty and pay services. This component of the volume of production has remained stable over the last five years, with only 3% average annual growth. In-house production represents an 18% share of the total volume of production.

Exhibit 3
Volume of Film and Television Production by Sector



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2 and 7.

Exhibit 3a
Volume of Film and Television Production by Sector – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
CAVCO	$ 2,018	41%	5%	12%
Non-CAVCO*	$ 303	6%	5%	12%
Foreign Location	$ 1,762	35%	17%	23%
Broadcaster In-house	$ 887	18%	4%	3%
Total	$ 4,969	100%	9%	13%

* Estimate based on level of CAVCO production

2.4 CAVCO CERTIFIED PRODUCTION BY LANGUAGE

In this section we report CAVCO certified production by language. This indicator gauges the level of CAVCO certified English and French production, as well as other languages (see Exhibits 4 and 4a).

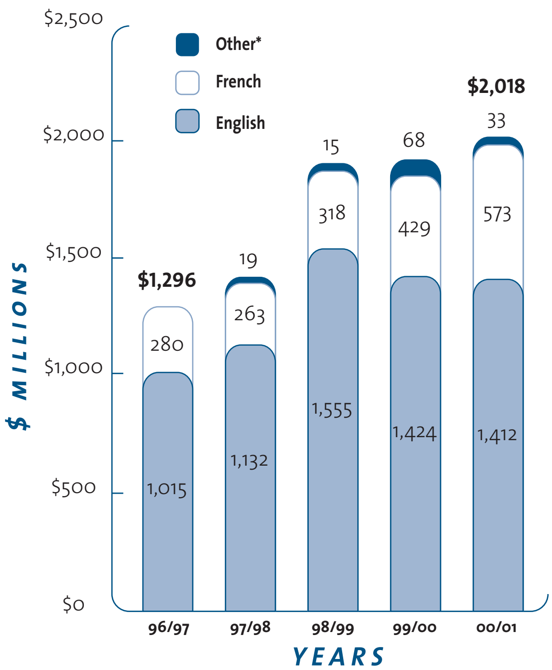
English-language production saw a slight annual decline of 1% for a total of $1.4 billion in 2000-01. The average annual increase for English-language production over the last five

[2] Includes operators of cable and satellite distribution systems, and establishments primarily engaged in the delivery of programs, to subscribers, by cable or satellite.

years was 9%. English-language production still captures the lion's share of CAVCO certified production at 70%.

French-language production reached $573 million in 2000-01, or an annual increase of 34%. Average annual growth for French-language production over the last five years was 20%.

Exhibit 4
CAVCO Certified Production by Language



Source: PwC's estimates based on data collected from CAVCO
See exhibit notes 2 and 7.
* Other languages, including bilingual productions.

Exhibit 4a
CAVCO Certified Production by Language – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
English	$ 1,412	70%	-1%	9%
French	$ 573	28%	34%	20%
Other	$ 33	2%	-51%	N/A
Total	$ 2,018	100%	5%	12%

* Estimate based on level of CAVCO production

2.5 CAVCO CERTIFIED PRODUCTION BY POINTS

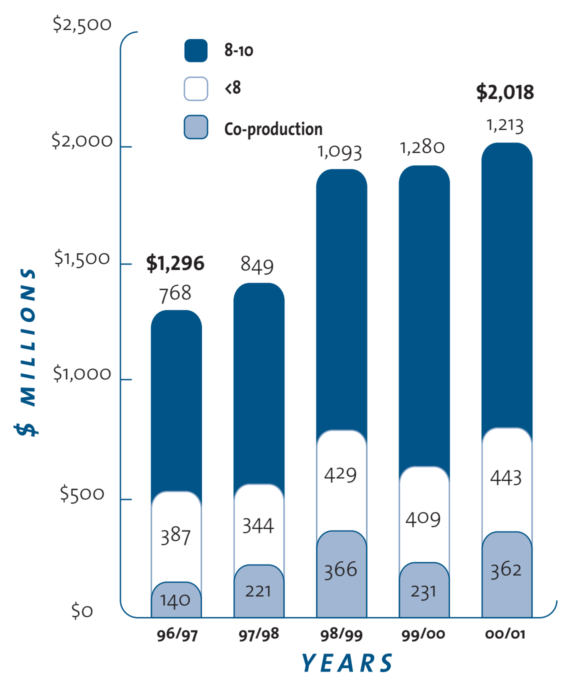
This section reports CAVCO certified production by points. This indictor measures the level of CAVCO certified production by the number of points it receives on the CAVCO scale. The number of points a CAVCO production receives is indicative of the degree to which Canadians make creative contributions to the production. CAVCO certified production also includes treaty co-productions as a separate category because the rules that govern the certification process for treaty co-productions are different from other productions (see Exhibits 5, 5a and 5b).

CAVCO certified productions with **8 to 10 points** experienced a decline of 5% in 2000-01. This category declined to $1.2 billion and its share of total CAVCO production declined from 67% to 60%.

CAVCO certified productions with **fewer than 8 points** grew to $443 million, or 8% annual growth. This category has experienced an average annual growth rate for the last five years of 3%. Productions with fewer than 8 points accounted for 22% of total CAVCO production in 2000-01, up slightly from 21% in 1999-00

CAVCO reports the Canadian portion of treaty co-productions that receive certification. The Canadian portion of treaty **co-production** budgets certified by CAVCO experienced annual growth of 57% in 2000-01 and reached $362 million. These results are in line with the Canadian portion of treaty co-production budgets reported by Telefilm (see Exhibit 25), though the values are different because not all co-productions request and/or receive CAVCO certification. Treaty co-production accounted for 18% of total CAVCO production in 2000-01, up from 12% in 1999-00.

Exhibit 5
CAVCO Certified Production by Points



Source: PwC's estimates based on data collected from CAVCO
See exhibit notes 2 and 7.

Exhibit 5a
CAVCO Certified Production by Points – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
Co-Production	$ 362	18%	57%	27%
< 8 Points	$ 443	22%	8%	3%
8-10 Points	$ 1,213	60%	-5%	12%
Total	$ 2,018	100%	5%	12%

Exhibit 5b
CAVCO Certified Production by Points – Share from 1996-97 to 2000-01 (based on production budgets)

	1996-97	1997-98	1998-99	1999-00	2000-01
Co-Production	11%	16%	19%	12%	18%
< 8 Points	30%	24%	23%	21%	22%
8-10 Points	59%	60%	58%	67%	60%
Total	100%	100%	100%	100%	100%

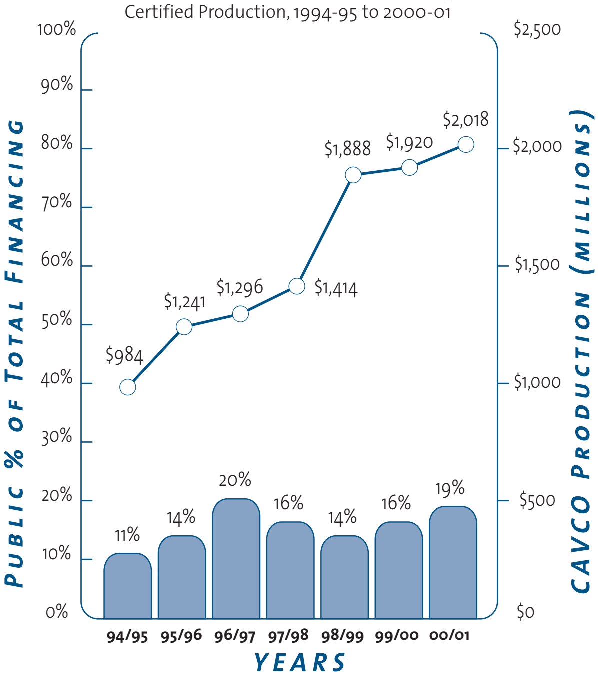
2.6 LEVEL OF DIRECT PUBLIC FINANCING OF CAVCO CERTIFIED PRODUCTION

The level of direct[3] public financing of CAVCO certified productions increased to 19% in 2000-01.

Levels of public financing of CAVCO certified productions have varied significantly over the last seven years. For example in 1995-96 and 1996-97, the level of public financing of CAVCO certified productions began to climb and reached a high of 20%. This climb was due, in large part, to a temporary decline in private investment in production during the transition from the Capital Cost Allowance Program to the new Canadian Film or Video Production Tax Credit (CPTC) program. During this same period, there was also a major influx of public funding as the Canadian Television Fund was introduced.

It is quite possible that the increase to 19% in 2000-01 is overstated due to the nature of the CAVCO certification process. See exhibit note 3 for further explanation.

Exhibit 6
CAVCO Production vs. Direct Level of Public Funding to CAVCO Certified Production, 1994-95 to 2000-01



Source: PwC's estimates based on data obtained from CAVCO. See exhibit notes 2 and 3.

[3] Direct refers to grants and equity investments (e.g. Canadian Television Fund). This does not include indirect incentives that are financed by producers, such as tax credits.

