

# Report of the Review of the Canadian Television Fund

Corporate Review Branch

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**Appendix**

Appendix A	List of Interviewees
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## ***Executive Summary***

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KPMG Consulting LP, Peter Fleming Consulting, and Wall Communications Inc. undertook an evaluation of the Canadian Television Fund (CTF) on behalf of Canadian Heritage. The study objectives required us to determine:

- Whether the CTF has had a positive impact on the Canadian television production and broadcasting industries, specifically in the area of quality and viewership, employment and vitality of Canadian companies.
- The relationship between equity participation and licence fee top-up, including an assessment of their relative effectiveness.
- Whether the Fund’s governance, administrative structures and practices are efficient and effective.
- How different sources of information could be used to provide Canadian Heritage and the CTF with relevant performance information.
- Whether the Fund is essential to maintaining a critical mass of Canadian production or whether the Fund has simply created a dependency on government support.

The study was initiated in mid July 1999 and completed in December 1999. This report was finalized in March 2000.

### **A. Context—State of the Environment**

The Canadian production sector has experienced, or will in the near future, many changes including increasing industry consolidation among broadcasting, production and other industries as well as ongoing vertical integration. Changes in the relative importance of sources of financing, the advent of digital distribution and broadcasting, the “brain drain” and increasing labour costs will also have an impact on the industry. The increasing importance of capital markets and the increased financing ability of publicly-traded companies will likely continue to be a trend in the Canadian production sector. The explosion of new channels, both in Canada and abroad, will fuel the on-going increase in demand for programming of all kinds.

Perhaps most significantly, the regulatory framework of the Canadian broadcasting sector and the growing demand for Canadian drama, variety and music programming will continue to ensure a market for Canadian television production.

There has also been a marked increase in the number of Canadian productions receiving 100% of CAVCO points over the last four years. The volume of distinctively Canadian programming should continue to increase with the CTF's new criteria which requires both a minimum of 10 out of 10 CAVCO points and Canadian themes.

## **B. The CTF mandate**

In 1996, the Cable Production Fund, Telefilm Canada and the Department of Canadian Heritage joined forces to create the Canada Television and Cable Production Fund, which was renamed the Canadian Television Fund in 1998. This public/private partnership was created to provide funding and create a critical mass of high quality Canadian programming especially in under-represented categories, and particularly in peak viewing times.

The objectives of the Fund, reported with slight variations in different documents, are stated in the 1998-99 Activity Report as follows:

- To increase the broadcast presence of high quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official language sectors.
- To enhance the Canadian broadcasting and production sector's capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
- To create increased employment.

The CTF budget for 1998-99 was \$210M and the projected budget through to 2001 is \$192.5M for each fiscal year. These funds are disbursed through two programs—the Equity Investment Program (EIP) and the Licence Fee Program (LFP).

The EIP can contribute up to 49% of a project's allowable costs for production of Canadian television programs and feature films through a direct cash investment. The intent of the EIP is to recoup its investments. The current rate of recoupment is 10 - 12%. In many areas, because there is no recoupment, the investment in effect becomes a grant.

The LFP contributes to the production of Canadian television and feature films in the form of a non-recoupable licence fee top-up where productions meet established criteria. The financial contribution ranges from 15% to 35% of production costs.

Funding from both programs supports five genres of programming: drama, documentaries, children's programs, variety and performing arts<sup>1</sup>. These categories or genres were termed "under-represented" by public policy makers, starting in 1983 with the federal Department of Communication's policy statement on broadcasting "Towards a New National Broadcasting

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<sup>1</sup> According to LFP staff, variety and performing arts were merged into one genre by CTF Board decision and are now considered one genre.

Policy" which, inter alia, established the Broadcast Development Fund at Telefilm Canada, then known as the Canadian Film Development Corporation. Support for these categories was provided because Canadian programs in them were not available in significant numbers on Canadian television screens in both languages. This analysis was re-iterated by the CRTC as a result of its Structural Policy undertaken in 1993<sup>1</sup>. The Commission found that the margin between the cost of a Canadian program and the revenues it generates tends to be much smaller than the margin for equally popular non-Canadian programs. In other words, there was a financial disincentive for broadcasters to acquire Canadian drama, documentaries and children's programs.

Providing funding to these genres of programming, within the context of the CTF objectives has not been easy. In administering the program, the CTF is required to make trade-offs and balance what are sometimes competing imperatives. The government has not prioritized its objectives. Over time the focus has been on trying to address multiple cultural and industrial priorities with a growing emphasis on supporting the production of distinctively Canadian productions. Whether this has been the result of a need to rationalize the allocation of scarce resources, a recognition that funding can only be justified on cultural grounds, or because the support of distinctly Canadian productions is actually a top priority is not clear.

### **Recommendations**

- We recommend that the CTF be clearly established as a cultural fund rather than as an industrial fund or a combination of the two. A policy statement enunciating this cultural mandate should be issued.
- We recommend that the objectives of the Canadian Television Fund be clarified and reported on consistently.

## **C. Impact of the CTF**

Our terms of reference required us to determine whether the CTF has had a positive impact on viewership, the quality of Canadian products, employment and the vitality of Canadian companies, the availability of Canadian products, and objectives related to genres, regional and minority language commitments.

### **1. Impact on viewership**

Our ability to determine the CTF impact on viewership was seriously constrained by the difficulty we encountered in obtaining viewership data on funded and comparable non-funded programs. We used data commissioned from Nielsen Media Research and supplemented it with additional Nielsen data generated for Telefilm Canada. Our sample size consisted of only 90 programs.

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<sup>1</sup> CRTC, "Structural Public Hearing", Public Notice CRTC 1993-94, June 3, 1993.



Overall, the statistics suggest that English drama productions that received CTF funding were able to attract more significant audiences than non-CTF funded programs. The viewership of French language drama productions—both those funded by the CTF and those that are not—is considerably higher than the viewership of English language drama productions. However, the non-CTF funded programs in our limited sample appear to draw a higher audience.

CTF-funded English documentary productions obtained viewership that is better than or at least comparable to non-funded English documentaries. We were unable to identify any French language documentary productions that did not receive CTF funding. However, if viewership statistics for French language documentaries are compared to those for English language documentaries, it would appear that French language CTF-funded documentaries are attracting reasonable audiences.

The English variety and performing arts programs that received CTF funding have done reasonably well. The most watched one-off program that we tracked was funded by the CTF, and three of the top five series that we tracked were funded. We were not able to obtain the names of any performing arts programs in French that did not receive CTF funding.

CTF funded English children's programs have done well, attracting more viewers than non-funded programs. In fact, 7 of the 10 programs obtaining the highest viewership were CTF funded. Again we could not find any French language children's programs that did not receive CTF funding. However, a comparison with English language viewership statistics shows that French language children's programs, which have a much lower potential audience draw, are doing well. In fact, one program drew a higher viewership than any of the English language children's programs that we tracked.

We were able to obtain cost per viewer statistics for 22 programs in three genres. The results provided some interesting insights: the average cost per viewer was highest for documentaries (\$5.80), and lowest for drama (\$1.09). Children's programming average cost per hour per viewer was \$5.41. English language productions were considerably more expensive per viewer than French language productions (an average of \$3.71 versus \$0.79). Caution should be exercised in making decisions based on our limited sample.

Nevertheless, viewership statistics suggest that CTF-funded programs are able to attract viewership that in most genres is superior to non-funded programs. In particular, the viewership for English language drama and performing arts are very encouraging.

In order to conduct any conclusive analysis, a larger sample over an extended time will be required.

## Recommendation

- We recommend that the CTF enter into an arrangement with Nielsen and/or BBM to generate audience data on a continuing basis to the specifications of the CTF.

## 2. CTF impact on quality

To gain an understanding of the CTF's role in increasing the quality of Canadian productions, we examined the number of awards achieved by CTF funded productions, obtained the views of critics, and examined the cost of production per hour of programming. This latter indicator was used because of the belief that higher costs of production allow producers to hire more experienced writers, directors, actors and technical personnel. This in turn leads to higher production quality.

We found that while CTF-funded productions represent about 23% of all industry productions<sup>1</sup>, they were nominated for about 50% of the Geminis and Gémeaux in 1998 and 1999. Critics interviewed agreed that the overall quality of Canadian programs has been increasing over the past 10 years, particularly since the Fund was established. These critics did indicate however, that although the quality of Canadian programming has improved, the drama genre is still inferior to American counterparts. Finally, average investment per hour of programming has increased over the four years of the Fund from about \$263,000/hour to about \$282,000/hour.

Recognizing that quality is a very subjective concept, we concluded that the quality of production has increased since the Fund's inception. If viewership statistics, which many suggest are also an indicator of quality, are factored into the analysis, there can be little argument that quality has improved.

## 3. The CTF impact on employment and the vitality of Canadian companies

The vitality of Canadian production companies in effect drives employment. The number of production companies that are able to create high quality programs has increased. Moreover, 6 of the top 10 production companies today are publicly traded, which means they have greater access to capital. Furthermore, there was an increase in foreign financing for Canadian productions between 1994-95 and 1996-97. However, there was a decline in 1997-98. As a percentage of total financing, foreign financing has increased and the percentage of financing provided by broadcasters has decreased.

The export of films and videos increased between 1992-93 and 1996-97 from \$132M to \$361.5M. More recent data are not available.

The number of co-productions also rose from 28 in 1993-94 to 71 in 1997-98.

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<sup>1</sup> This percentage is based on an extrapolation of existing data.

All of these factors suggest that the industry is relatively robust, although there is not evidence of a direct causal link to the Fund's activities. However, there are still potential problem spots. The fact that foreign investment represents a higher percentage of total financing than Canadian financing is one concern, particularly if the drop in foreign investment in 1997-98 represents a trend. If the reduction is related to the focus on distinctively Canadian programming, for which it may be more difficult to attract up-front foreign investment, the problem may be more serious.

The robustness of the industry should be reflected in the number of direct jobs created. However, these data are not available. In the absence of employment data, we carried out an estimation of the number of jobs created because of the CTF.

Statistics Canada, based on internal research related to the Film Production Survey, has calculated that for every million dollars of production activity in Canada, 14 people are directly employed in production.<sup>1</sup> This implies that the 1997-98 CTF funding to the industry of \$161.2 million created an additional 2,250 production-related jobs.<sup>2</sup>

If we use the total production budgets for CTF funded programs, the number of jobs created would be considerable. As many of the CTF funded programs would not be made without a Fund contribution, this extrapolation can be justified.

In addition, Statistics Canada estimates an employment multiplier of 1.24 in other industries as a result of every person directly employed in production. Consequently, a further 2,800 (estimated) people were employed in other sectors of the economy due to the \$161.2 million provided by the Fund to the Canadian production industry.

In addition to this statistical evidence, it is worth noting that many of the producers interviewed for this study indicated that CTF-funded productions tend to utilize more Canadian resources than non-funded productions, since the additional funds give producers more flexibility to hire more Canadian talent and “better” Canadian talent. Of course, the requirement that eligible programs receive all of the CAVCO points available has also had an impact.

Job creation is certainly an important and worthwhile benefit of the CTF. However, as noted earlier in this report, more emphasis should be placed on cultural objectives rather than economic benefits in order to strengthen the cultural focus of the Fund in an environment of global concerns over industrial support mechanisms.

#### **4. The CTF impact on the availability of Canadian programs**

The amount of CTF funding available has increased since the Fund was established, going from \$199M in 1996-97 to \$212M in 1998-99. However the increase in funding

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<sup>1</sup> Data regarding internal Statistics Canada direct job and multiplier impacts were provided by Canadian Heritage.

<sup>2</sup> Overall, the \$552 million of productions supported by the CTF in 1997-98 created a total of 7,728 full-time equivalent jobs.

available does not seem to be significant enough to have an impact on the total number of productions or total number of hours.

During the 1996-97 funding cycle a total of 362 productions were funded (excluding 14 feature films), creating 2193 hours of programming. In 1999-00 there will be 349 productions (excluding 15 feature films), generating 2048 hours of programming.

Although the availability of Canadian programs has remained stable since the CTF was initiated, if a comparison is made to the period before the CTF was in existence, the total volume of film and television production has increased dramatically. In 1991-92 the total volume of film and television production was about \$1.6B; in 1997-98 it was just over \$3B.<sup>1</sup> Of that amount, Canadian television production represents the largest share (61% in 1997-98).

## **5. The allocation of funds by genre**

Most stakeholders agree that genre envelopes are necessary for a variety of reasons. For example, genre envelopes prevent other genre productions from being swamped by high-end big budget drama. Conversely, they also allow the drama genre to obtain enough funding to produce significant projects.

Because drama is the category of programming which draws the largest audiences, the opportunity to affect cultural output may be perceived as being greatest in the drama genre. It should be noted that in order to produce high quality distinctively Canadian productions that are marketable internationally, Canadian productions will continue the trend towards high budget. If it is important to continue to provide a Canadian “alternative” to foreign drama, it must be made clear to the industry that this investment is being made for specific reasons and better define the return, monetary or cultural, that is expected on this investment.

It should not be taken for granted that cultural impact is only felt in the drama genre. If we want to have a cultural impact, some stakeholders felt that we should pay more attention to the Children’s genre, arguing that childhood is the best time to expose Canadians to their own culture.

We did conclude that the Fund is supporting the categories of programming that need the greatest support, from both economic and cultural points of view. We do not see any need to include additional categories of programming nor to eliminate any of the existing ones nor do we have any scientific method of evaluating the efficacy of investment in each category.

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<sup>1</sup> Please refer to Chapter II of this report, Exhibit II-16.

## Recommendations

- We recommend that genre envelopes be maintained, but the amount of funding allocated to each genre be reviewed on a regular basis. The review should take into account market demand and audience delivered per dollar.
- We recommend that the reason for providing a high level of support to the drama genre, as well as the monetary and cultural returns expected from this investment, be made clear.

## 6. The CTF impact on regional productions

The CTF has achieved its objective of increasing regional program. In 1996-97, the CTF distributed over \$50M or 28% of its total funding to 105 regional projects, representing 309 hours of programming. In 1998-99, the Fund's contribution to regional production increased significantly with 33.9% of the CTF's total contributions (\$67.5M) going to regional production, assisting in the production of 164 projects or 550 hours of programming.

Although data on the number of regional productions prior to the introduction of the Fund are not available, it is possible to compare the number of CAVCO certified productions in each province for the two years prior to and after the introduction of the Fund. There have been increases in the number of CAVCO certified productions in all provinces and an increase in the budgets of CAVCO certified productions.

Although the CTF has successfully increased regional production, the existence of quasi-regional envelopes in the EIP has created some confusion. Bonusing regional production has also created a strong sense of entitlement among some producers who feel that even more funds should be allocated to the regions.

In keeping with our belief that the primary objective of the Fund is cultural, we believe that the concept of regional bonusing based on the location of the production company should be abandoned. Instead, the bonus should be based on "depicting a regional story". Rephrasing the CTF objective of regional support so that it emphasizes regional expression rather than regional production and regional job creation would emphasize that the Fund supports a cultural objective not an economic objective. We would still expect significant involvement of regional producers as they are best placed to discover, develop and produce regional stories.

## Recommendations

- We recommend that the CTF modify its objectives related to regional production and regional job creation, replacing them with an objective that clearly supports the depiction of regional stories. Doing so would underline the cultural orientation of the Fund.
- We recommend that the quasi allocations of funds to the regions be eliminated.

## **7. The CTF impact on increasing production in both official languages**

There has been a steady increase in the number of English and French language television productions supported by either the Broadcast Program Development Fund or the CTF since 1995-96. There is not sufficient data to draw a direct causal relationship with the Fund's existence. However, given the relative size of the CTF in relation to other sources of funding, we can conclude that the CTF has had a positive impact.

The Fund has interpreted its mandate to include funding of aboriginal programming as well as English and French language programming.

## **8. Impact on distinctively Canadian programs**

It is clear that there has been a significant increase in the number of distinctively Canadian productions both in absolute numbers and as a percentage of all productions funded by the CTF. The number of CAVCO certified productions that received maximum points rose from 74% in 1994-95 to 83% in 1997-98 and 100% in 1999-2000.

## **D. The relationship between the EIP and LFP**

There are both advantages and disadvantages to the EIP and LFP. However, both contributed to improvements in the quality and quantity of programming, both supported regional productions and fostered programming in both official languages and assisted in creating jobs. Both contributed to the production of distinctively Canadian programming. Could greater success have been achieved if more funding has been allocated to one program or the other, or if one program or the other had been eliminated altogether? A number of factors including changing criteria and lack of data made such an analysis impossible.

From a theoretical perspective, LFP funding or any other funding in the form of a grant would be the preferred funding mechanism for producers. To the extent that producers have to repay loans, their capacity to invest directly in the industry will be diminished.

However the end result of providing grants has at least two problems associated with it. The first is that this would create a dependency on public funding. The second is that there is no justification for asking the taxpayers to provide financial support to profitable projects. On the other hand, if all funding was based on equity investment and recoupability remained an important criterion, it is likely that many culturally relevant programs would not be funded.

What is needed is flexibility and sound business analysis. Different types of funding mechanisms are required for different types of projects and different producers. Mechanisms might include licence fee top-up, equity investment, grants, loans and lines of credit or a combination of more than one mechanism.

## Recommendations

- We recommend that the Canadian Television Fund consist of one program.
- We recommend that the administrators of the new Canadian Television Fund, consisting of one program, have the flexibility of determining the appropriate funding mechanism for each application including licence fee top-up, equity investment, grants, loans, lines of credit or a combination of more than one mechanism.

## E. Governance and organizational structure

We have recommended that the CTF should consist of one program that uses different types of funding mechanisms. This would quite naturally lead to the assumption that one program should be managed by one administration. Regardless of the program structure, there are strong arguments for modifying the current governance and organizational structure. These include:

- The administrative arms of the CTF have different mandates and objectives. Telefilm Canada which administers the EIP has a much broader range of objectives and a mandate with a focus on the feature film industry.
- There are significant differences between guidelines and procedures of the EIP and LFP including different genre allocations, different rigour in evaluating applications, and greater or less subjectivity applied to the evaluation process.
- Different locations.
- Duplicate infrastructure.
- Lack of clear accountability. Telefilm Canada is in the unenviable position of serving two masters: its own Board and the CTF's Board.
- Confusion in the minds of stakeholders who often refer to the EIP as Telefilm Canada.