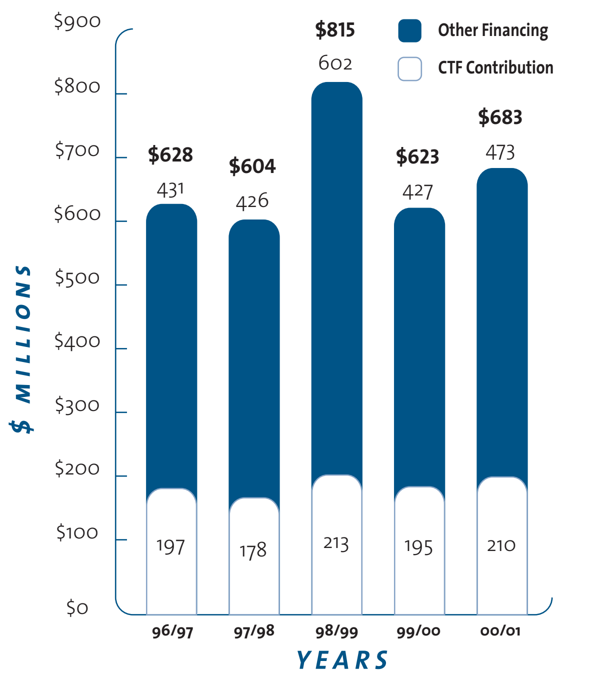
2.7 CTF-SUPPORTED PRODUCTION

The Canadian Television Fund (CTF) is a private, not-for-profit corporation, which is responsible for funding distinctly Canadian programs in traditionally under-represented program genres such as prime-time drama, documentary, children's, and performing arts and variety. The CTF was formed in 1996 as a public-private partnership. It provides funding for Canadian production through two financing vehicles: the Equity Investment Program (EIP) and the Licence Fee Program (LFP). The EIP makes direct cash investments in production projects with the intent of recouping its investment. The LFP makes non-recoupable licence fee top-ups to eligible Canadian productions.

The CTF is funded by contributions from the Department of Canadian Heritage, Canadian cable television distribution companies, Telefilm Canada, and Canadian direct-to-home service providers.

In 2000-01, the CTF contributed $210 million to Canadian production. Other sources of financing contributed $473 million to CTF-supported productions. In total, the CTF supported $683 million in production budgets in 2000-01.

Exhibit 7
Production Activity with CTF Contributions, 1996-97 to 2000-01



Source: Canadian Television Fund

Exhibit 7a
Production Activity with CFT Contributions – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
CTF Contribution	$ 210	31%	8%	2%
Other Financing	$ 473	69%	11%	2%
Total	$ 683	100%	10%	2%

3 INDICATORS OF THE VOLUME OF FILM AND TELEVISION PRODUCTION BY MEDIUM, SECTOR AND GENRE

This section of the Economic Profile disaggregates the volume of production by medium, sector, genre, and sources of financing.

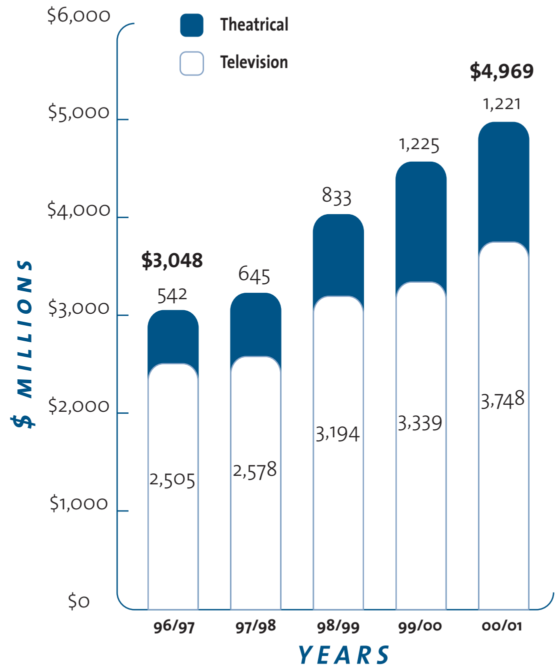
3.1 VOLUME OF FILM AND TELEVISION PRODUCTION BY MEDIUM

This section splits the volume of production between its primary first window release: television or theatrical (see Exhibits 8 and 8a).

Television production grew by 12% to $3.7 billion in 2000-01. This was on par with previous years, as the average annual growth rate over the last 5 years was 11%. Television production represented the largest share of the volume of production by medium at 75%. Television production detailed in Exhibit 8 includes the production budgets of CAVCO and non-CAVCO certified productions, foreign location shooting, and conventional broadcasters' and specialty and pay channels' in-house productions.

Theatrical production was stable in 2000-01 at $1.2 billion. This year's performance was respectable considering annual growth in 1999-00 was a staggering 47%. Though theatrical production has experienced an average annual growth of 22% over the last five years, it still remains much smaller than total television production with a 25% share of the total volume of production by medium. Theatrical production detailed in Exhibit 8 includes the production budgets of CAVCO and non-CAVCO certified productions and foreign location shooting.

Exhibit 8
Volume of Film and TV Production by Medium



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2, 5 and 7.

Exhibit 8a
Volume of Film and TV Production by Medium – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
TV	$ 3,748	75%	12%	11%
Theatrical	$ 1,221	25%	0%	22%
Total	$ 4,969	100%	9%	13%

3.2 VOLUME OF TELEVISION PRODUCTION BY SECTOR

While television production overall grew by 12% in 2000-01, there was variation in the growth of television production by sector (see Exhibit 9 and 9a).

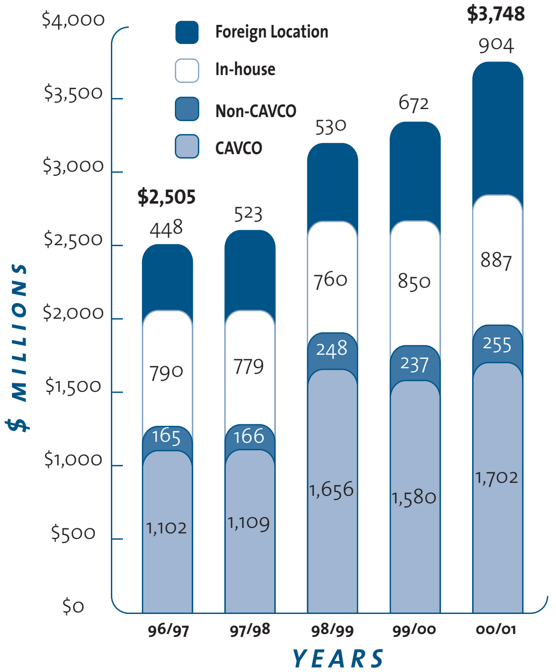
CAVCO certified television production increased by 8% to $1.7 billion in 2000-01. This increase is a reversal of last year's trend. In 1999-00, CAVCO certified television production actually declined. In 2000-01, CAVCO certified television production represented 45% of the television production market – almost double the level of foreign location television production.

Foreign location television production in Canada saw a significant increase in 2000-01, growing 34% to $904 million. This rate of growth was significantly higher than the rate over the last five years. Between 1996-97 and 2000-01, foreign location production grew by an average annual growth rate of 19%.

Broadcaster in-house production grew by 4% to $887 million in 2000-01; it represented 24% of all television production. While there has been some modest ongoing growth in the sector, broadcasters continue to outsource production to independent producers rather than produce in-house.

Exhibit 9

Volume of Television Production by Sector



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.
See exhibit notes 1, 2, 5, 7 and 12.

Exhibit 9a

Volume of TV Production by Sector – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
CAVCO	$ 1,702	45%	8%	11%
Non-CAVCO*	$ 255	7%	8%	11%
Broadcaster In-house	$ 887	24%	4%	3%
Foreign Location	$ 904	24%	34%	19%
Total	$ 3,748	100%	12%	11%

* Estimate based on level of CAVCO production

3.3 PRIVATE, SPECIALTY AND PAY TV SPENDING ON CANADIAN ACQUIRED PROGRAMMING

Spending on Canadian acquired programming by private, specialty and pay television services continued to climb, reaching **$327 million** in the 2000 broadcast year (see Exhibit 10).

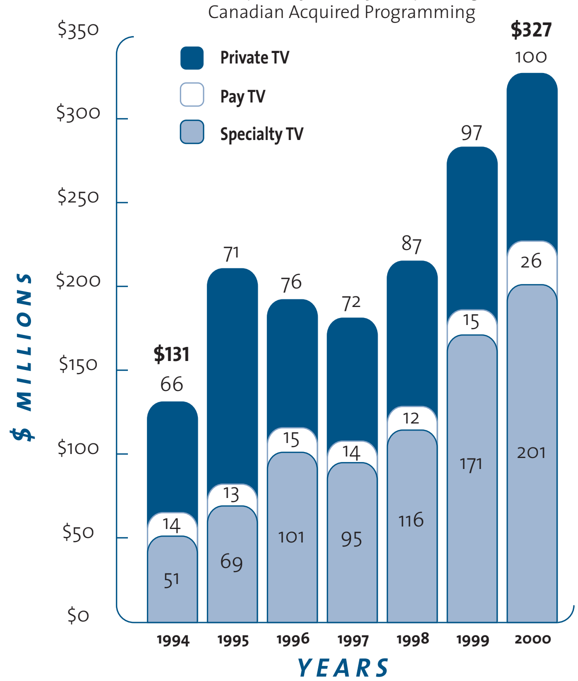
Specialty services spent $201 million on Canadian acquired programming – an increase of 17% over 1999-00. With the launch of new digital specialty services in September 2001, we can expect further growth on Canadian acquired programming in the future from this sector.