The CTF is the result of the amalgamation which is at best an awkward and cumbersome structure with a number of disadvantages and inefficiencies.

## Recommendations

- We recommend that one new organization be established to administer the CTF.
- We recommend that Telefilm Canada retain responsibility for the certification of film and television co-productions. In addition, Telefilm

should retain responsibility for all funding mechanisms dealing with film including those that fall under the ambit of the CTF. Telefilm should also continue to administer its new media fund and the many other activities they carry out in support of the film and television industries.

- We recommend that the new structure have a regional presence. We suggest that consideration be given to establishing store front offices that can provide advice, interpretation and assistance to producers. Assessment of applications should be done centrally, as this would speed up the assessment process, eliminate any assumptions that there were regional envelopes, and be less costly.
- We recommend that a staffing plan for the new administration (which would consist of staff from both the existing EIP and LFP) be developed that provides a better mix of experience and fresh ideas. Experienced analysts could provide the necessary corporate memory, while new staff can bring fresh ideas and experiences to the table. The Fund should implement processes that allow the CTF to benefit from the expertise of tenured staff while avoiding “ownership behaviours” that ultimately limit innovation.

## **F. The need for the Fund**

Without all of the elements of the puzzle being consciously put in place, Canada has constructed an elaborate system of mechanisms to ensure its cultural sovereignty. Nowhere has this been done with more success than in the television production area. Three key constructs were put in place over the years to ensure the building of an infrastructure.

1. Broadcasting and film production through public agencies such as the CBC, the NFB and provincial educational broadcasters.
2. Requirements for Canadian content.
3. Government funding mechanisms to support the industry.

But infrastructure is not in itself enough to ensure that distinctively Canadian programming in all of the categories are present. The individual creative and craftspeople can make good careers in service productions undertaken for foreign companies where Canadian locales serve as stand-ins for foreign sites. Similarly, Canadian companies can make programs with Canadian talent aimed as much or more at foreign markets as at the domestic market.

It is only by providing funding for individual programs that speak to distinctively Canadian concerns, experiences and themes that companies will be interested in directing their efforts to such programs, given that production for the larger foreign markets can be much more lucrative. Furthermore, since presales to such markets are less likely for such programs than for more internationally focused ones, the budgets must be based to a considerable extent on recouping their costs in Canada—inevitably requiring broadcasters to pay higher licence



fees. While many broadcasters are willing to pay slightly higher fees for such high quality programs that are attractive to Canadian audiences, there are limits to their ability to do so.

The CTF provides this incentive to both producers and broadcasters to provide such programs to Canadians. While all of the other mechanisms also play an important role in ensuring the demand for such programs and the expertise to produce them and are also important parts of the funding puzzle, only the CTF speaks essentially to the cultural imperative.

## **G. Measuring the performance of the Fund**

One of the objectives set for this review was to determine “how different statistical sources of information could be used to periodically provide Canadian Heritage and the CTF with relevant information on the impact of the CTF”. Our report contains fairly detailed suggestions for performance measures and identifies whether the data are currently available or need to be generated.

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## ***Introduction***

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KPMG Consulting LP, Peter Fleming Consulting and Wall Communications Inc. undertook an evaluation of the Canadian Television Fund (CTF), on behalf of Canadian Heritage, to determine the extent to which the Fund met its stated objectives. Although there are a number of different versions of the CTF objectives, the CTF 1998-99 Activity Report summarizes the objectives as follows:

- To increase the broadcast presence of high-quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official-language sectors.
- To enhance the Canadian broadcasting and production sectors' capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
- To create increased employment.

### **A. The study objectives**

The study objectives required us to determine:

- Whether the CTF has had a positive impact on the Canadian television production and broadcasting industry, specifically in the area of quality and viewership, employment and vitality of Canadian companies.
- The relationship between equity participation and licence fee top-up, including an assessment of their relative effectiveness.
- Whether the Fund's governance, administrative structures and practices are efficient and effective.
- How different sources of information could be used to provide Canadian Heritage and the CTF with relevant performance information.
- Whether the Fund is essential to maintaining a critical mass of Canadian production or whether the Fund has simply created a dependency on government support.

## B. Study approach

Our approach to the study involved the collection of information, data and opinions from multiple sources. We conducted interviews with key stakeholders including broadcasters, producers, their associations, CTF staff of both the Licence Fee Program (LFP) and the Equity Investment Program (EIP), CTF Board members, senior management of Canadian Heritage, the Canadian Radio-television and Telecommunications Commission, representatives of other organizations that provide funding for television and film production, and a cross-section of television reviewers and critics.

The Canadian public, a substantial and key stakeholder in the CTF, was not surveyed directly. However, the viewing choices of Canadians were an integral part of our analysis. These choices were reflected in viewership data for both CTF and non-CTF-funded programs from Nielsen Media Research. Other data pertaining to the production industry were collected from Statistics Canada, the CTF, Telefilm Canada, the Canadian Film Television and Production Association member survey and industry profile, the Canadian Radio-television and Telecommunications Commission (CRTC), the Canadian Audio Visual Certification Office (CAVCO), *Playback* magazine, and the Canadian Association of Broadcasters' Environmental Scan prepared for the CRTC public hearing into television policy. We also consulted various press releases, news articles, and reports. All information was examined and resulted in the development of the following outputs:

- An analysis of economic and environmental factors and trends affecting the Canadian production industry.
- A logic model that describes and defines the program, its activities, outputs and expected impacts.
- Case studies of accepted and rejected submissions for funding.
- An analysis of governance and administrative procedures.
- An assessment of each sub-objective of the CTF's mandate.
- A list of performance measures and data that should be collected and analyzed by Canadian Heritage to evaluate the efficiency and effectiveness of the Fund, and to take corrective measures if and as necessary.

## C. Study timing

This study was initiated in mid July 1999 and completed in December 1999. Stakeholder views contained within this report are reflective of conditions that prevailed during that time period. Changes to the guidelines introduced after November 1999 are not reflected in the report. However, the report does cover applications made during 1999 for the 1999-2000 season. This report was finalized in March 2000.

## **D. Constraints**

Inadequate and insufficient data caused serious analytical problems and delays in the preparation of this report. Among the problems encountered was inconsistently formatted viewership data that contained anomalies; limited economic, labour force and cost of production data; and, absence of financial data related to the administration of the CTF. There are many explanations for these problems—not least of which are:

- The limited period of time the Fund has been in existence.
- Changes in Fund guidelines from year to year which affected outcomes making year-to-year comparisons difficult.
- Delays in availability of Statistics Canada data, and the breakdown of that data which was not always consistent with our needs.
- Failure on the part of many producers to submit data to Statistics Canada.
- Television production name changes which make it extremely difficult to track viewership.

In many cases, proxy analysis and assumptions had to be made to allow any conclusions to be drawn. However we believe the multiple data sources and qualitative stakeholder information support the conclusions reached.

## **E. Organization of the report**

This report begins with a description of the environment within which the Canadian production industry operates, the trends that affect the industry, and the effect these trends have had on the industry. We then deal with the overall mandate of the CTF. The impact of the CTF and the relationship between the two programs that constitute the Fund follows. We then deal with governance and the need for the Fund. A summary of recommendations appears at the end of the report.

## **F. Acknowledgements**

KPMG Consulting, Wall Communications Inc. and Peter Fleming Consulting would like to take this opportunity to recognize and acknowledge the cooperation and assistance provided by Canadian Heritage, by the staff of the CTF, both EIP and LFP, and by all stakeholders who were interviewed.

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# ***Economic And Environmental Profile Of The Canadian Production Sector***

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This chapter of our report identifies and examines the factors affecting the Canadian production sector. To the extent possible, changes in the production sector related to the introduction of the Canadian Television Fund have been noted. However, given that the Fund has only been in existence since 1996, it is difficult to directly attribute changes in the sector to the presence of the Fund.

The Canadian independent production sector operates within an ever-changing environment. Over the last few years there have been changes in the structure of the industry, changes in sources of financing, changes in the television production sector's principal market (i.e., Canadian broadcasters), international developments, and technological developments. The first sections of the chapter provide a scan of these environmental trends. The final section examines the effect these trends have had on the Canadian production sector.

## **A. Industry structure**

The nature of independent production makes it difficult to gauge the exact number of independent producers operating in Canada. Many firms are quite diversified, involved in film, television, and service production. In some cases, producers move from project to project incorporating businesses that last only for the life of the project.<sup>1</sup> However, the majority of production (in dollar terms) is undertaken by established companies that produce television programming, and other types of film and video production.

Exhibit II-1 demonstrates that the bulk of spending on television production in Canada is centered around a very small number of firms. In 1998, 10 companies accounted for 60% of total television production budgets, while the top 30 accounted for almost 90% of the total.<sup>2</sup>

Concentration by genre is even more evident. The top 10 drama producing companies account for over 80% of total drama production budgets and 50% of the movie-of-the-week production budgets (see Exhibit II-2).

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<sup>1</sup> This may be for several reasons including tax purposes, or the convenience of bringing together persons with particular expertise relevant to the project.

<sup>2</sup> *Playback*, May 17, 1999. The data is based on *Playback's 11<sup>th</sup> annual survey of the industry*, in which 118 companies participated.

**Exhibit II-1**  
**Top 30 television production companies, by production budgets, 1998 (\$ million)**

	Drama	MOWs	Docu- mentary	Animation	Children's	Info-Mag	Total
1. Alliance Atlantis Com.	200.5	30.4			7.0		237.9
2. Cinar Corporation		5.2		37.5	32.5		75.2
3. Telescene	55.0				20.0		75.0
4. Fireworks Entertainment	68.8	0.5			4.2		73.5
5. Nelvana				73.1			73.1
6. Chesler Perlmutter	47.7	16.6					64.3
7. Crescent Entertainment	56.0	4.4					60.4
8. Groupe Coscient	14.4		6.3	3.6	10.8	21.6	56.7
9. Vidatron*	43.0	9.0	1.0				53.0
10. Salter Street Films	41.3					0.2	41.5
11. Shavick Entertainment	20.0	20.0					40.0
12. Filmline International	39.3						39.3
13. Productions La Fete		37.0					37.0
14. Sullivan Entertainment	23.5	11.0					34.5
15. Lions Gate Entertainment				19.0	1.3		20.3
16. Mainframe Entertainment				20.0			20.0
17. Credo Entertainment		13.7			3.2	0.3	17.2
18. Catalyst Entertainment				8.6	7.5		16.1
19. Verseau	11.4		1.3	3.0			15.7
20. Keatley MacLeod Prod.	14.5						14.5
21. Sovimage	12.7		0.6				13.3
22. Milestone Productions	12.8						12.8
23. Barna-Alper Productions	6.5	3.5	2.0				12.0
24. Productions Point de mire	9.4	2.6					12.0
25. Temple Street Productions		12.0					12.0
26. Fogbound Films	12.0						12.0
27. Great North Productions	0.5		10.3		0.8		11.6
28. Match TV/Neofilms	2.2	7.0			1.8		11.0
29. Cambium Film & Video			0.3	9.5	0.5	0.6	10.9
30. Decode Entertainment				1.7	8.5		10.2
<b>Top 5</b>	<b>324.3</b>	<b>36.1</b>	<b>0.0</b>	<b>110.6</b>	<b>63.7</b>	<b>0.0</b>	<b>534.7</b>
<b>Top 10</b>	<b>526.7</b>	<b>66.1</b>	<b>7.3</b>	<b>114.2</b>	<b>74.5</b>	<b>21.8</b>	<b>810.6</b>
<b>Top 30</b>	<b>691.5</b>	<b>172.9</b>	<b>21.8</b>	<b>176</b>	<b>98.1</b>	<b>22.7</b>	<b>1183</b>
<b>Total All Producers</b>	<b>739.6</b>	<b>184.3</b>	<b>76.9</b>	<b>184.9</b>	<b>131.2</b>	<b>26.9</b>	<b>1,343.8</b>

\* Playback Estimate

Source: *Playback*, May 17, 1999

The top 10 animation producing companies account for nearly all the total animation production budgets, with the top two companies accounting for 60% alone (Exhibit II-3). Further, companies tend to specialize in one or a limited number of genres (i.e., the top 10 drama producing companies are not involved in documentaries, animation or info-magazines). However, this is changing. For example, Alliance Atlantis acquired an animation house; Catalyst moved into drama; Salter Street Films moved into the Internet, etc.

**Exhibit II-2**

**Top 10 drama producing companies, by budget, 1998 (\$ million)**

Alliance Atlantis Com.	200.5
Fireworks Ent	68.8
Crescent Entertainment	56
Telescene	55
Chesler Perlmutter	47.7
Vidatron*	43
Salter Street Films	41.3
Filmline International	39.3
Sullivan Entertainment	23.5
Shavick Entertainment	20
<b>All Companies(\$ million)</b>	<b>739.6</b>
<b>Top 10 \$ million</b>	<b>595.1</b>
<b>% of total production</b>	<b>80.5%</b>

Source: *Playback*

**Exhibit II-3**

**Top 10 animation producing companies, by budget, 1998 (\$ million)**

Nelvana	73.1
Cinar Corporation	37.5
Mainframe Entertainment	20
Lions Gate Entertainment	19
Cambium Film & Video	9.5
Catalyst Entertainment	8.6
Delaney & Friends Prod.	4.8
Groupe Coscient	3.6
Verseau	3
High Road Productions	2.2
<b>All Companies</b>	<b>184.9</b>
<b>Top 10 \$ million</b>	<b>181.3</b>
<b>% of total production</b>	<b>98.1%</b>

Source: *Playback*

The documentary producing sector, on the other hand, is less concentrated, with the top 10 companies accounting for only 66% of total documentary production budgets (see Exhibit II-4).

**Exhibit II-4**

**Top 10 documentary producing companies, by budget, 1998 (\$ million)**

Great North Productions	10.3
Groupe Coscient	6.3
CineNova Productions	6
Associated Productions	5.1
Galafilm	4.7
Sleeping Giant Productions	4.6
Ellis Vision	4.1
White Pine Pictures	4
Screenlife	3.1
Omni Film Productions	2.6
<b>All Companies</b>	<b>76.9</b>
<b>Top 10 \$ million</b>	<b>50.8</b>
<b>% of total production</b>	<b>66.1%</b>

Source: *Playback*

Another trend evident in the Canadian independent production sector is vertical integration. There are production companies that own and/or control broadcasters (e.g., Alliance Atlantis controls four specialty services: Showcase, HGTV, Life and History) and there are broadcasters that own and/or control production companies (e.g., CanWest Global owns Fireworks Entertainment; CHUM has recently acquired a 40% stake in Sleeping Giant Productions). There is also a significant amount of strategic cross-sector investment not involving control (e.g., Alliance Atlantis' investment in Sportscope; CanWest Global's investment in Alliance Atlantis). In addition, most large producers are also involved in the distribution business.<sup>1</sup>

**B. Sources of investment and funding**

Sources of financing for television production vary from project to project. A typical Canadian production may include the following sources of financing: the Canadian Television Fund, tax credits (provincial and federal), provincial assistance, broadcasters, distributors, private investment, and foreign participation including foreign pre-sales and co-productions. Exhibit II-5 summarizes the major changes in the mix of funding participation between 1994-95 and 1997-98. Each of the major sources is examined further below.

<sup>1</sup> See Wall Communications Inc., "The Canadian Independent Film and Video Industry: Economic Features and Foreign Investment Related to the Distribution Sector", prepared for Canadian Heritage and Industry Canada, November 15, 1996.



One important aspect of investment in the Canadian production sector is the trend towards publicly-traded companies. In the mid 1980's, no Canadian production companies were publicly traded. Today, 8 of the top 10 production companies (see Exhibit II-1), are publicly traded.<sup>1</sup>

Access to public equity markets brings a degree of secure financing to a corporation. There is, of course, no guarantee that funds secured in this manner will be deployed for specific activities such as the production of Canadian television programming. However, the capital infusion which occurs with a public stock offering does increase the overall financing capability of a production company (i.e., making such companies more attractive prospects for bank financing).

**Exhibit II-5**  
**Changes in participation by various sectors in CAVCO certified television productions**

Source of Financing	Percentage of Total in 1994-95	Percentage of Total in 1996-97	Change
<b><i>Canadian Production Industry</i></b>			
Producers	11.6	4.0	-7.6
Distributors	5.4	7.0	1.6
<b>Total Cdn Production Industry</b>	<b>17.0</b>	<b>11.0</b>	<b>-6.0</b>
<b><i>Foreign Sources</i></b>			
Broadcasters	5.4	7.4	2.0
Distributors	2.0	21.2	19.2
<b>Total</b>	<b>7.4</b>	<b>28.6</b>	<b>21.2</b>
<b><i>Canadian Broadcasters</i></b>			
Public	17.4	7.7	-9.7
Private	16.5	12.0	-4.5
<b>Total Canadian Broadcasters</b>	<b>33.9</b>	<b>19.7</b>	<b>-14.2</b>
<b><i>Public and Private Funds*</i></b>			
Private	14.4	2.0	-12.4
Public	27.3	19.8	-7.5
CTF	0.0	19.0	19.0
<b>Total</b>	<b>41.7</b>	<b>40.8</b>	<b>-2.2</b>

\* The 1994-95 figure for private funds includes the Cable Production Fund which was wrapped into the CTF upon the CTF's creation in 1996.

Source: CAVCO

<sup>1</sup> Alliance Atlantis, Cinar, Telescene, Nelvana, Coscient, Salter Street, Peace Arch and Fireworks.