Private broadcasters spent $100 million on Canadian acquired programming in 2000. Private broadcaster spending on Canadian acquired programming grew by 3%.

Pay services saw a significant increase in their expenditures on Canadian acquired programming. In 2000 pay services increased their spending on Canadian acquired programming by 74% to $26 million.

Exhibit 10

Private, Specialty and Pay TV Spending on Canadian Acquired Programming



Source: PwC's estimates based on data obtained from the CRTC.
See exhibit notes 4 and 7.

Exhibit 10a

Spending on Canadian Acquired Programming – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
Specialty	$ 201	62%	17%	19%
Pay	$ 26	8%	74%	14%
Private Broadcasters	$ 100	31%	3%	7%
Total	$ 327	100%	15%	14%

3.4 VOLUME OF THEATRICAL PRODUCTION BY SECTOR

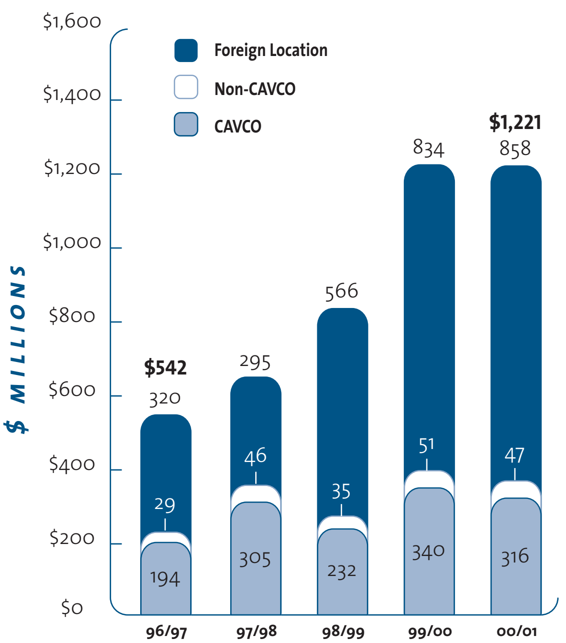
Theatrical production levels remained stable this year after significant growth in 1999-00 (see Exhibits 11 and 11a).

Canadian theatrical production experienced a decline of 7% in 2000-01 to $316 million, but only after one of its strongest years ever in 1999-00. CAVCO certified theatrical production represented only 26% of all theatrical production in Canada.

Foreign theatrical production in Canada experienced growth in 2000-01, reaching $858 million, or 3% annual growth. Annual growth was significantly lower than the average annual growth rate of 28% for the 1996-97 to 2000-01 period. Foreign theatrical production represented 70% of all theatrical production in Canada.

EXHIBIT 11

Volume of Theatrical Production by Sector



Source: PwC's estimates based on data collected from CAVCO, and the Department of Canadian Heritage. See exhibit notes 1, 2, 5, 7 and 12.

EXHIBIT 11A

Volume of Theatrical Production – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
CAVCO	$ 316	26%	-7%	13%
Non-CAVCO*	$ 47	4%	-7%	13%
Foreign Location	$ 858	70%	3%	28%
Total	$ 1,221	100%	0%	22%

* Estimate based on level of CAVCO production

3.5 CAVCO CERTIFIED PRODUCTION BY GENRE

This section reports on variations in CAVCO certified production by genre (see Exhibits 12 and 12a).

Documentary production experienced a slight increase of 2% in 2000-01, reaching $211 million. It appears documentary production has stabilized at the $200 million level after a tremendous annual surge from $125 million in 1998-99 to nearly $300 million the following year. Documentary production represented 10% of total CAVCO certified production in 2000-01.

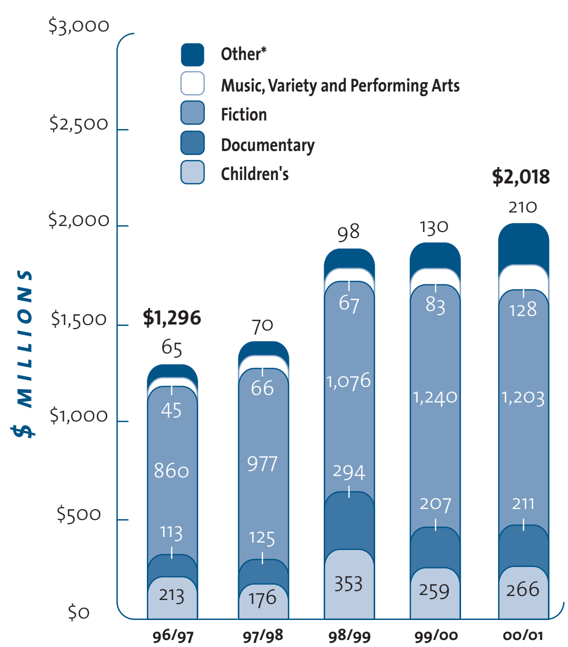
Children's programming also saw a slight increase in 2000-01, reaching $266 million or 3% annual growth. Like documentary production, Children's programming surged in 1998-99, but has since stabilized. Children's programming represented 13% of total CAVCO certified production.

The **fiction** category of production (i.e. drama, comedy) experienced a small annual decline of 3% to $1.2 billion in 2000-01. This was reasonable, considering that drama and comedy programming have experienced significant competition for television airtime from variety and other types of programming (i.e. reality television, game shows). Despite a small annual decline, fiction still represented the bulk of CAVCO certified production at 60%.

Music, variety and performing arts production experienced significant growth in 2000-01, reaching $128 million or 54% annual growth. The bulk of this production came from variety programming, which doubled in volume over the last year.

EXHIBIT 12

CAVCO Certified Production by Genre



Source: PwC's estimates based on data obtained from CAVCO. See exhibit notes 2 and 7. * Other production includes educational/instructional and magazine-show programming.

Exhibit 12a
CAVCO Certified Production by Genre – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
Children	$ 266	13%	3%	6%
Documentary	$ 211	10%	2%	17%
Fiction	$ 1,203	60%	-3%	9%
Music, Variety and Performing Arts	$ 128	6%	54%	30%
Other	$ 210	10%	61%	34%
Total	$ 2,018	100%	5%	12%

3.6 FINANCING OF CAVCO CERTIFIED PRODUCTION BY GENRE

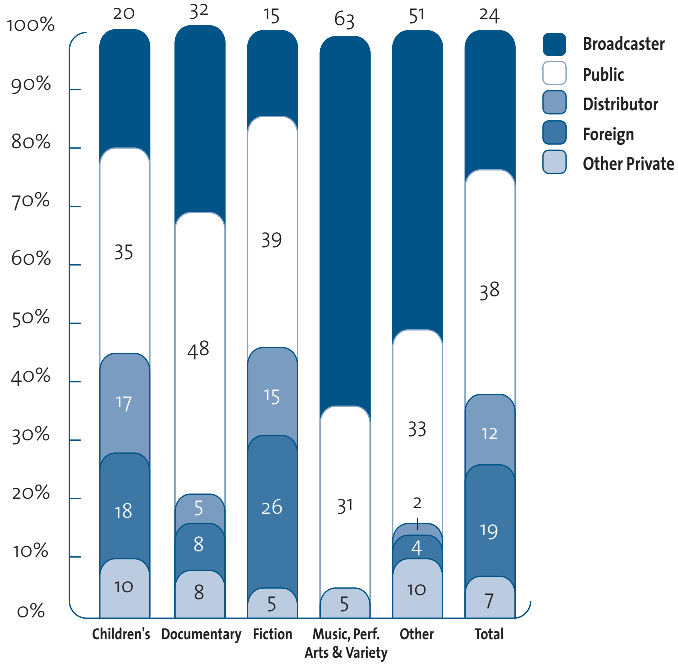
CAVCO certified Canadian film and television productions tap into a variety of sources to obtain financing for their production budgets. The financing sources for Canadian production budgets can be divided into five major categories: Broadcaster Advances, Public Financing, Distributor Financing, Foreign Financing, and Other Private sources.

Broadcaster Advances include the licence fees paid by private and public Canadian broadcasters to producers. Public Financing includes direct and indirect government funding for Canadian productions. Direct Public Financing includes grants and financing from government programs such as the Canadian Television Fund, Telefilm Canada, and numerous provincial funding programs. Indirect public financing includes federal and provincial tax credit programs such as the Canadian Film or Video Production Tax Credit (CPTC), the Film or Video Production Services Tax Credit (PSTC) and provincial tax credits. Distributor financing includes production financing from Canadian companies distributing Canadian productions outside of Canada. Foreign Financing includes funding from foreign companies that distribute Canadian productions outside of Canada. Other Private sources include funding from production companies and corporate-sponsored production funds.

In 2000-01, Public Financing sources made up 38% of the budgets of CAVCO certified production – the largest share of production financing (see Exhibits 13 and 13a). Broadcaster Advances comprised 24% of production budgets, while Foreign Financing contributed 19%. Financing from distributors made up 12%, and Other Private sources contributed 7%.

Sources of production financing varied considerably across genres in 2000-01. The financing of children's programming was in line with the overall average across all genres. Documentaries received a higher share of financing from broadcasters and public sources. Fiction received a higher share of its financing from public and foreign sources. Music, performing arts and variety programming received the majority of its funding (63%) from broadcasters. Other genres, such as educational programming and magazine shows, also received a majority of their funding from broadcasters. These genres received 51% of their financing from broadcasters, about twice the rate of 24% for all Canadian production.

Exhibit 13
Sources of Financing, CAVCO Certified Production, by Genre, 2000-01



Source: PwC's estimates based on data obtained from CAVCO. See exhibit note 3. Based on CAVCO classifications.

Exhibit 13a
Sources of Financing, CAVCO Certified Production, by Genre, 2000-01

	Children's	Documentary	Fiction	Music, Perf. Arts & Variety	Other	All Genres
Broadcaster	20%	32%	15%	63%	51%	24%
Public	35%	48%	39%	31%	33%	38%
Distributor	17%	5%	15%	0%	2%	12%
Foreign	18%	8%	26%	0%	4%	19%
Other Private	10%	8%	5%	5%	10%	7%
Total	100%	100%	100%	100%	100%	100%

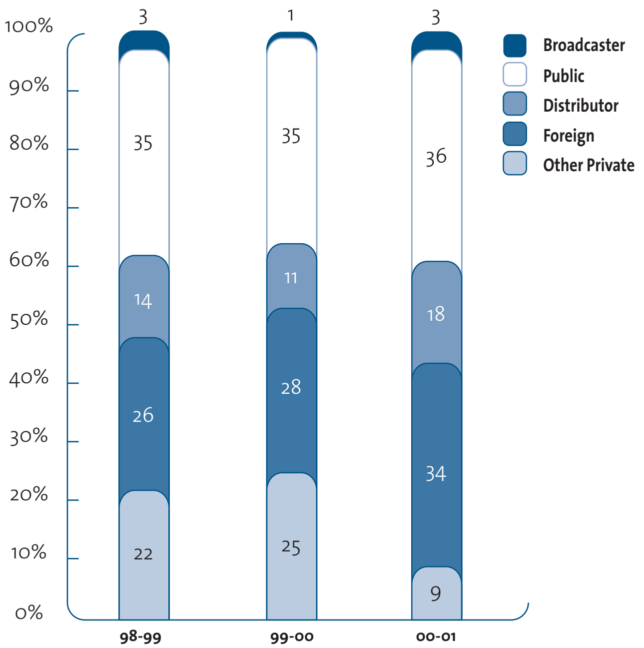
3.7 FINANCING OF CAVCO CERTIFIED THEATRICAL PRODUCTION

In 2000-01, CAVCO certified theatrical productions represented $316 million out of the $2 billion in CAVCO certified production. CAVCO certified Canadian theatrical productions also tap into a variety of sources to obtain financing for their production budgets. In 2000-01, public sources and foreign sources were the two largest sources of financing. Canadian theatrical productions received 36% of their financing from direct and indirect public sources, and 34% of their financing from foreign sources (see Exhibits 14 and 14a). Distributors contributed 18% to theatrical production budgets; other private sources contributed 9%, while broadcasters contributed 3%.

CAVCO data for 1998-99 to 2000-01 indicate that the foreign contribution to theatrical production budgets has been increasing. Foreign sources increased their share of funding from 26% in 1998-99 to 34% in 2000-01. During this period, the share of financing from other private sources in Canada dropped from 22% to 9%.

Exhibit 14

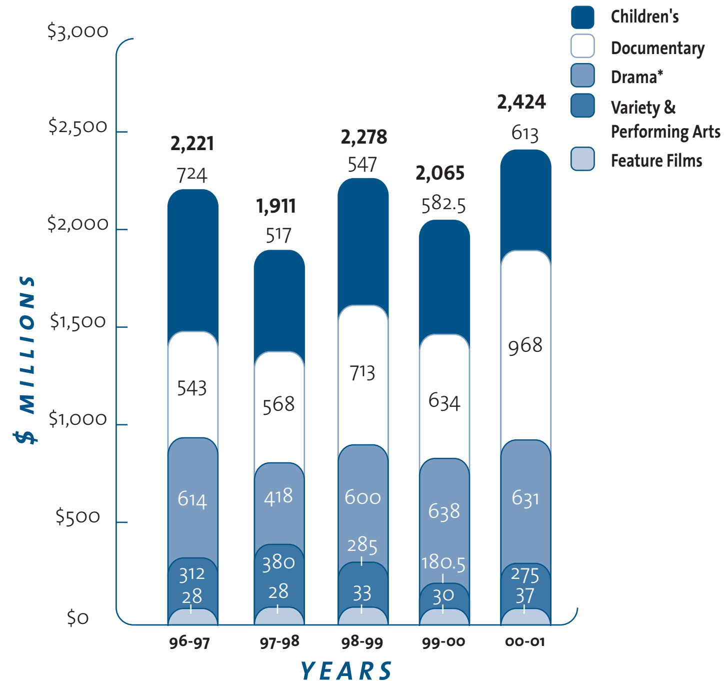
Sources of Financing, CAVCO Certified Theatrical Production, 1998-99 to 2000-01



Source: PwC's estimates based on data obtained from CAVCO. See exhibit note 3.

Exhibit 15

CTF-Supported Hours of Production, by Genre 1996-97 to 2000-01



Source: Canadian Television Fund. *Drama programming is included in the Fiction genre category in other parts of this report.

Exhibit 14a

Sources of Financing, CAVCO-Certified Theatrical Production, 1998-99 to 2000-01

	1998-99	1999-00	2000-01
Broadcaster	3%	1%	3%
Public	35%	35%	36%
Distributor	14%	11%	18%
Foreign	26%	28%	34%
Other Private	22%	25%	9%
Total	100%	100%	100%

Exhibit 15a

CTF - Supported Hours of Production, by Genre, 1996-97 to 2000-01

	1996-97	1997-98	1998-99	1999-00	2000-01
Children's	724	517	647	582.5	513
Documentary	543	568	713	634	968
Drama*	614	418	600	638	631
Variety & Performing Arts	312	380	285	180.5	275
Feature Films	28	28	33	30	37
Total	2,221	1,911	2,278	2,065	2,424

*Drama programming is included in the Fiction genre category in other parts of this report.

3.8 CTF-Supported Production by Genre

One of the objectives of the CTF is to support genres that are traditionally under-represented in the Canadian broadcasting system. In 2000-01, the CTF supported a total of 2,424 hours of production (see Exhibits 15 and 15a). This total included 968 hours of documentary programming, 631 hours of drama programming, 513 hours of children's programming, 275 hours of music, performing arts and variety programming, and 37 feature film hours.

The total hours of production supported by the CTF increased by 359, or 17% in 2000-01. This increase was largely driven by an increase of 334 hours in documentary hours, and an increase of 94.5 hours in performing arts and variety programming. These increases were offset by a decrease of 69.5 hours in children's programming.

4 REGIONAL INDICATORS OF THE VOLUME OF PRODUCTION

This section disaggregates the volume of film and television production by region. Provincial figures are provided for CAVCO, CTF-supported production, and foreign location shooting, but not for the total volume of production because some of the data sources disaggregate by region instead of by province or territory.

4.1 VOLUME OF PRODUCTION BY REGION

In **Atlantic Canada** growth was slower this year than in previous years. The volume of production reached $176 million in 2000-01, or 3% annual growth. This was significantly lower than the average annual growth rate for the last five years in Atlantic Canada, which was 25%.

Quebec continued to grow, with $1.35 billion in total production in 2000-01. Annual growth in Quebec was 4%, which was lower than the average annual growth rate of 13% for the last five years. Quebec experienced marginal growth in 2000-01 due to significant growth in foreign location shooting, which offset a decline in CAVCO certified production.

Ontario's volume of production increased significantly in 2000-01 due to strong growth in foreign location and CAVCO certified production. The volume of production in Ontario reached nearly $2 billion in 2000-01, or 16% annual growth. Despite the strong growth, Ontario's average growth rate for the last five years was the lowest among Canadian regions. Since 1996-97, production in Ontario grew by a compound annual growth rate of 9%.

Ontario's relatively low five-year average growth rate reflects the fluctuations in its production activity during the 1996-97 to 2000-01 period. In 1997-98, Ontario experienced a 4% decline in production. Since that year, its production growth rate has ranged from 10% to 16%.

The **Prairie Provinces** saw negative growth in 2000-01. The volume of production in the Prairie Provinces declined by 10% to $286 million. A drop of 50% in foreign location production in Alberta was the principal source of the annual decline.