## 1. Public funding

Between 1991-92 and 1994-95, there was a 9.3% decline in federal government grants and contributions to culture, and a 5.2% decline in provincial grants and contributions.<sup>1</sup>

In 1996, the Canadian Television Fund (CTF) was introduced with the purpose of providing a total of approximately \$200 million per year to fund independent producers of programming, of which \$100 million was new federal funding.<sup>2</sup> The remaining \$100 million came from Telefilm Canada’s Broadcast Development Production Fund and the cable industry’s Cable Production Fund. Exhibit II-6 summarizes the value of these respective funding sources prior to the introduction of the CTF and compares the number of productions supported and total production budgets to the amount of CTF supported activity in 1997-98. This information shows that federally initiated funding for production increased by 61% between 1995 and 1997-98.

It should be noted that 1995 figures cannot be added together as both the Broadcast Fund and the CPF were involved in some of the same projects. The numbers have not been adjusted to reflect this. The CTF figures do eliminate the duplication.

### Exhibit II-6 Comparison of selected public funding programs for television production

Year	Program/Fund	Number of Productions Supported	Commitment	Total Budgets of Productions Supported
1995	Cable Production Fund	128	\$39.8 million	\$270 million
1995	Broadcast Development Fund	98	\$60.0 million	\$216 million
1998	CTF	330	\$161.2 million	\$552 million

Source: CPF, Telefilm Canada and CTF Annual Reports

Other national public sources for the financing of Canadian television production include:

- The Canadian Film or Video Production Tax Credit Program, a refundable tax credit worth up to 25% of labour costs for eligible films and videos (valued at about \$60 million per year.<sup>3</sup>)

<sup>1</sup> Statistics Canada, *Supra Note 46*, page 22, and Statistics Canada 87F0010XPE. Culture is defined broadly by Statistics Canada and includes libraries, performing arts, visual arts, film, video, sound recording, multiculturalism, for example.

<sup>2</sup> Although the CTF is actually a mix of public and private funding, it is discussed in the context of public funds here since it was initiated by the federal government.

<sup>3</sup> Canadian Heritage, *A Review of Canadian Feature Film Policy ~ Discussion Paper, February 1998*. See [www.pch.gc.ca/culture/cult\\_ind/filmpol/pubs/econtent.htm](http://www.pch.gc.ca/culture/cult_ind/filmpol/pubs/econtent.htm).

- Development grants of up to \$20,000 and production grants of up to \$50,000 from the Canada Council.
- Grants to support television producers' participation in international events with a view to the sale of their products abroad from the Arts and Cultural Industries Promotion Division of DFAIT.
- Telefilm Canada's Versioning Assistance Fund which provides up to 100% of the costs of dubbing or subtitling Canadian productions into one or both of Canada's two official languages.

Provincial public funding sources include:

- The Alberta Film Development Program which provides grants of up to 20% of production costs (\$500,000 maximum) spent in Alberta by a resident producer.
- Film Incentive B.C., a package of refundable tax credits for B.C. controlled companies.
- Film New Brunswick, which provides non-interest bearing loans for development and equity participation for production.
- The Newfoundland and Labrador Film and Video Industry Tax Credit.
- The Ontario Film and Television Tax Credit.
- The Quebec Refundable Tax Credit Program.
- The Saskatchewan Film Employment Tax Credit.

While the CTF (in its current or previous forms) was increasing its support level, non-CTF funding sources were declining. CAVCO data shown in Exhibit II-5 indicates that, as a percentage of total financing, public funding has decreased from 27.3% of total financing in 1994-95 to 19.8% in 1997-98. While public financing remains a key component of television production, its relative importance is declining in favour of other forms of financing such as the CTF and foreign sources. It should be noted however, that the CTF is a mix of funds from both the public and private sectors.

## **2. Domestic private funding sources<sup>1</sup>**

The CAVCO data presented in Exhibit II-5 indicates that, as a percentage of total financing, private funding (sponsors, corporate film funds, etc.) has decreased from

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<sup>1</sup> *Private funding sources include sponsorships, private funds, etc. They do not include the licence fees paid by private broadcasters. These are discussed in the following section. Nevertheless, some private broadcasters do contribute to and/or manage private funds. Some of these are shown in the following Exhibit.*

14.4% of total financing in 1994-95 to 2.0% in 1997-98. Private funding available nationally to producers of Canadian television programming, are shown in Exhibit II-7.

**Exhibit II-7  
Canadian Private Programming Funds**

Fund Name	Annual Budget	Mandate	Type of Funding	Deadlines	Comments/Special Conditions/For More Information
A-Channel Drama Fund	\$14M over 7 years	To stimulate production of made-in Alberta TV movies, mini-series, theatrical films and other dramatic productions	National licence fees, development grants, new producers training grants	None	Priority access for Alberta writers and independent producers In Calgary: Joanne Levy TEL: 403-508-2222 e-mail:levy@a-channel.com <a href="http://www.a-channel.com">www.a-channel.com</a> In Edmonton: TEL: 780-424-2222
Bell Broadcast and New Media Fund	\$12M (Total to be distributed until eve of 2001)	Production financing and financing of linked New Media projects	Grants & Licence Fee Top-ups	February 1 May 1 October 1	Andra Sheffer TEL: 416-997-8154 e-mail: <a href="mailto:bellfund@istar.ca">bellfund@istar.ca</a> <a href="http://www.bell.ca/fund">www.bell.ca/fund</a> or Claire Dion TEL: 514-737-1337
Bravo!FACT	5% of the gross revenue from Bravo!/year	To provide TV exposure to artists and filmmakers by funding the production of shorts	Juried grant of up to 50% of a project, to a maximum of \$25,000	March 30 June 29 September 28 December 21	Running time of 6 mins. maximum, new projects only (not works in progress); must qualify as Concan; must fit in with Bravo! Programming Judy Gladstone, Executive Director TEL: 416-591-7400 Ext. 2734 e-mail: <a href="mailto:bravofact@bravo.ca">bravofact@bravo.ca</a> <a href="http://www.bravo.ca/bravofact/">www.bravo.ca/bravofact/</a>
Canadian Independent Film and Video Fund (CIFVF)	\$750,000/year	Development and production for informational, educational, specialty programming and multimedia	Grants	TBA (Note: Published in "Playback" and "Qui Fait Quoi")	\$50,000 production max \$10,000 development max Robin Jackson TEL: 613-729-1900 e-mail: <a href="mailto:cifvf@achilles.net">cifvf@achilles.net</a> <a href="http://www.cifvf.ca">www.cifvf.ca</a>
COGECO Program Development Fund	1. \$200,000/year (\$5M endowment) 2. \$1M/year 3. \$200,000/year	1. Development, loans for dramatic series, treatment/bible, first/second drafts 2. Production investment for MOWs, mini-series and pilots for dramatic series 3. Theatrical feature film development	Loans-repaid first day of principal photography	February 1 April 1 July 15 October 15	French and English projects Administered by Independent Production Fund Claire Dion TEL: 514-737-9969 e-mail: <a href="mailto:fip@inforamp.net">fip@inforamp.net</a> <a href="http://www.fip.ca">www.fip.ca</a> OR Andra Sheffer TEL: 416-977-8966
CTV Television Inc./CJOH-TV Development Fund	\$50,000/year	Concept, script development loans Professional development grants	Loans repayable on first day of principal photography	February 1 May 1 August 1 November 1	Applicant must be located within the CJOH-TV broadcast area Maggie Ker TEL: 613-274-4213

Fund Name	Annual Budget	Mandate	Type of Funding	Deadlines	Comments/Special Conditions/For More Information
CTV Television Inc./MCTV Development Fund	\$50,000/year	Development of concepts & scripts for television	Equity or loans	Quarterly	Monique Johnson MCTV (Sudbury) TEL: 705-674-8301 e-mail: <a href="mailto:mjohnson@ctv.ca">mjohnson@ctv.ca</a>
Entertainment Ventures Corp. - EVC) of Directors Guild of Canada (DGC)	\$500,000/year	Primary focus: investing in entertainment & communications companies; does not typically finance individual productions	Debt or Equity	None	To generate a return on investors' capital by investing in small Ontario companies with less than 500 employees and \$50M in assets Robert Goodwin TEL: 416-365-8002
Global Development Fund	\$1M/year	Development loans for drama, documentary, children's, variety	Development loans	N/A	Cynthia Joseph Global Television Network TEL: 416-446-5526
The Harold Greenberg Fund (sponsored by TMN-The Movie Network, Viewer's Choice Canada, Canal Indigo and Star Choice Inc.)	Over \$2M/year	1. Development of long-form drama over 75 minutes (1st, 2nd, final draft and senior projects) 2. Production investment for theatrical and made for pay movies 3. Special Projects related to scriptwriting	1. Loans repaid first day of principal photography 2. Equity Investment 3. Grants	January 13 April 6 July 6 October 5	1. \$90,000 maximum in script development per project 2. \$350,000 maximum per project  Wendy MacKeigan, Chairperson TEL: 416-956-5431 e-mail: <a href="mailto:hgfund@tv.astral.com">hgfund@tv.astral.com</a> <a href="http://www.tmn.ca">www.tmn.ca</a> (and click on "Corporate info")
Le Fonds Harold Greenberg (sponsored by Canal Indigo)	10% of gross revenues of Canal Indigo/year	Production investment for French-language movies and special events for pay-for-view	Equity investment	None	Up to \$50,000 for special events and up to \$100,000 for movies TEL: 514-939-5094 <a href="http://www.tmn.ca">www.tmn.ca</a> (and click on "Corporate info")
Independent Production Fund	\$3M/year	1. Dramatic series 2. Special Projects to enhance dramatic series	1. Equity 2. Grants	February 15 April 15 August 1 November 1	1. Must have private broadcaster licence 2. For professional industry organizations only  Andra Sheffer TEL: 416-977-8966 e-mail: <a href="mailto:ipf@inforamp.net">ipf@inforamp.net</a> <a href="http://www.ipf.ca">www.ipf.ca</a> OR Claire Dion TEL: 514-737-9969
Rogers Documentary Fund	\$1M/year	Financing for Canadian documentaries	Grants	3x/year	The producer must have a commitment from a national Canadian broadcaster to air the program in prime time within two years. The Fund looks favourably on projects which are Canadian in theme.  Robin Mirsky TEL: 416-935-2526
Rogers Telefund	N/A Revolving Fund	Interim loans for distinctly Canadian projects	Loans	N/A	Robin Mirsky TEL: 416-935-2526
Shaw Children's	\$3M+/year	1. High quality	Equity, loans for	Up to 4x/year	Private broadcaster/specialty channel

Fund Name	Annual Budget	Mandate	Type of Funding	Deadlines	Comments/Special Conditions/For More Information
Programming Initiative (SCPI) The Dr. Geoffrey R. Conway Fund (Conway Fund)		programming for children under 12 years 2. Special project support for non-profit organizations	development, versioning & multimedia development		commitment required Gail Yakemchuk or Sharon Blank TEL: 403-716-6508
Shaw Children's Programming Initiative (SCPI) Shaw Television Broadcast Fund (STBF)	\$3M/year	High quality programming for children, youth & family audiences	Equity plus regional incentive for Nova Scotia productions	Up to 4x/year	Minimum 8/10 Canadian content points and a broadcast commitment from a Canadian television broadcaster, specialty service or pay-TV service  Gail Yakemchuk Or Sharon Blank TEL: 403-716-6508
WTN Foundation Inc.	\$230,000 in 1999-2000	Funds professional development and training opportunities to promote women in the multimedia field	1. Girls TV Camp/Club 2. Women's TechNical Internship 3. wndowment	May 2000 October 2000 May 2000	Shirley Muir, Executive Director TEL: 1-800-575-7317 e-mail: foundation@wtn.ca

Source: CFTP

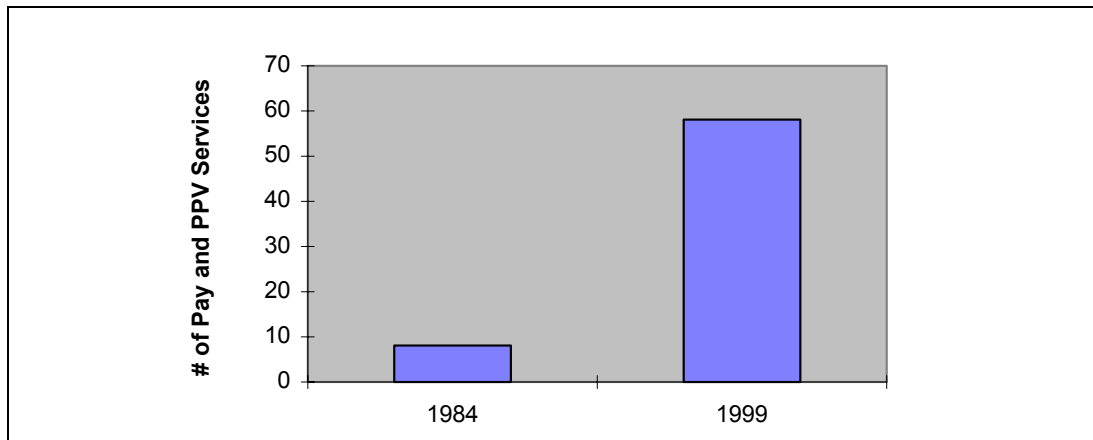
### 3. Canadian broadcasters

The most significant market for the Canadian production industry is television, and Canadian television in particular.<sup>1</sup> The size and requirements of the television marketplace, both domestically and abroad, will therefore have a significant impact on the Canadian television production sector.

Over the last 20 years, the Canadian Radio-television and Telecommunications Commission (CRTC) has licenced more than 20 new conventional television services in Canada resulting in the number of originating private television stations going from 78 in 1979 to 99 in 1998.<sup>2</sup>

The number of pay, pay-per-view (PPV), and specialty services has also undergone dramatic growth since the first pay services were licenced in 1982, as can be seen in Exhibit II-8. By 1999, there were a total of 10 pay and PPV services and 48 specialty services licenced by the CRTC, including the 23 services licenced on September 4, 1996 and the four French-language specialty services licenced on May 21, 1999.<sup>3</sup>

**Exhibit II-8  
Licenced Canadian specialty, pay and PPV services**



Source: CRTC

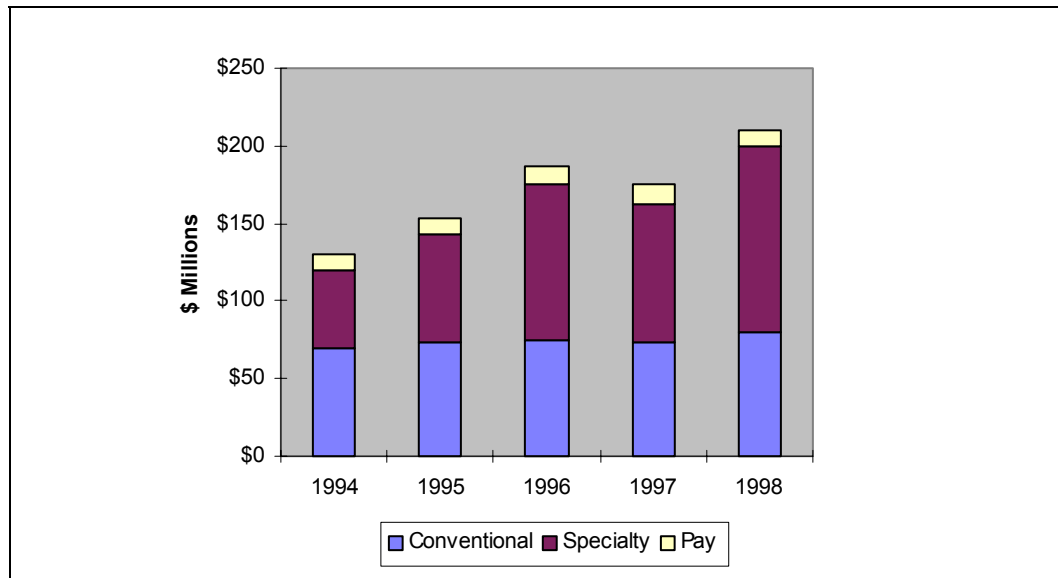
<sup>1</sup> Although the Canadian television industry is an important market for the Canadian production sector, it is worth noting that the Canadian television industry also produces some of its own programming, and that some of this programming is sold internationally.

<sup>2</sup> 1978 and 1984 figures from: **Report of the Task Force on Broadcasting Policy**, 1996, page 419; 1999 figure from: **CRTC, Television Statistical and Financial Summary**, 1998.

<sup>3</sup> The licensing of additional English-language discretionary services is awaiting the outcome of the CRTC's review of the licensing framework for new services. This review is meant, in part, to deal with concerns related to Broadcast Distribution Undertakings (BDU) capacity limitations. Initiated on February 3, 1999, the process will address whether digital or analogue licensing would be more appropriate, to what extent access rules should apply to new licencees, and tiering, packaging and linkage rules that might be applied to new licencees (see Public Notice CRTC 1999-19).

CRTC data on Canadian private broadcasters' expenditures on programming acquired from independent producers—shown in Exhibit II-9—indicates that there was an approximate 5% decline in spending on independent production between 1996 and 1997 by all three types of broadcasters (conventional, specialty and pay services). Expenditures did, however, rebound by 19% in 1998.

**Exhibit II-9  
Private broadcasters' expenditures on programming acquired from independent producers**



Source: CRTC, Financial Summaries

The importance of the pay and specialty broadcasters as a revenue source for the independent production sector has grown over the last five years. Pay and specialty broadcasters' share of total broadcasting expenditures on acquired programming has increased from 49% in 1994 to close to 60% in 1998 while conventional broadcasters' share of expenditures has fallen from nearly 51% in 1994 to 40% in 1998. This is consistent with the increase in the number of pay and specialty services relative to the number of conventional services.

Despite the increase in the number of Canadian broadcasters, CAVCO data (previously presented in Exhibit II-5) show that, financing by Canadian broadcasters for CAVCO certified television productions decreased as a percentage of total financing (from 33.9% in 1994-95 to 19.7% in 1996-97).<sup>1</sup> This is likely due to the increased financing from the CTF and foreign sources.

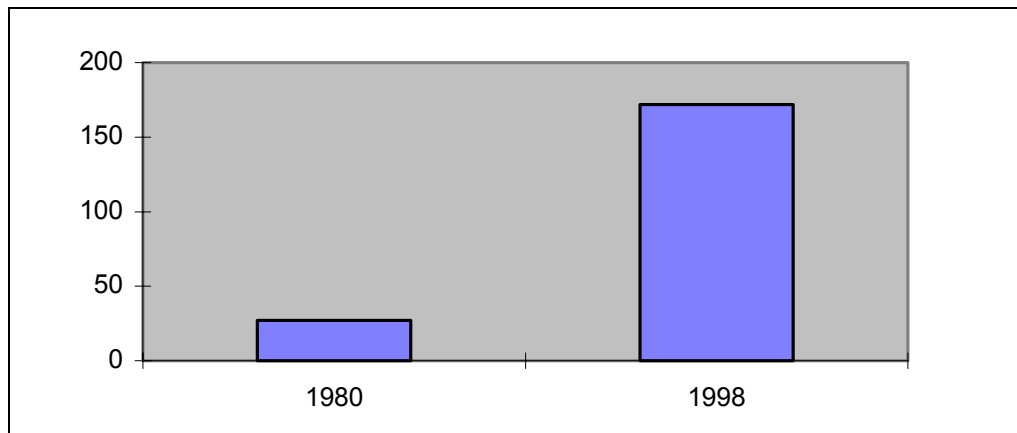
<sup>1</sup> It is interesting to note that financing by public broadcasters decreased more than financing from private broadcasters (see Exhibit II-5).



#### 4. Foreign broadcasters

The number of specialty services in the U.S. (known as cable networks in the U.S.) has risen dramatically over the last few years, as shown in Exhibit II-10, going from only 28 in 1980 to over 170 in 1998.<sup>1</sup>

**Exhibit II-10**  
**Number of U.S. cable networks**



Source: *National Cable Television Association*

The rise of satellite-to-home broadcasting world-wide appears to have led to a similar increase in specialty service channels in other countries (e.g., UK, Australia, and France). The opening of eastern Europe and the privatization of state broadcasters has also fueled an increased appetite for programming.

This increase in the number of foreign cable and satellite-to-home broadcasting services has almost certainly had an impact on the Canadian production sector, as these services compete to fill programming schedules, often in niche areas. Evidence of this is the rise in exports over the last five years—Statistics Canada data indicates that exports in the film and video sector rose nearly 174% between 1992-93 and 1996-97, from \$132 million to \$361.5 million.<sup>2</sup>

Our earlier analysis of CAVCO data also indicates that there has been a significant increase in the relative importance of foreign financing. In 1994-95 financing from foreign sources represented 7.4% of total financing. By 1997-98, foreign financing accounted for 28.6% of total financing, representing an increase of close to 300%. However, in 1997-98, there was a decline in the actual dollar amount of financing from foreign sources (both U.S. and other foreign).

<sup>1</sup> *National Cable Television Association, "The History of Cable Television", www.ncta.com/glance.html.*

<sup>2</sup> *Statistics Canada, 87F0010XPE.*

## 5. Co-productions

Canadian government policy treats official co-productions as “domestic products” in Canada, and, as such, they are entitled to any regulatory and legislative benefits available (e.g., used by broadcasters toward Canadian content requirements, eligible for tax credits). Co-production agreements are administered on behalf of the Canadian government by Telefilm Canada. Canada currently has co-production agreements with 54 countries (although in 1998, half of all co-productions were with France<sup>1</sup>).

There has been some demonstrated growth in the number of co-productions, as reported by Telefilm Canada and shown in Exhibit II-11.<sup>2</sup> In 1998, there were 71 co-productions with total budgets of \$493 million (50% of which came from Canada), an increase of 58% in terms of the number of productions and an increase of close to 70% in terms of total budgets over 1997. However, it is to be noted that there have been year to year fluctuations in the number of co-productions, primarily due to yearly changes in the production sectors in the countries with which Canada has signed co-production treaties. Of the 71 co-productions in 1998, most (51) were television productions, and of these, more than 30% were documentaries and only 15% were drama.<sup>3</sup>

### Exhibit II-11

#### Volume of international co-production activity with Canada 1993 to 1998 television and feature film

Year	Number of Co-Productions	Total Budgets (\$millions)	Canadian Share (%)
1993-1994	28	212.3	47.2
1994-1995	48	340.8	48.1
1995-1996	38	146.3	55.2
1996-1997	45	290.8	45.9
1997-1998	71	493.0	50.0

Source: *Telefilm Canada*

<sup>1</sup> *Playback*, March 22, 1999.

<sup>2</sup> *Telefilm Canada*, “20 Years of Co-productions On the International Scene”, [www.telefilm.gc.ca/en/affint/coprod/20\\_ans.htm](http://www.telefilm.gc.ca/en/affint/coprod/20_ans.htm).

<sup>3</sup> *Playback*, March 22, 1999.

## C. Canadian broadcasting environment

The environment within which Canadian broadcasters operate has a significant indirect impact on the Canadian production sector. The acquisition of independently produced Canadian programming by broadcasters is driven both by regulatory requirements and Canadian viewership tastes.

### 1. Regulatory-Driven Demand

Canadian broadcasters have an economic incentive to air non-Canadian productions since, relative to U.S. productions, the costs inherent in acquiring broadcast rights to Canadian productions are high, while advertising revenues for these programs are not commensurate with the higher licence fees. The average licence fee paid by a broadcaster for national rights to a distinctively Canadian drama production have been estimated to be approximately \$200,000 per hour while revenues per hour have been estimated to be approximately \$125,000. This could result in a negative contribution to the broadcaster's margin of -\$75,000 per hour, on average.<sup>1</sup>

On the other hand, a typical one hour U.S. drama can cost a Canadian private broadcaster approximately \$80,000 per episode, but may generate \$200,000 in revenue (representing 60% less for programming expenditures required for a Canadian program, but 60% more advertising revenue for a net contribution of \$120,000 to the broadcaster's margin)<sup>2</sup>.

The economics of Canadian production improve somewhat for entertainment productions that meet Canadian content criteria but which are geared to international audiences (e.g., *Outer Limits* or *Nikita*). Licence fees for internationally-oriented drama programs are half that of licence fees for Canadian productions geared to Canadian audiences. A typical licence fee for such a global project might be \$100,000 with revenues of \$120,000. This means a global project can make a net contribution to a broadcaster's margin of \$20,000.<sup>3</sup> This provides Canadian broadcasters with an economic incentive to purchase and air Canadian programming that is not "distinctively Canadian", or to purchase programming which may not be targeted solely to Canadian audiences.

Given the economic realities of Canadian television, Canadian broadcasting policy, legislation and regulation have largely focussed on ensuring that Canadian programs are produced and aired in Canada, largely through Canadian content requirements.

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<sup>1</sup> Coopers & Lybrand, "Final Report Environment Scan", prepared for the Canadian Association of Broadcasters, June 30, 1998, page II-35.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

Under Section 4 of the *Television Broadcasting Regulations* (the TV Regs)<sup>1</sup>, all television licencees must devote no less than 60% of their broadcast year to Canadian content. Private television licencees must devote 50% of their evening broadcast (from 6 p.m. to midnight) to Canadian content, while public licencees must adhere to a slightly higher evening broadcast Canadian content requirement of 60%. There are some exceptions to these rules. For example, by special condition of licence an ethnic station may have reduced Canadian content requirements.

Canadian content exhibition requirements for specialty, pay and PPV services vary from one service to another depending on the nature of the programming.<sup>2</sup> For example, the evening hour Canadian content requirements for pay and specialty services range from 15% for TV5 and 20% for Moviemax, to 50% for MuchMusic, 60% for Vision, WTN, and YTV, to 90% for RDI and 100% for CTV News 1.

Canadian pay per view (PPV) services also have minimal Canadian content requirements. Requirements on existing PPV licencees include 1 in 20 feature films must be Canadian (1 in 12 for French-language), 1 in 10 of other programming inventory must be Canadian, and not less than 25% of the titles being promoted on the barker channel (promotional channel) must be Canadian.

Almost all of the producers interviewed for this Report indicated their belief that the CRTC's Canadian content regulations are the most important government support mechanism in encouraging Canadian productions (compared to the CTF, other public funds, private funds, tax credits and public broadcasting).

In addition to these overall Canadian content requirements, the CRTC'S new television policy announced in June 1999<sup>3</sup> stipulates that all large multi-station ownership groups (broadcasters licenced to operate in several provinces with a potential reach of more than 70% of the audience in their language of operation) are required to broadcast at least 8 hours per week of "priority Canadian programs" during the peak viewing period (7 p.m. to 11 p.m.). "Priority Canadian programs" are defined as drama, music, dance and variety, long-form documentaries, regionally produced programs (other than news, information and sports), and entertainment magazine programs.<sup>4</sup>

Another regulatory incentive is the 150% Cancon credit, first introduced in 1984, which as first introduced gave Canadian broadcasters credit for 1½ hours of Canadian content for airing one hour of 100% Canadian drama productions (programming in the drama category that achieves 10 out of 10 points in the context of the Commission's point system used to define Canadian Content). Under the new rules introduced in the CRTC's new Television Policy, beginning on September 1, 2000, the program must

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<sup>1</sup> See CRTC, *Public Notice CRTC 1999-97, "Building on Success - A Policy Framework for Canadian Television"* for the most recent CRTC policies on television broadcasting in Canada.

<sup>2</sup> CRTC, *Public Notice CRTC 1994-59*.

<sup>3</sup> See *Public Notice CRTC 1999-97, June 11, 1999*.

<sup>4</sup> *The Commission has issued a Public Notice seeking public comment on its proposed definitions of priority Canadian programming. See Public Notice CRTC 1999-120, dated July 22, 1999.*

also be at least 30 minutes long (including commercial breaks), and it must contain a minimum of 90% drama content. The programming must commence between 7 p.m. and 11 p.m.

In addition, large multi-station ownership groups will be eligible to receive a 125% credit against Canadian drama that achieves 6 to 9 out of 10 points. Smaller multi-station ownership groups will not receive this new credit (although the Commission states in PN 99-97 that the continued applicability of the credits will be discussed at the time of the smaller multi-station ownership groups licence renewals, which might result in the 125% credit being made available to these smaller multi-station ownership groups).<sup>1</sup> It should be noted that the new time credit cannot be used by broadcasters to reduce the overall quantity of Canadian programs broadcast (i.e., broadcasters must still maintain their level of Canadian programming at 50% of the evening period and 60% of the broadcast day). The credit applies only against the CRTC's proposed condition of licence requirement that large multi-station ownership groups broadcast at least 8 hours per week, on average, of "priority Canadian programs"<sup>2</sup> during the peak 7 p.m. to 11 p.m. viewing period.

The importance of these regulatory requirements is that they guarantee a market for Canadian television productions, particularly in the categories supported by the CTF. This is not to say that without the regulations there would be no market for Canadian programming but that they ensure that Canadians have access to Canadian programming and that independent producers have a market for their product.

In addition to exhibition requirements, the CRTC also imposes expenditure requirements on Canadian television broadcasters although these requirements are scheduled to cease in September 2000. Unlike the case of Canadian content exhibition requirements, which are fairly uniform for all television broadcasters, each television licensee has a different Canadian content expenditure requirement. In 1995, the Commission introduced a flexible approach to Canadian content expenditure requirements that allows licensees to meet their obligations under the *Broadcasting Act* in a manner that takes their individual circumstances into account.<sup>3</sup>

Television licensees earning less than \$10 million in advertising revenue and network payments must meet expectations linking their Canadian programming expenditure to their year-to-year growth in total advertising revenue. Television licensees earning more than \$10 million in annual advertising revenue and network payments may choose the same approach used for licensees earning less than \$10 million (Option A) by condition of licence, or they may adhere to conditions of licence requiring minimum average weekly exhibition of Canadian drama, music or variety programming (Option

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<sup>1</sup> The CRTC has issued a Public Notice seeking public comment on the proposed criteria for the 125% credit. See Public Notice CRTC 1999-120, dated July 22, 1999.

<sup>2</sup> The CRTC has proposed that the definition of "priority programs" to include not only drama, music, dance, and variety, but also long-form documentary, regional programming (other than news, information and sports) and Canadian entertainment magazine programs.

<sup>3</sup> See Public Notice CRTC 1995-48, dated March 24, 1995.

B). Some private television licencees (e.g., CTV Network and Global Communications Ltd.) are currently operating under conditions of licence that combine these two Options.

As a result of these exhibition requirements Canadian private, public, conventional and specialty services collectively spend over \$1 billion annually on the acquisition and production of Canadian programs.<sup>1</sup> However, in its new television policy, the CRTC announced that these expenditure requirements would be eliminated effective September 1, 2000.

Individual licencees are also subject to specific conditions of licence affecting their exhibition and expenditure requirements. These conditions of licence may have occurred as a result of a significant benefits package presented by the licencee at the time of a transfer of ownership, or they may have been commitments proposed by the licencee when applying for a new licence against other applicants.

Beyond specific regulations aimed to increase the production and exhibition of Canadian content, the CRTC indirectly contributes to the demand for Canadian programming through the licensing of new programming undertakings (conventional, specialty and pay services). For example, the licensing of new specialty services in the past has supported the production of documentaries, children's programming and performing arts programming (see Chapter 2, Section H.1 below). Future licensing of additional pay and specialty programming services will likely further increase the demand for Canadian programming of all types (CTF-funded and otherwise).

## 2. Audience-driven demand

The primary "end-user" of Canadian programming is the Canadian television viewing public. The importance of the viewing public cannot be underestimated since they are the basis for the programming decisions of Canadian broadcasters. For, despite the fact that audiences for conventional and specialty television do not "pay-per-view", broadcasters have an incentive to air programming that generates large audiences since advertising revenue is based on audience shares.<sup>2</sup>

Television viewing of all types in Canada has remained fairly stable over the last 10 years, declining only slightly to 22.7 hours per week on average in 1997 from 23.5 hours per week on average in 1988. Women spend more time viewing television than men (26.5 hours per week among women 18+ versus 21.7 hours a week for men 18+). Children spend more hours per week watching television than teens (17.9 hours versus

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<sup>1</sup> CAB, *TV Board Submission to the CRTC's TV Policy Review, June 30, 1998, page 37.*

<sup>2</sup> *Advertising revenue is the largest source of revenue for conventional and specialty services. In 1998, 88.8% of conventional broadcasters' revenues stemmed from advertising. In 1997, 31% of specialty services' revenues were attributable to advertising. However, historical data indicate that subscription revenues are actually declining relative to advertising revenues. See CRTC Financial Summaries.*

16.9 hours). Viewers in Quebec spend more time watching television than those of any other province (25.8 hours). Alberta has the lowest average with 19.8 hours.<sup>1</sup>

Most of this television viewing is of Canadian broadcasting services. Fall 1997 BBM figures indicate that most viewing of television by Canadians is of Canadian broadcasting services (78.4% of television viewing in Canada is of Canadian broadcasting services), while only 21.6% of viewing is of U.S. network or cable services (e.g., A&E, CNN, TLC).

However, despite the fact that the majority of viewing is Canadian broadcasting services and that at least 60% of programming on Canadian services is Canadian, available data on viewing of Canadian content by broadcast source—as shown in Exhibits 11-12 and 13—indicate that Canadians are watching more foreign programming than Canadian programming (except on French-language television services). Across all programming services (i.e., including foreign services), the share of viewership to Canadian programming has remained fairly stable over the last five years—approximately 32% of English-language viewing and 69% of French-language viewing is of Canadian television programming.

**Exhibit II-12  
Viewing of all Canadian programming by broadcast sector as a percentage of total viewing—English language television**

	1991-1992	1996-1997
Private Conventional	18.0	15.2
CBC	7.2	6.2
Educational and Other	0.6	0.7
Canadian Specialty	5.1	8.7
Canadian Pay	0.1	0.1
Other (U.S.)	1.0	0.8
<b>TOTAL</b>	<b>32.0%</b>	<b>31.7%</b>

Source: CAB, TV Board Submission re Public Notice CRTC 1998-44, June 30, 1998.

<sup>1</sup> Statistics Canada, Average hours per week of television viewing, [www.StatCan.CA/english/Pgdb/People/Culture/arts23.htm](http://www.StatCan.CA/english/Pgdb/People/Culture/arts23.htm).

**Exhibit II-13**  
**Viewing of all Canadian programming by broadcast sector as a percentage of total viewing—French language television**

	1991-1992	1996-1997
Private Conventional	41.8	39.4
CBC	16.4	15.6
Educational and Other	3.7	2.1
Canadian Specialty	7.7	11.6
Canadian Pay	0.2	0.2
<b>TOTAL</b>	<b>69.8</b>	<b>68.9</b>

Source: CAB, TV Board Submission re Public Notice CRTC 1998-44, June 30, 1998.

However, private English-language Canadian broadcasters generally air Canadian programming outside of prime-time viewing (i.e., generally before 8 p.m. and after 11 p.m.). Thus, non-Canadian programming is more available to Canadian viewers than Canadian programming during periods when most television viewing occurs. This might be one reason why viewing of Canadian programming tends to be lower than viewing of non-Canadian programming.

Further, it is important to note that viewing of Canadian programming has remained constant since 1991-92, despite the fact that the supply of non-Canadian programming has increased substantially over the last few years with the addition of new foreign (mostly U.S.) services on the CRTC’s *Lists of Eligible Satellite Services* and the expanded carriage of foreign (again, mostly U.S.) services by Canadian cable, direct-to-home satellite services, and other distribution undertakings.