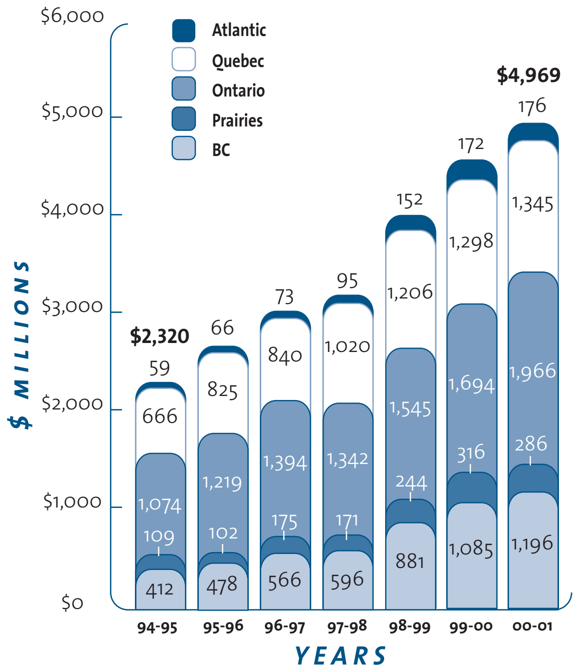
B.C. experienced strong growth in 2000-01, reaching nearly $1.2 billion or 10% annual growth. Annual growth was due to continued gains in CAVCO and foreign location production. However, annual growth in 2000-01 was half the average annual growth over the last five years in B.C.

Data from sources such as CAVCO may underestimate the volume of production in the **territories** (Yukon, Northwest Territories, Nunavut). For instance, in 2000-01, film and television production in Yukon was estimated to be worth approximately $3 million ($1 million Canadian production and $2 million foreign location production).[4] In the Northwest Territories, approximately $1 to $1.5 million worth of Canadian and foreign production activity took place in 2000-01.[5] The estimates in this report, which are based on CAVCO data, do not reflect this activity. The CAVCO data do indicate that Nunavut had about $1 million in film and television production in 2000-01 (See Exhibit 17).

[4] Wendy Radwanski, "Yukon Film Television Production Industry: Profile 2001," prepared for the Department of Canadian Heritage, December 2001.
[5] Nexus Group, Film and Video Industries of the Northwest Territories", prepared for the Department of Canadian Heritage, October 2001.

Exhibit 16

Volume of Film & Television Production By Region



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2, 6 and 11.

Exhibit 16b

Volume of Film and TV Production by Region and Sector – Key Measures

		2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
BC	CAVCO	$ 327	27%	5%	24%
	Non-CAVCO	$ 49	4%	5%	24%
	Foreign Location	$ 762	64%	14%	20%
	In-House	$ 58	5%	-3%	7%
	Total	$ 1,196	100%	10%	21%
Prairies	CAVCO	$ 104	36%	17%	31%
	Non-CAVCO	$ 16	5%	17%	31%
	Foreign Location	$ 81	28%	-35%	8%
	In-House	$ 85	30%	-4%	3%
	Total	$ 286	100%	-10%	13%
Ontario	CAVCO	$ 791	40%	16%	7%
	Non-CAVCO	$ 119	6%	16%	-5%
	Foreign Location	$ 543	28%	23%	21%
	In-House	$ 513	26%	9%	3%
	Total	$ 1,966	100%	16%	9%
Quebec	CAVCO	$ 706	52%	-9%	10%
	Non-CAVCO	$ 106	8%	-9%	10%
	Foreign Location	$ 337	25%	58%	41%
	In-House	$ 196	15%	4%	-1%
	Total	$ 1,345	100%	4%	13%
Atlantic	CAVCO	$ 90	51%	49%	20%
	Non-CAVCO	$ 14	8%	49%	20%
	Foreign Location	$ 38	22%	-42%	69%
	In-House	$ 35	20%	-18%	16%
	Total	$ 176	100%	3%	25%

Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2,6, 10, and 11

Exhibit 16a

Volume of Film and TV Production by Region – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
BC	$ 1,196	24%	10%	21%
Prairies	$ 286	6%	-10%	13%
Ontario	$ 1,966	40%	16%	9%
Quebec	$ 1,345	27%	4%	13%
Atlantic	$ 176	4%	3%	25%
Total	$ 4,969	100%	9%	13%

4.2 CAVCO CERTIFIED PRODUCTION BY PROVINCE OR TERRITORY

New to the profile this year is our reporting of CAVCO certified production by province or territory. CAVCO certified production is one component of the total volume of production.

There were some significant shifts in CAVCO certified production this year. Amongst the largest production centres (i.e., Ontario, Quebec and B.C.), Ontario experienced the largest percentage increase in CAVCO production; in 2000-01 Ontario's CAVCO production grew by 16% to $791 million. As a result, Ontario reasserted itself as the largest centre in Canada for CAVCO production. Quebec saw its production decline in 2000-01, but only after several years of significant growth. Quebec remained the second largest centre in Canada for CAVCO production.

Among other provinces in Canada, Nova Scotia reasserted itself as the largest production centre outside of the top three (Ontario, Quebec, B.C.), reaching $65 million in CAVCO production or 33% growth. Alberta followed Nova Scotia with $55 million in production, or a slight decline of 6% from 1999-00.

Exhibit 17
CAVCO Certified Production by Province or Territory

Millions	96-97	97-98	98-99	99-00	00-01	Share	1 Yr. Growth	5 Yr. CAGR
Ontario	$ 602	$ 596	$ 676	$ 679	$ 791	39%	16%	7%
Quebec	$ 480	$ 594	$ 706	$ 779	$ 706	35%	-9%	10%
British Columbia	$ 137	$ 109	$ 335	$ 311	$ 327	16%	5%	24%
Nova Scotia	$ 42	$ 56	$ 77	$ 49	$ 65	3%	33%	12%
Alberta	$ 11	$ 24	$ 35	$ 59	$ 55	3%	-6%	49%
Saskatchewan	$ 7	$ 18	$ 16	$ 14	$ 27	1%	95%	40%
Manitoba	$ 17	$ 12	$ 24	$ 16	$ 22	1%	38%	7%
New Brunswick	0	$ 5	$ 15	$ 4	$ 15	1%	292%	N.A
Newfoundland	$ 1	0	$ 5	$ 3	$ 6	<1%	119%	47%
P.E.I	0	0	$ 1	$ 5	$ 5	<1%	-5%	N.A.
Nunavut	0	0	0	$ 3	$ 1	<1%	-62%	N.A
Yukon	0	0	0	0	0	0%	N.A.	N.A
N.W.T	0	0	0	0	0	0%	N.A.	N.A
Total	$ 1,296	$ 1,414	$ 1,888	$1,920	$2,018	100%	5%	12%

Source: PwC's estimates based on data collected from CAVCO
See exhibit notes 2, 6 and 7; N.A. not applicable

4.3 CTF-SUPPORTED PRODUCTION BY PROVINCE OR TERRITORY

New to the profile this year is our reporting of CTF production by province or territory. CTF-supported production is a subset of CAVCO production.

The CTF provides financing support to productions across Canada. Largely due to the linguistic objectives of the CTF, in 2000-01, a major share of CTF support went to productions in Quebec. Productions in Quebec accounted for $80.4 million, or 38% of CTF financing. Ontario accounted for $59 million, or 28% of CTF financing; while B.C. accounted for $30.9 million, or about 15% of CTF financing.

Exhibit 18
CTF-Supported Production, by Province or Territory, 1996-97 to 2000-01

Millions	96-97	97-98	98-99	99-00	00-01	Share
Quebec	$ 76.3	$ 71.4	$ 72.0	$ 72.7	$ 80.4	38%
Ontario	$ 66.5	$ 64.8	$ 76.9	$ 65.9	$ 59.0	28%
British Columbia	$ 15.0	$ 17.5	$ 19.3	$ 28.6	$ 30.9	15%
Nova Scotia	$ 16.9	$ 10.1	$ 21.2	$ 11.9	$ 11.1	5%
Alberta	$ 13.0	$ 4.1	$ 8.4	$ 4.9	$ 10.9	5%
Saskatchewan	$ 3.2	$ 4.6	$ 6.1	$ 2.8	$ 6.2	3%
Manitoba	$ 5.2	$ 2.7	$ 3.6	$ 2.5	$ 4.2	2%
Newfoundland	$ 0.6	$ 0.4	$ 1.3	$ 1.2	$ 3.9	2%
P.E.I	0	0	$ 0.6	$ 1.2	$ 1.6	1%
New Brunswick	0	$ 1.7	$ 3.0	$ 2.2	$ 0.9	<1%
N.W.T/Nunavut	0	$ 0.3	$ 0.2	$ 1.2	$ 0.4	<1%
Yukon	0	0	0	$ 0.1	0	0%
Total	$ 196.7	$ 177.6	$ 212.6	$ 195.2	$ 209.5	100%

Source: Canadian Television Fund

4.4 FOREIGN LOCATION PRODUCTION BY PROVINCE OR TERRITORY

New to the profile this year is our reporting of foreign location production by province or territory. Foreign location production is one component of the total volume of production.