Furthermore, viewing of English-language Canadian drama, variety and music programming has increased from 6.1% of total viewing, to 7.5% of total viewing in 1996-97.<sup>1</sup> This represents an increase of 23%. Viewing of English-language Canadian drama has only increased by 8.6% (from 3.5% of total viewing in 1992-93 to 3.8% of total viewing in 1996-97).<sup>2</sup>

On the other hand, viewing of French-language Canadian drama, variety and music programming decreased from 24.9% of total viewing in 1991-92, to 20.8% of total viewing in 1996-97.<sup>3</sup> This represents a decrease of 16.5%. However, viewing of

<sup>1</sup> CAB, “Canadian Television: Telling Our Stories”, response to the CRTC Canadian Television Policy Review, Specialty Board Submission, June 30, 1998.

<sup>2</sup> Coopers & Lybrand, “Final Report Environment Scan”, prepared for the Canadian Association of Broadcasters, June 30, 1998.

<sup>3</sup> CAB, “Canadian Television: Telling Our Stories”, response to the CRTC Canadian Television Policy Review, Specialty Board Submission, June 30, 1998.



French-language Canadian drama has increased by 22% (from 10.0% of total viewing in 1992-93 to 12.2% of total viewing in 1996-97).<sup>1</sup>

In other words, viewing of English-language Canadian drama has increased more slowly than viewing of variety and music programming while viewing of French-language Canadian drama has increased while viewing of French-language variety and music programming has fallen.

## D. International developments

Canada is party to a number of international trade agreements, such as the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA). Under these agreements, countries generally agree to grant their trading partners “most favoured nation” status and treat all of them equally.

Each of the international trade agreements to which Canada is a party varies in how it treats cultural products. For example, the General Agreement on Tariffs and Trade (GATT) allows countries to limit the screen time given to foreign films, and provides a general exception for measures designed to protect “national treasures of artistic, historic or archaeological value”. In the General Agreement on Trade in Services (GATS) negotiated during the Uruguay Round of multinational trade talks, members did not agree to exempt culture from the agreement, but they did allow countries to opt out of most favoured nation obligations and to opt in to national treatment obligations. As a result, Canada took a most favoured nation exemption for domestic film and television co-productions and did not include any commitments for national treatment in the cultural sector, maintaining the right to promote Canadian cultural services and suppliers. NAFTA has a “cultural exemption” that gives Canada the right to exempt cultural industries from most terms of the agreement.

It is noteworthy that Canadian support mechanisms for cultural industries have been challenged under international agreements. For example, in 1996, the U.S. went to the WTO to challenge Canada’s 80% excise tax on advertising revenue generated by foreign “split-run” magazines (foreign magazines reprinted with Canadian advertising). The U.S. believed these support mechanisms ran counter to GATT (specifically those articles that prohibit restrictions on or discrimination against imports from GATT Members). The WTO agreed and, in February 1997, it struck down Canada’s prohibition on importation of split-run editions, the excise tax and the “postal subsidy” which granted lower postal rates to domestic magazines. Canada appealed the decision, but it was upheld.

While not disputing the ability of member states to protect their cultural heritage, this decision made it clear that any support mechanism, even a mechanism designed specifically to protect cultural products and services, that is inconsistent with international agreements is open to dispute. This precludes mechanisms that discriminate against signatories to these agreements.

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<sup>1</sup> *Coopers & Lybrand, “Final Report Environment Scan”, prepared for the Canadian Association of Broadcasters, June 30, 1998.*

Accordingly, any mechanism to support the creation and distribution of Canadian television programming must be consistent with Canada's international obligations. It is conceivable that some existing mechanisms (but not, for example, direct subsidies), may become subject to an international dispute process in the future. This may lead to some uncertainty in the television production sector with respect to the long-term stability of existing support mechanisms.

For example, a June 1999 study commissioned by the Directors Guild of America and the Screen Actors Guild (the "U.S. Runaway Film and Television Production Study")<sup>1</sup>, determined that there was a profound economic loss (estimated at U.S. \$10.3 billion in 1998) owing to runaway production and that most of this runaway production was to Canada (81%). The study pointed to Canadian tax incentives as one of the primary reasons for the level of runaway production in Canada. While there has been some dispute as to the validity of the study<sup>2</sup>, it has drawn much attention from U.S. politicians. Republican Congressman Jerry Weller is urging the Clinton administration to bring runaway production and the Canadian mechanisms that support it to the attention of the World Trade Organization during talks scheduled for November 1999.<sup>3</sup>

## E. Labour supply and costs

Labour is a significant aspect of both film and television production. Both the supply of qualified labour and labour costs have a significant impact on the operations of the Canadian film and television production sector.

### 1. Supply

It would seem that Canada has a wealth of highly skilled labour to fuel the Canadian production sector. There are a number of facilities in Canada, both public and private, offering programs at various levels for people interested in various areas of film and television production. In addition, there are bodies that support emerging talent such as the Canadian Film Centre and the National Film Board.

However, as is the case in many highly mobile sectors of the Canadian economy, the Canadian film and television production sector is experiencing a "brain drain" as skilled and talented Canadian workers leave Canada to work in the U.S. The lower U.S. tax rate, the potential for higher paying jobs (particularly for actors, directors and writers), and the increasingly higher living standards in the U.S. relative to Canada are believed to play an important role in this migration of talent to the south. This

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<sup>1</sup> See, [www.dga.org/press/releases/1999/runaway.pdf](http://www.dga.org/press/releases/1999/runaway.pdf). "Runaway production" refers to production of programming intended for U.S. audiences but filmed in foreign countries, (e.g., Canada).

<sup>2</sup> CBC, "InfoCulture", [www.infoculture.cbc.ca/archives/filmstv/filmstv\\_07141999\\_runawayfilms.html](http://www.infoculture.cbc.ca/archives/filmstv/filmstv_07141999_runawayfilms.html)

<sup>3</sup> CBC, "InfoCulture", [www.infoculture.cbc.ca/archives/cultpol/cultpol\\_08271999\\_runaway.html](http://www.infoculture.cbc.ca/archives/cultpol/cultpol_08271999_runaway.html) and Jennifer Loven, *the Associated Press, Foreign Films Hurt US Industry*, [www.washingtonpost.com/wp-srv/WAPO/19990826/V000834-082699-idx.html](http://www.washingtonpost.com/wp-srv/WAPO/19990826/V000834-082699-idx.html).

migration also occurs within Canada, from rural areas to large metropolitan centres such as Vancouver, Montreal and Toronto.

While not a new issue, the migration of skilled workers to large urban areas and, more importantly, to the U.S., could have a significant, long-term impact on the Canadian production sector. The role of Canadian training and funding for emerging Canadian talent may play a much more significant role in the years ahead.

## 2. Costs

Most of the employees involved in the Canadian production sector are unionized (e.g., performers are represented by ACTRA, creative and logistical personnel are represented by the Directors Guild of Canada). Labour unions can have a significant influence over the labour costs of the independent production sector. For example, ACTRA recently reached a new Independent Production Agreement that increased principal performers' rates and fees by 8% to December 31, 2000, with an additional increase of 2% effective on January 1, 2001.<sup>1</sup>

Another factor that might be affecting labour costs is the increase in foreign location shooting. The ability of foreign producers to pay higher wages (in Canadian dollars) for Canadian labour may be driving labour costs up.

Data on salaries and wages for the television production sector are not available, however, Exhibit II-14 shows how salaries and wages for the Canadian production industry (including film, television and service production) have increased over the last five years. Salaries and wages increased 68% between 1992-93 and 1996-97 giving a compound annual growth rate of 14.0% compared to average annual growth rates of 7.7% and 3.4% in benefits and freelancers' fees, respectively.

### Exhibit II-14

#### Salaries and wages Film, Television and Service Production (\$ million)

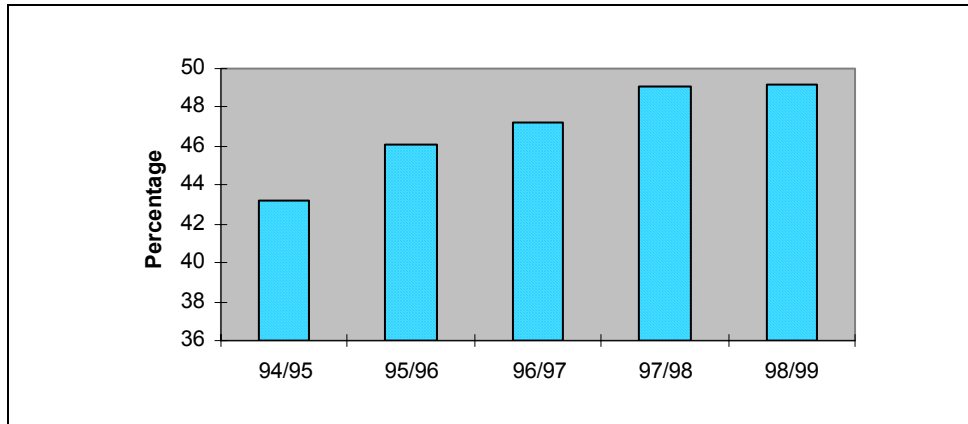
	1992-93	1993-94	1994-95	1995-96	1996-97
Salaries and wages	103.3	150.9	145.0	159.2	174.5
Benefits	10.4	13.9	13.0	16.1	14.0
Freelancers' fees	82.3	84.5	100.9	84.1	94.0
<b>Total</b>	<b>195.9</b>	<b>249.3</b>	<b>258.9</b>	<b>259.4</b>	<b>282.5</b>

Source: *Statistics Canada*

As a result of increasing wages in the sector as a whole, television producers are having to allocate increasingly larger amounts of their production budgets to labour. As Exhibit II-15 demonstrates, labour costs have increased as a percentage of total budgets over the last six years, from 43% in 1994-95 to nearly 50% in 1998-99.

<sup>1</sup> ACTRA, "ACTRA IPA Negotiations Bulletin 5.0", June 22, 1999, [www.actra.com/news/ipa501.htm](http://www.actra.com/news/ipa501.htm).

**Exhibit II-15  
Labour costs as a percentage of total budgets CAVCO certified television productions (excluding co-productions)**



Source: CAVCO

**F. Technological developments**

The most significant technological development facing the Canadian independent television production sector is the transition to high definition digital television (HDTV).

At present, most broadcast signals in Canada are transmitted in analog format and most production is undertaken in the analog format. However, it is possible for broadcasters to supply their signals to broadcast distribution undertakings in wide-screen, high definition digital format, which enhances both the picture and sound quality of the signal. As this form of broadcasting takes hold around the world, more production will have to be in the digital format. In addition, digital production technologies are being progressively adopted in the production sector as a cost-saving, quality-enhancing measure.

In May 1998, the Canadian broadcasting industry formed Canadian Digital Television Inc. (CDTV), to monitor U.S. developments, provide research and signal testing, co-ordinate the digital launch, and advise the government on policy. CDTV has established several subgroups to study various issues related to the implementation of digital television (e.g., technical and economic issues). So far, Canada has officially adopted a technical standard for digital television (ATSC A/53) and has begun work on the over-the-air allotment plan for digital channels.

In the U.S., there are 95 television stations on the air with some kind of digital programming,<sup>1</sup> and the U.S. federal regulator (the FCC) has proposed that all U.S. broadcasters complete the transition to digital by 2006. In Canada, the Canadian Task Force on the Implementation of Digital Television has recommended that broadcasters in major markets (Vancouver, Montreal and Toronto) begin to roll-out digital service in 1999.

<sup>1</sup> FCC, "Digital Television", November 2, 1999. See [www.fcc.gov/mmb/vsd/files/descrip.html](http://www.fcc.gov/mmb/vsd/files/descrip.html).

The costs of converting to digital, for producers, broadcasters and cable operators will be considerable.

The CAB estimates that to establish new HDTV transmission facilities, conventional television broadcasters must invest \$500-million collectively over the next five to ten years (or \$50-70 million per company for the major broadcasting corporations), despite the fact that little if any return is expected on that investment in the short to medium term.<sup>1</sup> This is because it will be some time before there are significant numbers of Canadian viewers of digital television. Special television sets will be required to receive digital broadcasting and at present, the supply of such sets is still limited and the price is still very high (\$3,500). Nevertheless, Canada's DTH satellite providers (Star Choice<sup>2</sup> and Bell ExpressVu<sup>3</sup>) have already provided some HDTV programming.

The costs of upgrading for DTV in the independent production sector are at this point unclear.<sup>4</sup> There is no doubt new digital production equipment will be required, including cameras and editing facilities as well as ancillary equipment (lighting, audio, etc.). Training costs could also be considerable. Unfortunately, there is insufficient data available on the technological status of the independent production sector which could be used to estimate cost requirements.

Some production companies which produce both feature films and television programs may already own and operate digital facilities. Smaller firms may, however, have a particularly hard time adapting to a digital world.

While it is not possible to build a bottom-up estimate of likely costs, industry sources suggest that TV production industry operating costs may increase by 20%.

Over the longer term, the transmission capabilities and enhanced functionality of distribution networks (including the Internet) will have a significant impact on the independent production sector. These technological developments will not only affect the types of programming created by independent producers (e.g., interactive programs) but could also affect the organizations of the program-supply chain, the customer-vendor relationship, the pricing model(s), the industry structure, and the ability of the regulator to ensure a place for Canadian programming. At the same time, these technological developments also provide opportunities for new markets for Canadian products.

A key development on this front is the deployment of digital set-top boxes by operators of cable TV, DTH, terrestrial wireless and possibly telephone networks. While the roll-out of

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<sup>1</sup> CAB, "CAB Fact Sheet -- Is Anybody Watching? Going Digital", September 1998, [http://www.cab-acr.ca/about/tv/cth\\_conver\\_facts\\_sep2398.html](http://www.cab-acr.ca/about/tv/cth_conver_facts_sep2398.html).

<sup>2</sup> Star Choice, Press Release, March 12, 1999. See [www.starchoice.com](http://www.starchoice.com).

<sup>3</sup> Bell ExpressVu, Press Release, October 28, 1999. See [www.expressvu.com](http://www.expressvu.com).

<sup>4</sup> See Wall Communications Inc., "Industrial Strategy for the Implementation of Digital Television Broadcasting in Canada", prepared for Canadian Heritage, May 1997.

some digital set-tops has already begun in Canada, much more powerful boxes are waiting in the wings. More aggressive deployment also appears likely.<sup>1</sup>

Coming from a different direction, set-top video game manufacturers are moving away from stand-alone units towards game systems which can interconnect through various transmission/distribution networks. For example, Sony is developing a second generation PlayStation which will reportedly play DVD video software, utilize DVD software for games, include USB ports, an IEEE 1394 interface and a Type III PCMCIA slot to connect the game console to wired broadband networks for Internet-based gaming and distribution of gaming software. Sony also plans to produce digital movies that will be distributed over the Internet to PlayStation 2 consoles.<sup>2</sup>

The implications of these technological changes for the independent production sector will also include the need to develop or recruit new skill-sets and merge diverse technical capabilities. In this increasingly multi-medium, multi-functional environment, the relevance of interpersonal and managerial skills will also grow accordingly.

## **G. Summary—state of the environment**

The Canadian production sector has experienced, or will in the near future, experience many changes including increasing industry concentration, increasing vertical integration, changes in the relative importance of the various sources of financing, the advent of DTV, the “brain drain” and increasing labour costs. The increasing importance of capital markets and the increased financing ability of publicly traded companies will also likely continue to be a trend in the Canadian production sector.

Perhaps most significantly, the regulatory framework of the Canadian broadcasting sector and the growing demand for Canadian drama, variety and music programming will continue to ensure a market for Canadian television production. However, the balance between market driven demand and the demand created by the regulator will change. Market driven demand will exert a greater influence.

## **H. Trends in the Canadian Production Sector**

The previous sections summarized the state of the environment within which the Canadian independent television production sector operates. This section examines how these factors

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<sup>1</sup> *Cablevision Systems, operating in New York, recently announced its intention to deploy advanced set-top boxes to all of its 2.7 million subscribers next year. The boxes will offer a full range of digital and analog video, interactive, data and telephony services. Rather than deploying boxes whenever a specific tier of digital services is sold to a customer, Cablevision apparently plans to install the boxes first and use the new portal into the home to sell a full range of new services over time.*

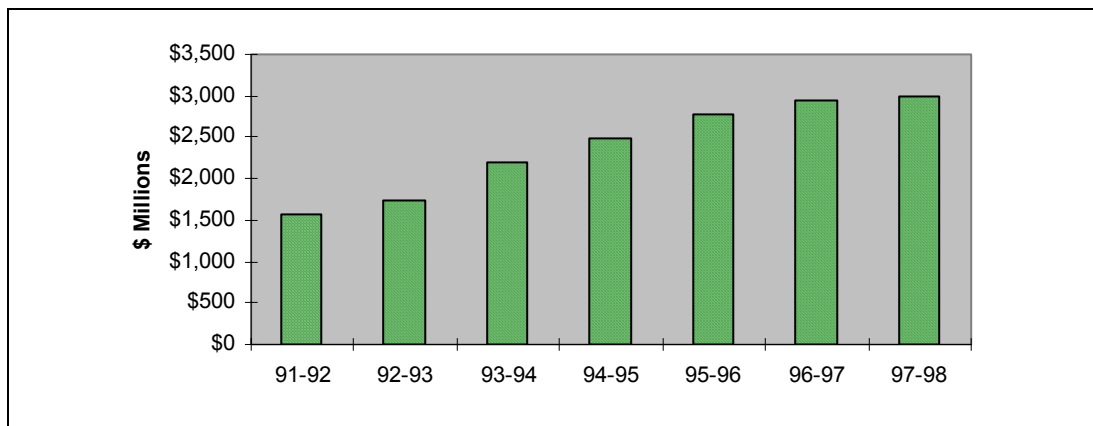
<sup>2</sup> *Digital Technology Report, September 20, 1999, pg. 1.*

and trends have effected the production sector, again with an emphasis on the production of Canadian television programming.

### 1. Trends in production

In 1997-98, the total volume of film and television production in Canada was just over \$3 billion, as shown in Exhibit II-16. This represents an increase of 2.2% over the previous year, but an increase of 87.5% since 1991-92.<sup>1</sup> The amounts shown in Exhibit II-16 include the production budgets of CAVCO and non-CAVCO certified productions, foreign location shooting, non-theatrical productions and broadcasters' in-house productions.

**Exhibit II-16**  
**Value of film and television production in Canada**



Source: CFTP/AFPTQ, 1999 Profile

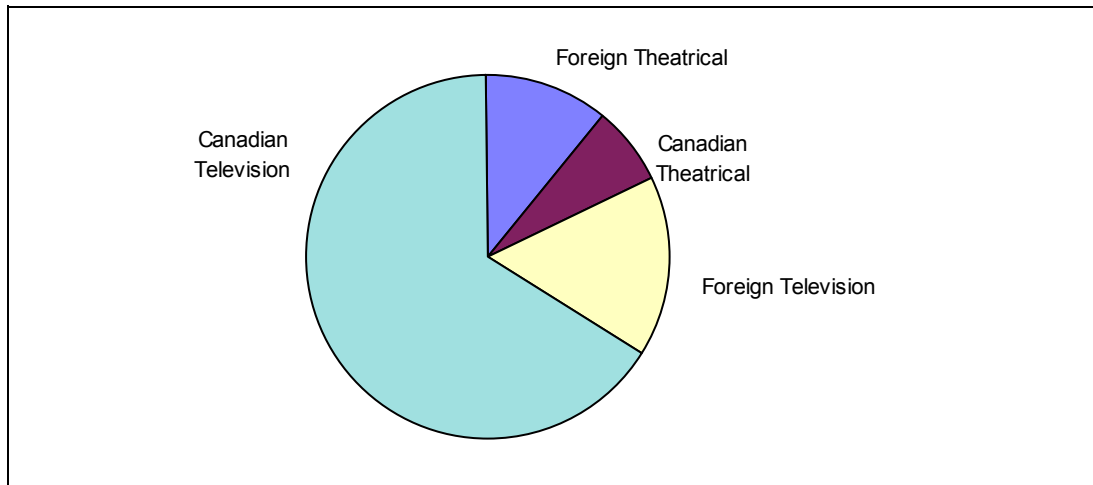
If non-theatrical productions (i.e., advertising, corporate and training production) are excluded, Canadian television production represents the largest share of film and television production in Canada (61% in 1997-98), as shown in Exhibit II-17.<sup>2</sup> However, its relative weight and importance within the film and television production sector is declining, falling by 4.7% in from 1996-97 to 1997-98, at the same time as Canadian theatrical production grew by 3.4% to 9% (the remaining 30% of production activity in 1998-99 was foreign television and theatrical production).<sup>3</sup>

<sup>1</sup> CFTP/AFPTQ, "The Canadian Film and television Production Industry, A 1999 Profile", February 1999.

<sup>2</sup> CFTP/AFPTQ, The Canadian Film and Television Production Industry, A 1999 Profile, February 1999.

<sup>3</sup> Ibid. Theatrical production, on the other hand, increased by 3.4%.

**Exhibit II-17**  
**Share of film and television production by medium, 1997-98**



Source: CFTP/PA/APFTQ, 1999 Profile

CAVCO data shown in Exhibit II-18 also indicates a decline in television production over the last two years, following a period of significant growth during the five years prior to 1999-97. This overall growth was primarily due to significant increases in total budgets for documentaries and children’s programming, as shown in Exhibit II-19.

**Exhibit II-18**  
**Budgets of CAVCO certified television productions**

	91-92	92-93	93-94	94-95	95-96	96-97	97-98
Volume (\$ millions)	427	583	674	808	969	920	843
Year to Year Change (%)		+36.5	+15.6	+19.9	+19.9	-5.1	-8.4

Source: CFTP/PA/APFTQ, 1999 Profile

**Exhibit II-19**  
**Annual percentage changes in budgets of CAVCO certified television production, by genre**

	91-92 to 92-93	92-93 to 93-94	93-94 to 94-95	94-95 to 95-96	95-96 to 96-97	96-97 to 97-98
Children	+42.9	-9.0	+61.5	+22.5	-5.6	-7.7
Documentary	-21.7	-44.4	+150.0	+232.0	+4.8	-8.1
Entertainment*	+47.8	+17.8	+10.1	+5.9	-0.2	-6.7

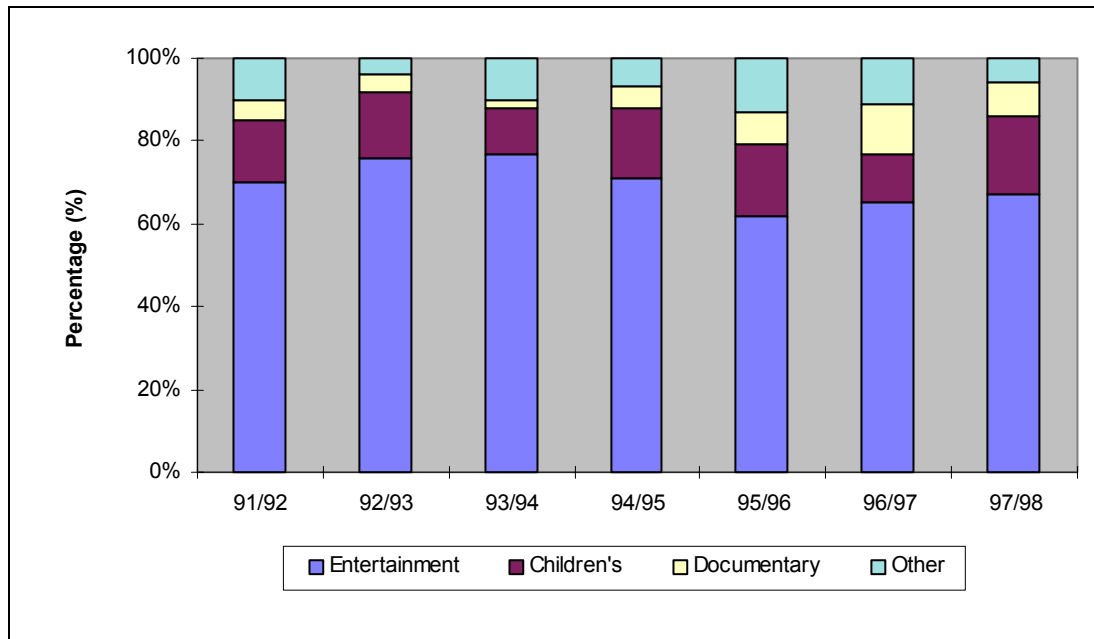
\* includes fiction, music, variety and performing arts

Source: CFTP/PA/APFTQ, 1999 Profile



In fact, over the last seven years, documentary and children’s programming budgets, as a percentage of total television production budgets have increased, as can be seen in Exhibit II-20. Although they declined between 1994-95 and 1995-96, the budgets of entertainment programming (which includes drama and performing arts) as a percentage of total productions budgets have been increasing since 1995-96.

**Exhibit II-20**  
**Budgets of CAVCO certified television production, by genre as a percentage of total television production budgets**



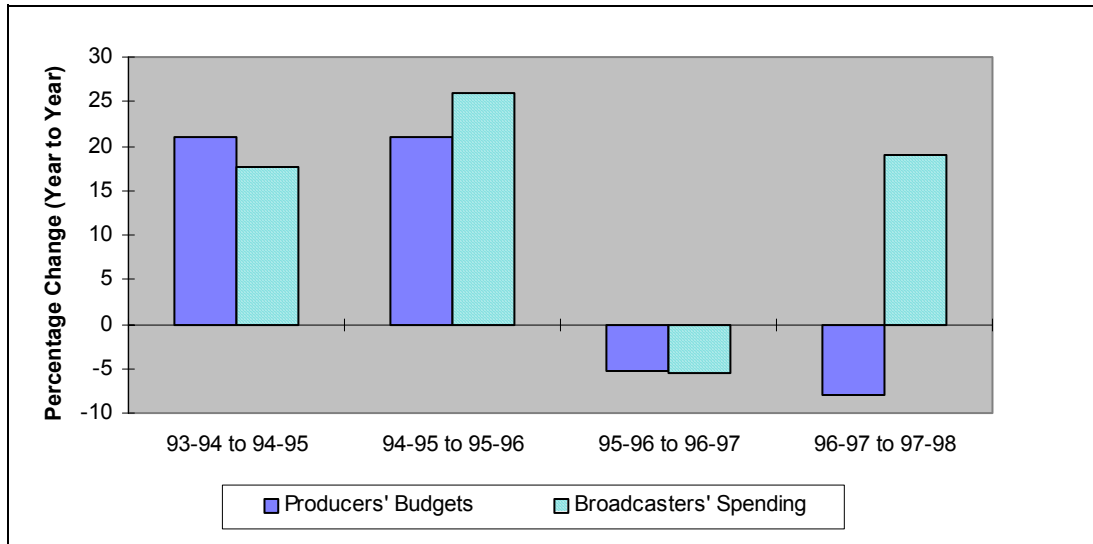
Source: CFTPA/APFTQ, 1999 Profile

*Playback's* annual survey of independent producers also indicates that budgets for documentaries are on the rise. According to the survey, television documentary budgets rose 31% in 1997 and another 40% in 1998. The survey also indicates that television drama budgets (which includes movies of the week and mini-series) also rose during this time period, by almost 20%.<sup>1</sup>

The largest market for Canadian television production, is of course, Canadian broadcasters. As we have previously shown, in Exhibit II-9, broadcasters' expenditures on programming acquired from independent Canadian producers increased in 1994-95 and 1995-96, fell in 1996-97 and recovered again in 1997-98. Canadian production sector's television budgets also increased, as shown in Exhibit II-21, but fell in 1996-97 and 1997-98.

<sup>1</sup> *Playback*, 11<sup>th</sup> Annual Survey of the Production Industry, May 17, 1999.

**Exhibit II-21  
Comparison of production budgets and private broadcasters' spending on acquired Canadian programming (including conventional, pay and specialty)**



Source: *CFTPA/APFTQ, 1999 Profile, CRTC, Financial Summaries*

It is clear from Exhibit II-21 that, with the exception of 1997-98, there has been a strong relationship between spending by broadcasters and the production budgets of independent productions. Reasons for the drop in broadcasters' spending in 1996-97 are not clear. Persons interviewed for this report were generally unable to satisfactorily explain this anomaly. One suggestion was that the introduction of the CTF initially caused a temporary reduction in the licence fees paid by broadcasters. It is not possible, however, to confirm whether this was the cause.

Is it also unclear whether increased spending by broadcasters drives the production sector (i.e., demand driven) or whether increased budgets drive spending by broadcasters (i.e., a supply driven increase in the quality and/or quantity of programming).

Certainly, the increase in the number of foreign outlets and the increase in co-productions (shown in Exhibit II-5) has caused an increase in the number of Canadian productions. The most significant impact has been the increase in the number of Canadian specialty services, particularly since they operate under Canadian content exhibition requirements.

The increase in production budgets and broadcasters' spending on acquired programming increased significantly between the 1994-95 and 1995-96 fiscal years, which can be attributed in part to the January 1995 launch of new specialty services. It is interesting to note that the nature of most of these services (Canal D, RDI, Bravo!, Discovery, Life, Showcase) support the production of documentaries (the genre of

production that had the most significant growth in production budgets at that time). The second large launch of specialty services that generated activity in the production sector, particularly with respect to documentaries and children's programming, occurred in September 1996 when the CRTC licenced, among others, History Television, Home & Garden Television Canada, Outdoor Life, Space: The Imagination Station, Teletoon, and Treehouse.<sup>1</sup>

While the increase in the number of outlets points to an increase in the number of productions, it is more difficult to determine whether there has been an increase in quality. However, while viewing of Canadian programming overall has not increased since 1991-92, viewing of English-language drama, variety and music programming increased by 23% between 1991-92 and 1996-97. Viewing of English-language drama alone has increased by 8.6% during those five years. During the same period, viewing of French-language drama increased by 22%.

As noted earlier, these increases in viewing have occurred despite the overall increase in foreign (mainly U.S.) programming stemming from the addition of new foreign services on the CRTC's *Lists of Eligible Satellite Services* and the expanded carriage of foreign (mainly U.S.) programming services by Canadian distribution undertakings. This may indicate an increase in the quality of Canadian programming and increased viewer preferences for this Canadian programming.

## 2. Distinctively Canadian Programming<sup>2</sup>

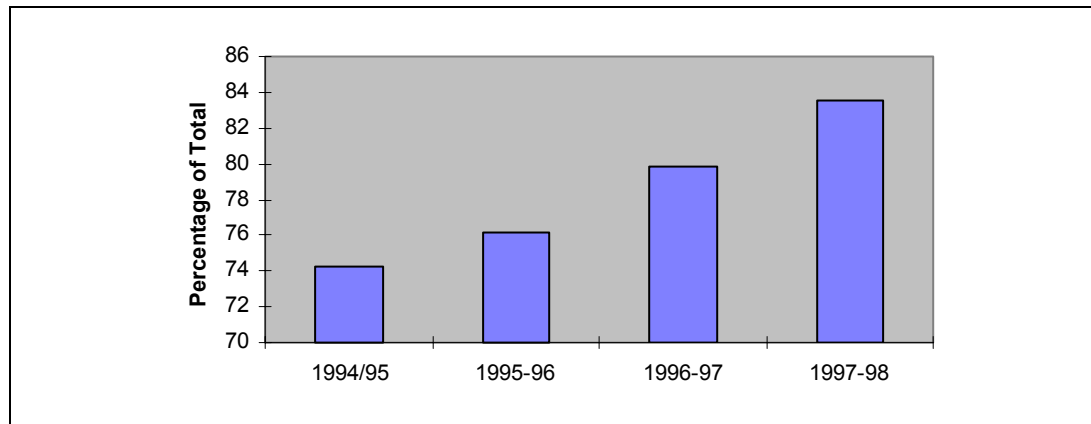
Over the last four years, as shown in Exhibit II-22, there has been a marked increase in the number of "distinctively Canadian" productions, expressed as a percentage of all CAVCO certified production. These productions have increased from 74% to 83% of total certified productions.

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<sup>1</sup> While these services were licenced in 1996, their launch was delayed until October 1997. However, their licensing was likely enough to generate increased activity in the production sector as the services prepared for launch by acquiring programming.

<sup>2</sup> The term "distinctively Canadian" is used here to mean Canadian productions that receive 100% "Canadian" points (i.e., 7 out of 7, 6 out of 6, or 10 out of 10) from CAVCO. It does not refer to programs that meet the 4 Essential Requirements required by CTF to be distinctively Canadian. Note that not all productions include all the key creative personnel used to allocate points. For example, a documentary does not use actors and can therefore only achieve 8 maximum points. Accordingly, it would only be assessed on the basis of 8 points, with a distinctively Canadian documentary achieving 8 out of 8 points. It is worth noting however, that a production does not need to receive 100% points on the CAVCO scale to be deemed "Canadian content" for the purposes of the CRTC Canadian content requirements.

**Exhibit II-22  
 “Distinctively Canadian” television productions  
 as a percentage of total CAVCO certified television productions**



Source: CAVCO

This may be due, in part, to the CTF funding criteria and the CRTC’s 150% Canadian content credit for distinctively Canadian drama.

As noted in Section C.1, above, the CRTC credits broadcasters with 1½ hours of Canadian content for each hour they broadcast a 100% Canadian drama production (programming in the drama category that achieves 10 out of 10 points in the context of the Commission’s point system). This provides broadcasters with an incentive to air “distinctively” Canadian drama. However, as this “150% credit” has been in existence since 1984 (and recently modified as part of the CRTC’s new Television Policy), the increase in “distinctively” Canadian programming is more likely to be a result of the CTF funding guidelines.

From the outset, the CTF funding criteria included the requirement that a production attain a minimum of 8 out of 10 points.<sup>1</sup> However, the Fund found that 95% of the funded programs actually achieved 10 out of 10 points.<sup>2</sup> It is likely, therefore, that the increase in “distinctively” Canadian programs is due, at least in part, to the CTF funding criteria. It is therefore important to note that the CTF’s 1999-2000 funding cycle guidelines have raised the criteria to require that a program: (1) reflects Canadian themes and subject matter; and, (2) achieves 10 out of 10 (or the maximum possible) points using the CAVCO point system.

<sup>1</sup> The original guidelines for the Fund were set out in Public Notice CRTC 1994-10.

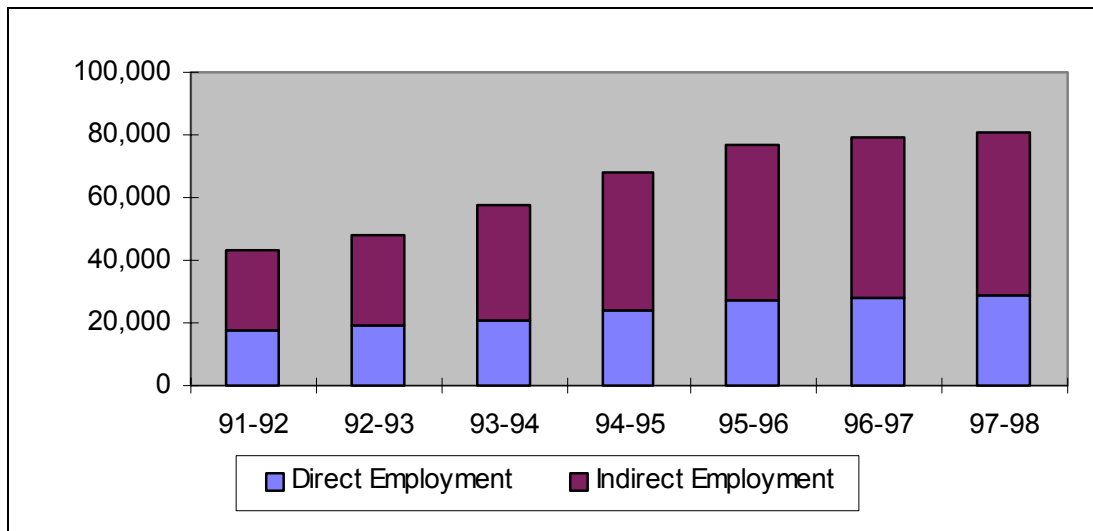
<sup>2</sup> CTF, Submission to the CRTC in response to Public Notice CRTC 1998-44 (the television policy review).