Production in the largest production centres (i.e., B.C., Ontario, Quebec) continued to grow at double-digit rates. B.C. reached $760 million, or 14% growth. Ontario reached $543 million, or 23% growth. Both Ontario and Quebec experienced growth rates similar to the average for the last five years. Quebec reached $337 million, or 58% growth, which is higher than its average annual growth rate for the last five years of 41%.

Among other provinces in Canada, Alberta remained the largest centre for foreign location shooting, but experienced a significant decline. Foreign location production was $57 million in 2000-01, or half the level in the previous year. Nova Scotia also experienced a significant decline in production of 42%.

Exhibit 19
Foreign Location Production by Province or Territory

Millions	96-97	97-98	98-99	99-00	00-01	Share	1 Yr. Growth	5 Yr. CAGR
British Columbia	$ 362	$ 425	$ 445	$ 664	$ 760	43%	14%	20%
Ontario	$ 253	$ 221	$ 347	$ 443	$ 543	31%	23%	21%
Quebec	$ 87	$ 129	$ 197	$ 213	$ 337	19%	58%	41%
Alberta	$ 60	$ 32	$ 46	$ 112	$ 57	3%	-49%	-1%
Nova Scotia	$ 4	$ 5	$ 18	$ 60	$ 35	2%	-42%	69%
Manitoba	$ 0.2	$ 7	$ 27	$ 7	$ 25	1%	282%	234%
New Brunswick	0	0	0	0	$ 3	<1%	N.A.	N.A.
P.E.I	0	0	0	0	0	0%	N.A.	N.A.
Saskatchewan	0	0	$ 16	$ 7	0	0%	N.A.	N.A.
Newfoundland	0	$ 0.3	0	0	0	0%	N.A.	N.A.
Yukon	$ 2	0	0	$ 1	$ 2	<1%	150%.	N.A.
N.W.T	0	0	0	$ 0.03	0	<1%	N.A.	N.A.
Nunavut	0	0	0	0	0	0%	N.A.	N.A.
Total	$ 768	$ 819	$ 1,096	$ 1,506	$ 1,762	100%	17%	23%

Source: PwC's estimates based on data collected from Department of Canadian Heritage.

5 THE FILM AND TELEVISION PRODUCTION INDUSTRY'S CONTRIBUTION TO CANADIAN EMPLOYMENT

This section of the report examines the impact of the film and television production industry on employment in Canada and its regions. As the film and television production industry is very labour intensive, significant production growth this year has resulted in a positive and parallel increase in employment.

5.1 DIRECT AND INDIRECT JOB GROWTH IN THE PRODUCTION INDUSTRY

The film and television production industry continued to contribute to employment opportunities for highly skilled and creative Canadians (see Exhibit 20). The Canadian production industry was responsible for an **additional 4,200 direct jobs** as full-time employees and equivalents in 2000-01, an increase of 9% over 1999-00. This latest increase brought the total number of **direct jobs** in the Canadian production industry to a total of **51,700.**

The Canadian production industry's contribution to Canadian employment is not limited, however, to direct jobs. As the production industry interacts with other businesses, purchasing goods and services, it in turn creates and sustains employment in other sectors of the economy, such as housing and retail. Each direct job created by the production industry results in the creation of an **additional 1.6 indirect jobs.**[6]

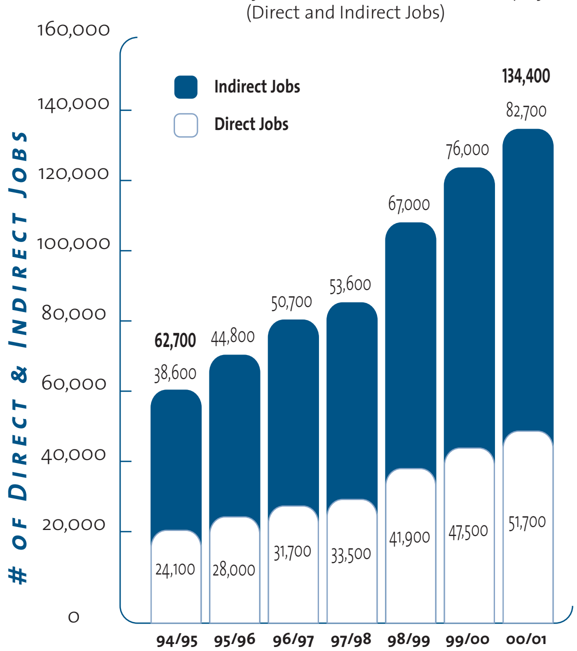
Thus, in 2000-01, the Canadian production industry generated **82,700 indirect jobs.** Overall, the Canadian production industry generated **134,400 direct and indirect jobs** in 2000-01.

Clearly, as the production industry continues to grow, it will continue to bring significant benefits to Canadian employment and to the Canadian economy as a whole.

[6] This is a national multiplier generated by Statistics Canada. Regional multipliers may vary.

EXHIBIT 20

Production Industry's Contribution to Canadian Employment (Direct and Indirect Jobs)



Source: PwC's estimates based on data collected from CAVCO, Statistics Canada, CRTC, CBC/SRC and the Department of Canadian Heritage.

5.2 AVERAGE ANNUAL JOB GROWTH BY INDUSTRY SECTOR

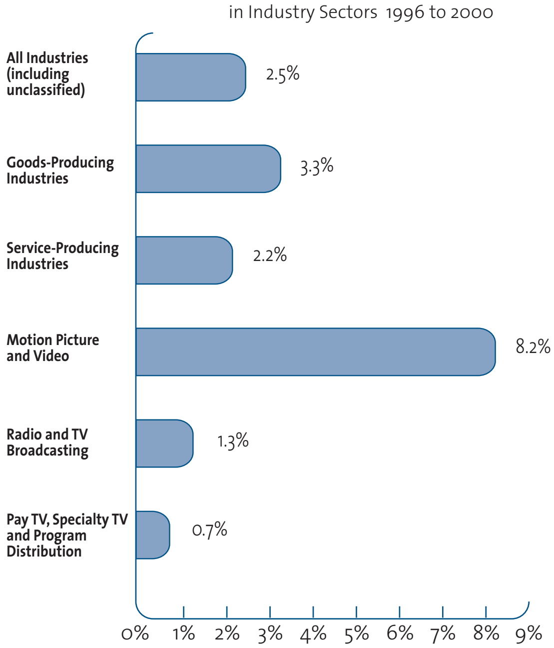
Exhibit 21 illustrates the full-time and part-time employment growth of various sectors of the Canadian economy. While employment figures for the film and television production industry are not available from Statistics Canada's *Labour Force Survey*,[7] the film and television production industry is included in the aggregate category *motion picture and video industries*.[8]

From 1996 to 2000, employment in the motion picture and video industries grew at an average annual rate of **8.2%.** This growth was six times faster than the radio and television broadcasting industry, and over three times faster than all industries combined.

PwC Consulting's job estimates for the production industry also indicate strong growth. According to PwC Consulting's estimates, from 1996-97 to 2000-01, the number of direct jobs in the film and television production industry grew at an average annual rate of **13.0%.**[9]

Exhibit 21

Average Annual Growth of Full- and Part-Time Jobs in Industry Sectors 1996 to 2000



Source: Statistics Canada. See exhibit note 8.

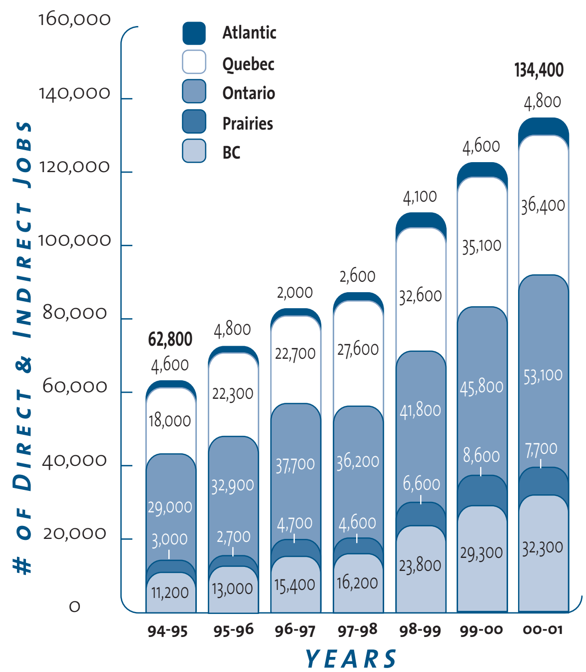
5.3 JOB GROWTH BY REGION

The job figures by region (see Exhibit 22) are directly related to PwC Consulting's estimates for volume of production by region.

As with the regional volume of production, employment by region grew significantly in 2000-01. Overall, the production industry made an important contribution to direct and indirect jobs in all regions of Canada.

Exhibit 22

Production Industry's Contribution to Canadian Employment by Region (Direct and Indirect Jobs)



Source: PwC's estimates based on data collected from CAVCO, Statistics Canada, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit note 7.