### 3. Trends in Employment

Given the growth in the volume of film and television production in Canada, it is not surprising that there has been an increase in the direct and indirect<sup>1</sup> jobs in the industry. Exhibit II-23 shows that between fiscal years 1991-92 and 1997-98 the number of direct jobs in the industry increased by over 87%.<sup>2</sup> This includes employment in CAVCO and non-CAVCO certified productions, foreign location shooting, non-theatrical productions and broadcasters' in-house productions. Indirect jobs linked to the industry have not enjoyed the same rate of growth.

**Exhibit II-23**  
**Production industry's contribution to Canadian employment**



Source: CFTP/PA/APFTQ, 1999 Profile

Although Statistics Canada's Labour Force Survey does not measure employment figures in the production sector, it does measure employment in the larger motion picture, audio and video production and distribution sector. In terms of average annual growth rates in full and part-time employment, this aggregate sector is one of the fastest growing sectors in the Canadian economy, with an average annual growth rate of 9.2% between 1993 and 1997. This compares with an average annual rate of 1.7% for all industries over the same period.

<sup>1</sup> Indirect jobs are those created in other sectors of the economy as a result of the Canadian production sector (e.g., equipment manufacturers, retail, housing).

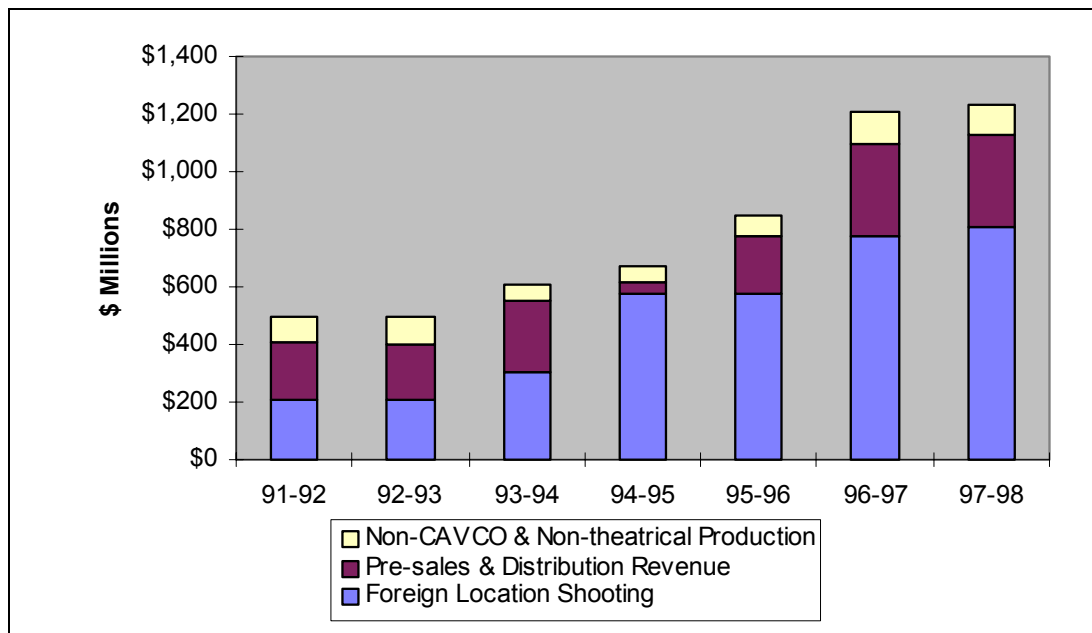
<sup>2</sup> CFTP/PA/APFTQ, "The Canadian Film and Television Production Industry, A 1999 Profile", February 1999.

#### 4. Trends in Exports

There are two primary types of exports in the television production sector: sales of programming outside of Canada (e.g., to foreign broadcasters), and foreign location shooting (the production of programming in Canada, using Canadian crews, for non-

Canadian productions). The largest component, and the fastest growing component, is foreign location shooting, as is evident in Exhibit II-24.

**Exhibit II-24**  
**Foreign revenue from film and television production in Canada**



Source: *CFTPA/APFTQ, 1999 Profile*

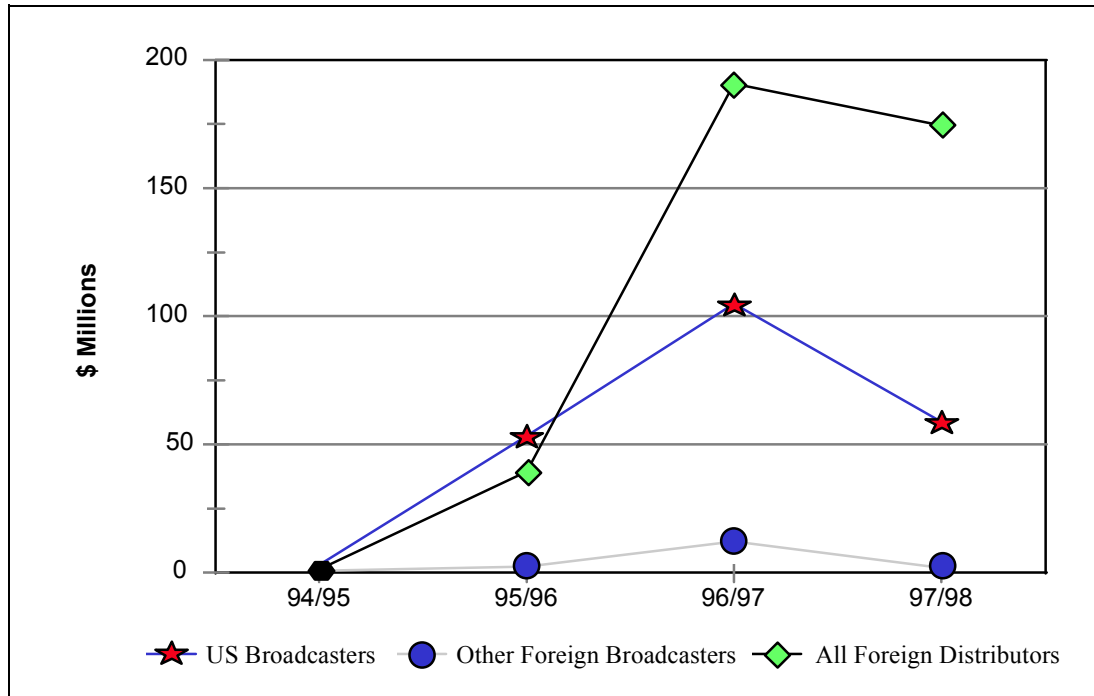
CAVCO data on foreign financing of Canadian television production shows that, after growing from 1995-96 to 1996-97, this source of funding declined somewhat in 1997-98 (Exhibit II-25). However, this data only spans four years and the changes from year to year do not indicate a trend. Nevertheless, the fluctuations may be due, at least in part, to the increase in the amount of “distinctively” Canadian . . . . etc.

This may be due, in part, to the increase in the amount of “distinctively” Canadian programming where, in some cases, “distinctively” Canadian programming may be less attractive to foreign broadcasters than more generic programming that has a broader international appeal. Nevertheless, it is important to note that many “distinctively” Canadian programs do sell in foreign markets.

Another reason for the apparent decline in foreign financing may be that Canadian producers applying for the CTF’s Equity Investment Program have an incentive to “hide” foreign financing, claiming it instead as revenue later in the production cycle in

order to make the project more appealing to Telefilm Canada (which is looking for revenue to recoup its investment).

**Exhibit II-25  
Foreign financing of CAVCO certified television production**



Source: CAVCO

**5. Summary**

While the volume of film and television production in Canada has shown steady growth over the last few years, the relative importance of television production within the sector has declined. At the same time, however, total television production budgets and budgets for documentaries, children’s and entertainment (drama, performing arts) programming have been increasing since 1995-96. The relative increase in the production budgets for these genres of Canadian programming may be due, in part to the increase in the number of domestic (and to a lesser extent, foreign) specialty television broadcasting services.

There has also been a marked increase in the number of Canadian productions receiving 100% of CAVCO points over the last four years. This trend is likely due to the CTF’s funding criteria which, up to 1998-99, required a proposed production to have a minimum of 8 out of 10 points. The volume of distinctively Canadian programming should continue to increase with the CTF’s new criteria which requires both a minimum of 10 out of 10 CAVCO points and Canadian themes. However, this increase in distinctively Canadian productions may have an impact on the “exportability” of Canadian television programming.





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### III

## **The CTF Mandate**

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### **A. Genesis of the Canadian Television Fund**

In 1983, the federal government issued a policy statement on Canadian broadcasting.<sup>1</sup> This policy statement has had a long-lasting effect, as it was the first step in a series of federal government actions intended to increase the competitiveness of the Canadian broadcasting system, both in the production and distribution of Canadian programming. The 1983 policy was meant to address new technologies and the changing environment by taking steps to increase the competitiveness of the Canadian broadcasting system, both in the production and distribution of Canadian programming. The policy was based on three goals:

- To maintain the Canadian broadcasting system as an effective vehicle of social and cultural policy.
- To make available to all Canadians a solid core of attractive Canadian programming in all program categories.
- To provide a significantly increased choice of programming of all kinds in both official languages in all parts of Canada.

These goals, and the desire to make the Canadian broadcasting system more competitive in an environment of new technologies can be traced throughout the following thirteen years of program development from the Broadcasting Program Development Fund to the Canadian Television Fund.

The Broadcast Program Development Fund was announced in the government's 1983 broadcasting policy statement. It was meant to encourage the production and broadcast of quality television programs produced by private Canadian producers and was based on the following conclusions:

- The proliferation of new programming services will provide an opportunity for Canadian program producers, but to take advantage of this opportunity they must have the resources to produce attractive, high quality Canadian programming of international calibre.

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<sup>1</sup> Canada/Department of Communications, "Towards a New National Broadcasting Policy", 1983

- Low viewership to Canadian English-language programming, particularly drama, the difficulty of amortizing the costs of production over a relatively small population, and the relative cheapness of American programming have led to both an economic and a cultural crisis.<sup>1</sup>

At the time the Fund was introduced, Canada did not have a viable domestic market for independently produced television productions.<sup>2</sup> Most independent production was done only for the CBC, and licence fees alone did cover production costs. The Broadcast Program Development Fund, administered by Telefilm Canada (named the Canadian Film Development Corporation at that time) provided loans, loan guarantees and equity investment of up to one-third of the costs of production to independent producers of feature films, drama, documentaries, variety and children's programming. Criteria for accessing the Fund (set out in a Memorandum of Understanding between Telefilm and the Minister of Communications) included the requirement that creative control over productions should rest with Canadians, and that the production have a broadcaster's commitment to air the program during peak viewing periods (7 p.m. to 11 p.m.). Additionally, this was meant to foster production in all regions of Canada. The Fund provided \$35 million in the first year, rising to \$60 million in 1987-88. Half the money was allocated for productions for CBC.

Co-incident with the announcement of this new Fund, the CBC announced that it would increase its prime-time Canadian content levels from 70% to 80% over five years. In addition, the CRTC issued a Policy Statement on Canadian Content in Television which introduced the use of conditions of licence so that the resources of each television broadcaster would be taken into consideration in establishing requirements for the purchasing, producing and scheduling of Canadian content.

Ten years later, in 1993, the CRTC undertook a review of the evolving communications environment and its impact on the existing and future structure of the Canadian broadcasting system (the "Structural Hearing").<sup>3</sup> The principal focus of the review was ensuring the continued achievement of the objectives set out in the *Broadcasting Act* in a rapidly changing environment. The Commission took into consideration technological evolution, the impact of new distribution technologies, and the criteria for licensing of new and competitive services in Canada.

As part of this review, the Commission examined the economic realities of Canadian broadcasting in light of the *Broadcasting Act* objective that the system encourage the development of Canadian expression. The Commission found that, as a general rule, Canadian programs are not more costly to produce than non-Canadian programs, but they are more costly for Canadian broadcasters to acquire. Even if a Canadian and a non-Canadian program draw similar audiences and advertising revenues, the Commission found that the margin between the cost of the Canadian program and the revenues it generates tends to be much smaller than the margin for the equally-popular non-Canadian program, and may even result in a net loss for the broadcaster. The Commission therefore determined that a financial

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<sup>1</sup> *Ibid.*

<sup>2</sup> Canada, "Report of the Task Force on Broadcasting Policy", September 1996.

<sup>3</sup> CRTC, "Structural Public Hearing", Public Notice CRTC 1993-74, June 3, 1993.

disincentive for broadcasters to acquire Canadian drama, documentaries and children's programs existed.

In addition to the economics of Canadian broadcasting, the Commission also addressed the competitive environment within which the Canadian broadcasting system operates. The Commission determined that “only by providing distinctive, indigenous programming with which Canadians can identify that Canadian programming undertakings will be distinguishable amidst the vast number of programming choices that new technological developments will make possible”. Finally, the Commission determined that all elements of the broadcasting system had a role to play in supporting the production and distribution of Canadian content, including distribution undertakings.

Accordingly, the Commission decided to amend the existing *Cable Regulations* to create the Cable Production Fund, to ensure financial support for Canadian programming. The Commission estimated that the fund would provide approximately \$300 million over 5 years.

The main focus of the production fund was to facilitate the broadcasting of high quality Canadian programs in under-represented categories in peak viewing periods.<sup>1</sup> The fund was based on a licence fee mechanism, which took into consideration the Commission’s finding that while independent producers have long claimed that licence fees in the Canadian market are too low, Canadian broadcasters have been equally insistent that they are financially unable to increase the licence fees that they pay. The Commission did not propose equity participation finding that independent producers expressed the concern that such investments can serve to dilute the producer's control over the production and, being repayable in the long term, do not serve to attract additional private investment.

In order to ensure the production of indigenous Canadian programming, the CRTC determined that to qualify for financial support from the fund, programs must earn a minimum of 8 points on the CAVCO scale. During the public proceeding leading to the published criteria, some interested parties argued that, in addition to the above criteria, there should be special consideration given to programs that are “distinctively Canadian” (i.e., featuring identifiably-Canadian protagonists and locations, based on Canadian literary works or historical events). The Commission found this to be unnecessary, noting that control and responsibility for decisions relating to the production of a program, from beginning to end, resides in the hand of the key creative personnel, and that requiring a minimum of 8 points on the CAVCO scale would ensure that programs are “distinctively Canadian”.

The Cable Production Fund only ran from its incorporation in 1994 to 1996 when the Minister of Canadian Heritage announced the creation of the Canada Television and Cable Production Fund (CTCPF) on September 9, 1996. The CTCPF was an amalgamation of the Cable Production Fund, the Broadcast Program Development Fund, with a \$100 million top up from the government. The genesis of the CTCPF was the March 1996 Budget in which it was announced that the Minister of Canadian Heritage would be examining ways to more effectively promote the production of Canadian culture by the CBC and private producers. As was the case with the government’s 1983 broadcasting policy statement and the CRTC’s

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<sup>1</sup> CRTC, “The Production Fund”, Public Notice CRTC 1994-10, February 10, 1994.

Structural Hearing, the Minister's Press Release announcing the CTCPF recognized that increasingly competitive environment within which the Canadian broadcasting and production sectors operate:

*This new initiative will ensure that we are able to maintain and increase the quantity and the quality of Canadian programming as we head into the multi-channel universe...*

The consultants observed common themes related to the provision of funding for the independent production sector, from the government's 1983 broadcasting policy statement, to the Minister's announcement of the CTCPF. These themes are:

- To support the production and distribution of under-represented categories of Canadian programming, particularly in peak viewing times.
- To ensure that the Canadian public and private broadcasting sectors and the Canadian production industry remain strong and vibrant in an increasingly competitive environment.
- To support programming in both official languages in all regions of Canada.
- To promote investment.

The Cable Production Fund, Telefilm Canada and the Department of Canadian Heritage joined forces to create the Canada Television and Cable Production Fund, which was renamed the Canadian Television Fund (CTF) in 1998. This public/private partnership was created to provide funding and create a critical mass of high quality Canadian programming especially in under-represented categories, and particularly in peak viewing times.

The CTF is administered by two separate organizations—Telefilm Canada which delivers the Equity Investment Program (EIP) and the Canadian Television Fund which delivers the Licence Fee Program (LFP). A Board of 16 industry stakeholders provide direction for the delivery of both programs. Telefilm Canada also has a separate Board that approves the Business Plan for the EIP that has been mutually agreed upon with the CTF Board, and provides direction to the corporation on all matters not related to the EIP.

## **B. Fund objectives**

There are slight variances in the way the Fund's objectives are reported in different documents. The following objectives are reproduced from the 1998-99 Activity Report:

- To increase the broadcast presence of high-quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official-language production sectors.

- To enhance the Canadian broadcasting and production sectors' capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
- To create increased employment.

The differences in the recording of the Fund's objectives, while not significant can result in some confusion. For example, the objectives as documented in the Request for Proposal (RFP) for this study made no reference to the export of Canadian programs abroad or to regional job creation. Yet, the original announcement of the CTF did state that two of the objectives of the Fund were to *assist job creation and growth in all regions of Canada* and to *encourage greater export opportunities*.

The 1996-97 Activity Report of the CTF includes the following objective:

- *To finance high-quality Canadian television programming which includes Canadian themes, subjects and stories, in categories traditionally under-represented in the broadcasting system.*

An argument can be made that the emphasis on Canadian themes and subjects was both an attempt to define the meaning of an objective in the original announcement, namely to:

- *Maintain and increase broadcast presence of distinct Canadian programs.*

It can also be suggested that this initial emphasis on Canadian themes was a justification for funding only projects that had received a minimum of 8 out of 10 Canadian Audio-Visual Certification Office (CAVCO) points.