[7] Statistics Canada does collect employment figures for the production industry from their *Film, Video & Audio Visual Production Survey.* However, in order to compare across industries we have used data from the *Labour Force Survey.*
[8] Under the North American Industry Classification System (NAICS)
[9] PwC Consulting's job estimates are not strictly comparable to those of Statistics Canada, given that PwC's employment figures are an estimate for full-time jobs while Statistics Canada's figures represent the sum of all full-time and part-time jobs.

6 CANADA'S ROLE IN THE INTERNATIONAL PRODUCTION INDUSTRY

Film and television production is an international industry. Every year, the Canadian production industry attracts more foreign production to Canada and builds stronger relationships with foreign producers, broadcasters and distributors. As a result, Canada has emerged as a strong global player in the international production industry. This section of the Economic Profile explores indicators that reflect this reality.

6.1 EXPORT VALUE OF FILM AND TELEVISION PRODUCTION IN CANADA

In order to track international participation in the Canadian production industry, PwC Consulting has developed a measure of export value (see Exhibit 23). The term "export value" as opposed to just "export" has been used to better reflect the nature of film and television production in Canada. First, this indicator acknowledges that film and television productions are intangible products and portions of the copyright can be exported to foreign countries (e.g., broadcast rights of a Canadian production may be sold to the BBC in the UK). Second, this indicator accounts for the budgets of productions shot in Canada, even when the copyright is held by a foreign entity (e.g., when a US studio shoots a feature film in Vancouver). PwC Consulting's export value indicator is comprised of the following three key components:

- Foreign presales and distribution advances for all CAVCO certified projects;
- Estimates of presales and distribution advances for non-CAVCO certified productions; and,
- Foreign location shooting in Canada.

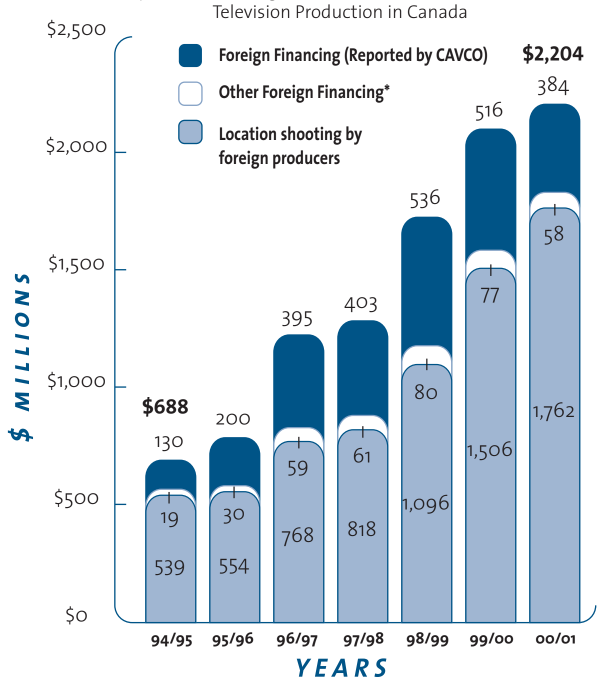
As depicted in Exhibit 23, **Canada's export value** reached \$2.2 billion in 2000-01 – annual growth of 5%. While 5% annual growth is strong, it is well below the average annual growth rate of 16% during the last five years.

The largest component of growth in the export value was **foreign location** shooting; it grew by 17% in 2000-01. This strong growth in foreign location shooting offset a decline in foreign financing reported by CAVCO.

Foreign financing reported by CAVCO is estimated to have declined to \$384 million in 2000-01, or an annual decrease of 26%. It is quite possible that the decrease of 26% in 2000-01 was overstated due to the nature of the CAVCO certification process. See exhibit note 3 for further explanation.

Exhibit 23

Export Value: Foreign Revenue Collected from Film and Television Production in Canada



Source: PwC's estimates based on data collected from CAVCO and the Department of Canadian Heritage. See exhibit notes 1, 2 and 7. * Other Foreign Financing refers to presales and distribution advances for non-CAVCO certified productions. The estimate is based on the level of CAVCO certified production.

Exhibit 23a
Export Value – Key Measures

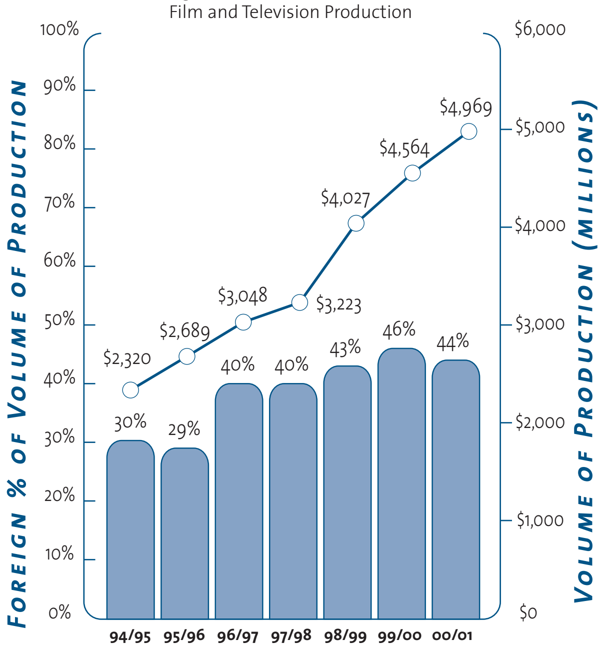
	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
Foreign Financing (Reported by CAVCO)	$ 384	17%	-26%	-1%
Other Foreign	$ 58	3%	-26%	-1%
Location Shooting by foreign producers	$ 1,763	80%	17%	23%
Total	$ 2,205	100%	5%	16%

6.2 FOREIGN SHARE OF CANADA'S VOLUME OF PRODUCTION

Exhibit 24 provides two data sets to depict the level of foreign participation in Canada's production industry. The line trend is the total volume of film and television production in Canada (see Exhibit 1). The bar trend measures the foreign share of Canada's volume of production by dividing the total export value (see Exhibit 23) by the total volume of production.

The foreign component of Canada's volume of film and television production has increased steadily over the last seven years, rising from 30% in 1994-95 to 44% in 2000-01. While the foreign component of the volume of film and television production in 2000-01 was slightly lower than in 1999-00, we believe that the 2000-01 year is understated. See exhibit note 3 for explanation.

Exhibit 24
Foreign Share of Canada's Volume of Film and Television Production



Source: PwC's estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage. See exhibit notes 1, 2 and 6.

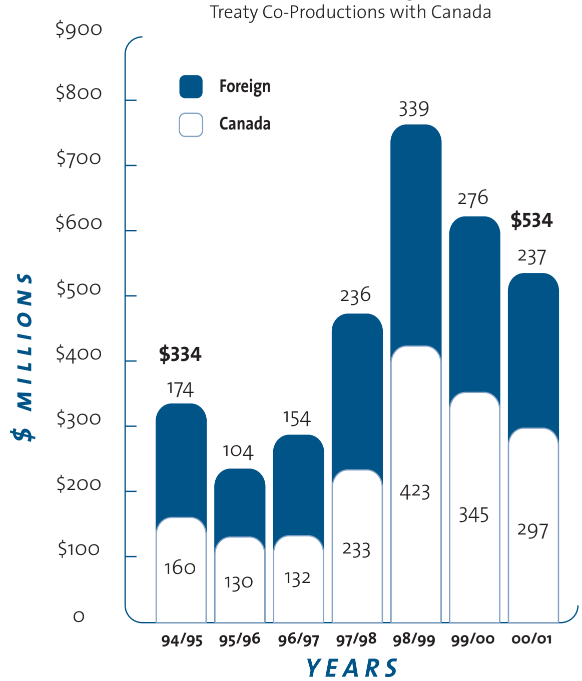
6.3 TREATY CO-PRODUCTION

Exhibit 25 depicts the level of treaty co-production Canadian producers conduct with other countries. As co-production treaties are founded on the principle of reciprocity, approximately half of total treaty co-production budgets are spent in Canada.

Treaty co-production declined in 2000-01 to $534 million, or an annual decline of 14% from $621 million in 1999-00. The Canadian portion of treaty co-production also declined by 14%, from $345 million in 1999-00 to $297 million in 2000-01.

Despite the drop in treaty co-production activity in 2000-01, this segment of the industry has been growing strongly over the past several years. Between 1996-97 and 2000-01, treaty co-production involving Canadian producers increased by an annual average rate of 17%. During this same period, the Canadian portion of treaty co-production budgets grew by an annual average rate of 22%, while the foreign portion grew by 11%.

Exhibit 25
Total Production Budgets of Treaty Co-Productions with Canada



Source: Telefilm

Exhibit 25a
Treaty Co-production – Key Measures

	2000/01 (in millions)	Share	1 Yr. Growth	5 Yr. CAGR
Canadian	$ 297	56%	-14%	22%
Foreign	$ 237	44%	-14%	11%
Total	$ 534	100%	-14%	17%

6.4 TREATY CO-PRODUCTION BY COUNTRY

Exhibit 26 ranks Canada's treaty co-production partners by total production levels in 2000-01.

In 2000-01 the majority of Canadian treaty co-production involved the **United Kingdom (U.K.).** Treaty co-production with the U.K. amounted to $301.6 million, or 57% of all Canadian treaty co-production.

France dropped to second in 2000-01 from the number one position in 1999-00. In 2000-01, Canadian treaty co-production with France dropped by 48% to $141.2 million.

Australia maintained its third place ranking despite a drop of 42%. **Germany** also maintained its fourth place ranking despite a 35% decrease in total budgets.

The **Philippines** entered the fifth position, with total Canadian treaty co-production of $11.5 million in 2000-01.

Other notable mentions include **South Korea,** which took sixth place with $5.4 million in treaty co-production activity, and **Spain,** which took seventh place with $3.3 million.

Exhibit 26

Ranking of Top Five Treaty Co-Production Partners

Country	Rank (00-01)	Rank (99-00)	Co-production Budgets ($mil CAN)	1 Yr. Growth	Share
UK	1	2	$ 301.6	111%	57%
France	2	1	$ 141.2	-48%	27%
Australia	3	3	$ 40.6	-42%	8%
Germany	4	4	$ 29.0	-35%	5%
Philippines	5	N/A	$ 11.5	N/A	2%
South Korea	6	7	$ 5.4	-56%	1%
Spain	7	N/A	$ 3.3	N/A	<1%
Other	N/A	N/A	$ 1.3	N/A	<1%
Total	N/A	N/A	$ 533.9	-14%	100%

Source: Telefilm

ANNEX A: EXHIBIT NOTES

1. The figures for volume of production contain a variety of sources with different reporting periods. All data sources are reported on a 12-month basis for each fiscal year above, but the reporting periods overlap. For example, in 2000-01 the bulk of data sources were for either the calendar year 2000 or a government fiscal year (April 2000 to March 2001). However, some data sources that reported results on a fiscal year period ending in August 2000 are included in the fiscal year 2000-01.

2. Years 1998-99, 1999-00 and 2000-01 contain an estimate for CAVCO productions that are likely to be certified in the future, but had not yet been processed at the time of data collection.

3. Our experience conducting the economic profile has lead us to conclude that estimates for the most recent year (i.e. 2000-01 in this edition) of the level of direct public financing reported by CAVCO is overstated and that the level of foreign financing reported by CAVCO is understated. We presume that this is due to the nature of the certification process at CAVCO, but this has not been determined concretely. The presumption is that CAVCO applications that have a high-level of foreign financing take longer to confirm and certify. If that is the case, then our data run from CAVCO for the most recent year will have a disproportionately higher level of domestic oriented productions than foreign. As such, there would be a higher level of direct public financing in the most recent year (as in Exhibit 6) and a lower level of foreign financing in the most recent year (as in Exhibit 24).

4. For fiscal year ending in August.

5. Canadian theatrical production includes some productions with home video as their first release window.

6. Our revised methodology for CAVCO production levels by province has resulted in variations from our estimates in previous editions. The most striking is the level of production in Ontario, where in the last edition we reported a decline in CAVCO certified production, when in fact the level of CAVCO production remained on par.

7. Some totals do not add due to rounding.

8. PwC's estimates for the jobs in the production industry are for full-time equivalent jobs. Statistics Canada's job figures are the sum of full-time and part-time jobs.

9. PwC growth rates for film and television expenses are not directly comparable to growth rates for GDP (either by industry on in an aggregate), provided by Statistics Canada. This is due to the conceptual differences between expenses and GDP. Expenses correspond to the total value of the service offered, which includes all of the intermediate inputs (materials and services) purchased in the course of producing that output. Conversely, GDP is a measure of the "value added" (including capital and labour) to the intermediate inputs to produce the final output. If the rate of profitability, productivity or inflation growth in the industry, or in supplying industries changes, or firms substitute purchases of goods and services for those produced in-house, the growth rates will diverge.

10. The Department of Canadian Heritage compiles data for foreign location production through a survey of provincial film commissions and film development corporations. Estimate for Yukon is based on data from "Yukon Film & Television Production Industry: Profile 2001" Prepared by Wendy Radwanski for the Department of Canadian Heritage, December 2001.

11. Data for the territories (Yukon, Northwest Territories, and Nunavut) have been included with British Columbia.

12. PwC's estimate for the total amount of television production in the foreign location sector was based on foreign location production data from British Columbia, and Ontario. The average share of foreign location television production in British Columbia and Ontario was applied to total foreign location production in other provinces to calculate the total amount of television production in the foreign location production sector in Canada in 2000-01. The same method was used to calculate the total amount of theatrical production in the foreign location sector in 2000-01.

ANNEX B: ABOUT PwC CONSULTING

PwC Consulting (www.pwcconsulting.com) is a leading global provider of services that transform the businesses of established and emerging enterprises around the world. With an extensive network of global alliances, deep industry-specific knowledge, and broad capabilities in strategy consulting, process improvement and technology integration, PwC Consulting practitioners place innovative ideas into bold, meaningful actions that can help realize a strategic vision, drive business success, and enhance enterprise value for our clients.

PwC Consulting refers to the management consulting services businesses of the member firms of the worldwide PricewaterhouseCoopers organization, the services of which are performed by individual member firms. In Canada, PwC Consulting is a Canadian member firm of the worldwide PricewaterhouseCoopers organization.

In Canada, PwC Consulting's entertainment and media practice has over 100 partners and staff. Our film and television production industry client base in Canada includes: Alberta Film Works, Alliance Atlantis, BC Film, BC Provincial Government, Cadence Entertainment, Canadian Film and Television Production Association (CFTPA), CanWest Global, Cochran Entertainment, Department of Canadian Heritage, Film NB, Great North Entertainment, GFT/Paquin Entertainment, Lion's Gate Entertainment, Mainframe Entertainment, Manitoba Film and Sound (MFS), Manitoba Motion Picture Industry Association (MMPIA), Motion Picture Production Industry Canada (MPPIC), Nova Scotia Film Development Corporation, Red Sky Entertainment, Salter Street Productions, Stanfield Animation, Sullivan Entertainment, Telefilm Canada, Trimark Pictures and TVA.

For further information on the Economic Profile:

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ANNEX C: GLOSSARY OF TERMS

Atlantic Canada: Refers to Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

CAVCO: Canadian Audio-Visual Certification Office - In the Economic Profile, CAVCO certified refers to productions certified as 'Canadian' for the purpose of utilizing the Canadian Film or Video Production Tax Credit (CPTC). It does not include foreign productions that use the Film or Video Production Services Tax Credit (PSTC), which must also get certification from CAVCO, but are not considered 'Canadian' productions.

CAGR: Cumulative Annual Growth Rate

Export Value: The export value tracks the value of international participation in the Canadian production industry. The term "export value" as opposed to just "export" has been used to better reflect the nature of film and television production in Canada. First, this indicator acknowledges that film and television productions are intangible products and portions of the copyright can be exported to foreign countries. Second, this indicator accounts for the budgets of productions shot in Canada, even when the copyright is held by a foreign entity. The export value includes foreign presales and distribution advances for all CAVCO certified projects; estimates of presales and distribution advances for non-CAVCO certified productions; and foreign location shooting in Canada.

Foreign location (shooting or production)**:** Foreign location shooting is film or video productions shot in Canada by US or foreign studios and independent producers. In this type of production, the US or foreign producer retains the copyright, but Canada benefits in the form of direct and indirect jobs and economic activity.

In-house production: In-house production refers to productions conducted internally by private broadcasters, the CBC, and specialty and pay services. In-house production includes sports and news programming.

Motion Picture and Video Industries: Industry grouping under the North American Industry Classification System (NAICS). This industry group comprises establishments primarily engaged in producing and/or distributing motion pictures, videos, television programs or commercials; exhibiting motion pictures or providing post-production and related services.

Non-CAVCO: Non-CAVCO production is 'indigenous' production that is certified as Canadian by the CRTC rather than by CAVCO.

Pay TV, Specialty TV and Program Distribution: Industry grouping under the North American Industry Classification System (NAICS). This industry group comprises establishments primarily engaged in broadcasting television programs, in a defined limited format, via operators of cable and satellite distribution systems, and establishments primarily engaged in the delivery of programs, to subscribers, by cable or satellite.

Prairie Provinces: Refers to Alberta, Saskatchewan and Manitoba.

Radio and Television Broadcasting: Industry grouping under the North American Industry Classification System (NAICS). This industry group comprises establishments primarily engaged in operating broadcasting studios and facilities for the transmission of a variety of radio and television broadcasts, including entertainment, news, talk shows and other programs.

Sector: In the Economic Profile, sector refers to the four sectors of production: CAVCO, non-CAVCO, foreign location, and in-house.

Treaty Co-Production: Treaty co-production is production that is developed jointly by production companies in treaty nations. Treaty co-productions are considered indigenous in both countries, and thus, are fully entitled to legislative and regulatory benefits in their respective countries. Treaty co-productions maximise public incentives available in each treaty nation.

Volume of Production: The volume of production refers to the total expenditures on film and TV production in Canada (i.e., the sum of all the production budgets of productions in Canada).