## **C. One Fund; two programs**

The CTF budgets, excluding the budget for feature films and development, were \$181.6 million and \$161.16 million for 1996-97 and 1997-98 respectively. The CTF all inclusive budget for 1998-99 was \$210 million<sup>1</sup> while the budget for the EIP and LFP only was \$180.28 million.<sup>2</sup> The projected budget through to 2001 is \$192.5 million for each fiscal year. These funds are disbursed through two programs—the Equity Investment Program (EIP) and the Licence Fee Program (LFP).

### **1. The EIP**

The EIP can contribute up to 49%<sup>3</sup> of a project's allowable costs for production of Canadian television programs and feature films through a direct cash investment. The

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<sup>1</sup> *Canadian Television Fund, 1998-99 Activity Report, page 3.*

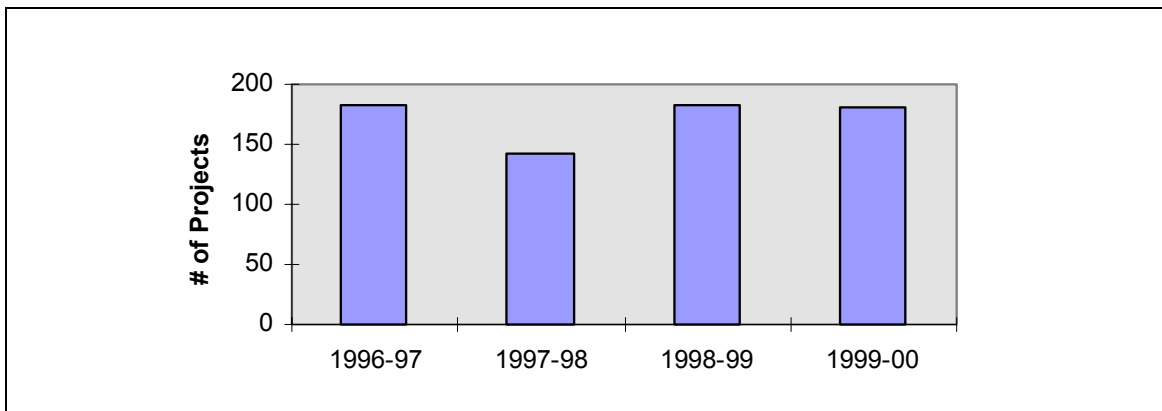
<sup>2</sup> *Information provided by the LFP.*

<sup>3</sup> *The EIP negotiated participation has been about 28%*

EIP intent is to recoup its investments “no less favourably than on a pari passu and pro rata basis with all other financial contributions”.<sup>1</sup> In many cases, because there is no recoupment, this converts the investment into a grant. The EIP also contributes to the development of programs and feature films through advances.

The 1998-99 EIP budget was \$107.5 million—\$50 million from Telefilm Canada and \$57.5 from the Department of Canadian Heritage, which includes \$7.5 million from the LFP to be used for the funding of feature films.<sup>2</sup> The number of projects supported by the EIP in each of the years of operation are shown in Exhibit III-1.

**Exhibit III-1  
EIP projects funded**



Source: Annual Activity Reports and directly from CTF linkage analysis

**2. The LFP**

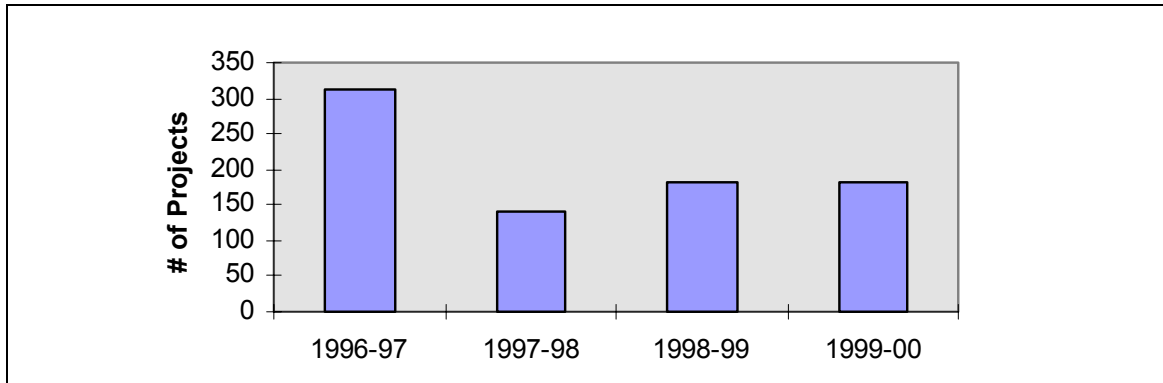
The LFP contributes to the production of Canadian television and feature films in the form of a non-recoupable licence fee top-up where productions meet established criteria. The financial contribution ranges from 15% to 35% of production costs. The LFP budget for 1998-99 was \$102 million—\$42.5 million from the Department of Canadian Heritage and \$60 million from Canadian broadcast distribution undertakings, the greatest part of which is provided by cable companies.<sup>3</sup> Exhibit III-2 shows the number of projects supported by the LFP. It should be noted that many projects receive support from both programs.

<sup>1</sup> Canadian Television Fund, 1999-2000 Guidelines, Main Document, p. 17

<sup>2</sup> Canadian Television Fund, 1998-99 Activity Report, p. 3

<sup>3</sup> Ibid., p. 4

**Exhibit III-2  
LFP projects funded**



Source: Annual Activity Reports and directly from CTF linkage analysis

**D. Program genres**

The Fund supports five genres of programming: drama, documentaries, children’s programs, variety and performing arts.

**1. Why these genres of programming?**

Parliament made it clear in the Broadcasting Act that it wanted the broadcasting system in Canada to provide a range of programming in all categories. Section 3 (d) (ii) states “the Canadian broadcasting system should encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinions, ideas, values and artistic creativity, by displaying Canadian talent in entertainment programming and by offering information and analysis concerning Canada and other countries from a Canadian point of view”.

Canadian broadcasters have been very successful in providing Canadian programming in a number of categories. In news, over 95% of the viewing of news programs by Canadians of both linguistic groups is to Canadian content newscasts. Similarly in public affairs programming the vast majority of viewing is to Canadian programs as it is in sports. However, broadcasters have not been as active in producing or acquiring Canadian programming in other categories. As has been noted, there exists a financial disincentive for the acquisition of these other categories of programming.

**2. The economic rationale for these categories**

In setting up the Broadcast Development Fund at Telefilm Canada, the government introduced the idea of the under-represented program categories of drama, documentary, children’s programs and music and performing arts. They were termed under-represented because Canadian programs in these categories were not available in significant numbers on Canadian television screens in both languages.



In fact, under-represented categories could also be called the difficult to finance categories. The presence of Canadian programs in these categories on television is not the same in English and French Canada. While there has been a shortage of Canadian drama on English-language television despite the fact that foreign drama attracts more viewing than any other category of programming, French-language domestic drama programs are present in larger numbers and attract relatively larger audiences.

High quality English-language drama programs are not generally economically viable in the Canadian market unless the producer is able to include pre-sales to foreign broadcasters and distributors. Programs that are able to attract large US pre-sales are referred to as “industrial” programs and are much less likely to reflect Canadians to themselves than higher point count and distinctively Canadian content programs. Furthermore, even if high quality Canadian programs are produced in the English-language they face a significant amount of competition *in their own language* from foreign-produced programs, whether these are aired on Canadian stations or on the many U.S. stations available from cable or satellite distributors.

In French-speaking Canada the problem is different in that domestically produced programs are attractive and draw large percentages of the viewing, since the attraction to foreign English-language services is lower and a strong domestic star system is in place. But to provide high quality programming of commensurate quality to that in English-speaking broadcasting means similar expenditures in production. Even though French-language productions have generally had lower budgets than English-language ones, nonetheless there is still a need for significant investment. French-language productions, however popular domestically, do not have the same export potential as English-language productions. Canadian accents and sensibilities do not always travel well in Europe. Moreover there is not nearly the same number of French-language channels internationally, as there are English-language channels and therefore the demand for programming is lower.

Canadian children’s programs do very well with Canadian audiences in both linguistic groups. The issue is that they are difficult to finance, given the relatively lower attraction of children for advertisers. In addition, concerns about the impact of advertising on children have caused the introduction of a code limiting the kind of advertising that can be broadcast to children—and in fact, in Québec, there is no advertising permitted on children’s programs.

Canadian drama and other entertainment programming still struggles to find a place in broadcasters schedules and when broadcast must compete with the production values in U.S. produced programs. We do not find the same dynamic in sports, news and public affairs programming where lower production costs and high interest have maintained Canadian broadcasters’ interest.

### **3. The cultural rationale for these categories**

News and public affairs programs give Canadians a sense of what is going on in their world and justifiably receive good audiences. Sports programs, whether play by play or reporting, allow significant numbers of Canadians to share the hopes of their local, regional or national sports heroes and teams. While some events are pure

entertainment, reporting on the referendum, the GST or Meech Lake all brought together Canadians for debate on what our future would be. Similarly the Canada-Soviet hockey challenge of 1972, the Montreal and Calgary Olympics and other national and international sports events are important parts of our feeling of national belonging. As pointed out in the previous section, these types of programming do not need public support.

But drama, children's programming, cultural expression, whether popular or high culture and documentaries examining how our world works give us a deeper sense of who we are, what we believe in and what we can be. What the Americans call the entertainment industries, we consider to be cultural industries.

In 1996-97, some 44% of English Canadian broadcasters schedules over the day and 57% in the evening hours (7 - 11 p.m.) were devoted to the entertainment categories of drama, music and variety and performing arts. Almost 4/5 of the entertainment programming available were foreign. As has been mentioned in several places in this report, the cost of acquiring U.S. programs in the drama, sitcom and other areas as well as their availability on U.S. channels to well over 75% of our population has created a disincentive for broadcasters to run these kinds of programs.

While some argue that we should not try to compete with the world's biggest supplier of this kind of programming, should Canada really abandon its television screens, particularly in the prime viewing hours to foreign programs? In fact, where Canadian programs of high quality are broadcast in attractive periods and adequately promoted they receive significant audiences, commensurate with all but the most popular American programs—and they do not benefit from the simulcast on two channels and the promotion on multiple channels. In French-speaking Canada, domestic programs usually capture most, if not all, of the top 20 positions.

Children are our future citizens and often considered our most precious resource. As one producer that we interviewed noted "if we want to have cultural impact, let's start with children". Canadian children's programs have developed an international reputation as high quality, non-violent, non-racist and non-sexist which appeal to children. As such they are quite exportable. But as indicated above, if the primary market is foreign, the orientation of the programming will be less Canadian, if it has any cultural distinctiveness at all. Further without support to make licence fees affordable for Canadian broadcasters, we could end up ironically with a situation where foreign children benefit from the expertise of Canadian producers while Canadian children must watch foreign programs or Canadian programs on U.S. channels.

Canada has also a strong international reputation for documentaries fuelled by the expertise developed at both the CBC and the NFB. Moreover, there is a growing demand by Canadian broadcasters for both one-off and limited documentary series as well as documentary series. Documentary programs give us a sense of our history, the reasons behind our present socio-political environment and an understanding of our natural world as well as providing a forum for new political and social ideas. Given the topical nature of many of the issues involved, such programs may not always have a shelf life; and if they deal with specifically Canadian issues may not have the "legs" to

travel internationally. While the budgets are more modest generally for documentary programs, documentaries tend to be produced by smaller companies, often one or two person shops that do not have the same access to financing. A number of the documentary producers that we interviewed indicated that without the Fund's two programs, they would either not be producing at all or that their production slate would be significantly reduced.

#### 4. Locations between the genres

Each year the Board of the CTF sets envelopes for each genre of programming based upon previous years' demand and its consultations with producers and broadcasters. The Fund announced its allocations for 2000-01 in December 1999 and they are as follows:

	Drama	Children's	Documentary	Variety/ Performing Arts	Total
EIP – English-language.	69.9%	14.1%	14.4%	1.6%	100%
EIP – French-language	61.9%	12.6%	20.5%	5.0%	100%
LFP– English-language	63.8%	18.8%	15.8%	1.6%	100%
LFP- French-language	54.8%	16.1%	20.2%	8.9%	100%

The EIP has the flexibility to vary these percentages in that 90% of its budget must be spent in accordance with these allocations with the organization having the flexibility to allocate the remaining 10% to the genres in accordance with Telefilm's Business Plan objectives.

Drama claims the lion's share of the budget in both programs and in both language groups. This reflects the higher budgets that drama programs require and the need to provide production values that are competitive with foreign programs available on Canadian and foreign stations. The differences of emphasis between French- and English-language budgets in the other categories reflect the different dynamics of those markets. For example, there are more children's services available in the English-speaking market because conventional French-language broadcasters cannot generate advertising revenues for such programs and therefore are less interested in airing them. The star system in Québec explains the greater interest in variety and performing arts programming.

#### E. Logic model for the Fund

On the following three pages, we present a graphic depiction of the logic structure underlying the design and operation of the CTF, based on its structure and project assessment criteria for 1998-99 productions. The description of the Fund shown in Exhibit III-3 includes its mandate and objectives as reflected in the 1998-99 Activity Report, its structure, and key processes, as well as apparent expectations regarding outputs and impacts.

**Exhibit III-3—Logic model for the CTF**

**MANDATE**

“The CTF works to increase the quality and quantity of distinctively Canadian television productions while supporting the production and broadcasting sectors and the employment opportunities they create.”  
 (CTF, *Activity Report 1998-1999*, p.3.)

**OBJECTIVES**

1. To increase the broadcast presence of high-quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official-language production sectors.
  2. To enhance the Canadian broadcasting and production sectors’ capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
  3. To create increased employment.
- (CTF, *Activity Report, 1998-1999*, p.3)

**ONE FUND - TWO FUNDING PROGRAMS**

- ➔ Fixed annual budget provided by the federal government (~\$100 million from Heritage Canada and ~\$50 million from Telefilm Canada) and the Canadian cable and satellite television industry (~\$60 million). Funds provided in 1998-99: \$199.2 million; 1999-2000 commitments: \$192.5 million
- ➔ Threshold requirements for project eligibility, introduced for 1999-2000 fiscal years:
  - 📄 Project speaks to Canadians about, and reflects, Canadian themes and subject matter.
  - 📄 Project has 10/10 points (or the maximum number of points applicable to the project), as determined by the CTF using the CAVCO scale.
  - 📄 Underlying rights are owned, and significantly and meaningfully developed, by Canadians.
  - 📄 Project is shot and set primarily in Canada. (CTF, *Main Document -- 1999-2000 CTF Guidelines, Dec. 1998*)
- ➔ English and French envelopes, with provision for Aboriginal-language productions that are also versioned in English or French. There is also a \$2M envelope for aboriginal programs.
- ➔ Envelopes for 5 programming genres: drama, documentary, children’s programming, performing arts and variety programming - in 4 production categories: television productions, theatrical feature films, Aboriginal-language productions and official international treaty co-productions.
- ➔ Specific provisions for productions licenced by CBC/SRC (amended for 2000-2001).
- ➔ Separate eligibility requirements for independent and broadcaster-affiliated production companies.
- ➔ Projects submitted must have a licence from a Canadian broadcaster for the right to broadcast the production in Canada.
- ➔ Bonus points available for regional productions.

**LICENCE FEE PROGRAM (LFP)**

**EQUITY INVESTMENT PROGRAM (EIP)**

PURPOSE

STRUCTURE

**Exhibit III-3—Logic model (Cont'd.)**

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**LICENCE FEE PROGRAM (LFP)**

- ☞ Payment of a “licence fee top-up” that supplements the Canadian broadcaster cash licence fees.
- ☞ Projects submitted are ranked and scored within genre, category and language. Ranking criteria include:
  - ☐ Use of exceptions to the four essential threshold requirements.
  - ☐ Broadcaster licence fees over the minimum thresholds.
  - ☐ “Dollars-at-risk” in the project financing.
  - ☐ Participation from the EIP in the project financing.

**EQUITY INVESTMENT PROGRAM (EIP)**

- ☞ Payment of a direct cash equity investment in the production.
- ☞ Evaluation Grid used to evaluate projects with EIP participation level negotiated for accepted projects. Grid criteria include:
  - ☐ EIP’s investment opportunity, in terms of audience, creative elements of the project and recoupment expectations.
  - ☐ “Dollars at risk” in the project financing and broadcaster licence fees over minimum threshold.
  - ☐ Corporate development considerations (SME priority).
  - ☐ Regional and official language minority productions.
- ☞ Projects evaluated within language, region, genre, programming category and private and CBC/SRC envelopes.
- ☞ Assistance also provided for the development of television programming.

**PROCESSES**

- ☞ Overall direction and administration provided by the Canadian Television Fund, a public-private partnership established to oversee the CTF’s operation and administration.
- ☞ Governed by an independent Board made up of representatives from the production and distribution industry, the federal government, cable companies and broadcasters.

**LICENCE FEE PROGRAM (LFP)**

- ☞ Administered by the CTF, based in Toronto.

**EQUITY INVESTMENT PROGRAM (EIP)**

- ☞ Administered by Telefilm Canada under the oversight of the CTF’s Board of Directors.
- ☞ EIP projects assessments and selections also determined by Telefilm’s own objectives and executive oversight. In particular:
  - ☐ Strengthen support for works which are distinctively and identifiably Canadian.
  - ☐ Increase the critical mass of Canadian television programs, feature films and new media works.
  - ☐ Encourage regional production in both official languages and maintain an appropriate balance.
  - ☐ Expand support to small and medium sized companies.

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**Exhibit III-3—Logic model (Cont'd.)**



OUTPUTS

IMPACTS

OUTPUTS		
Objective #1 - High Quality Canadian	Objective #2 - Industry Capacity	Objective #3 - Employment
<ul style="list-style-type: none"> <li>Volume of distinctly Canadian production projects seeking support.</li> <li>Value of project disbursements and advances and associated commitments for non-fund financial support.</li> <li>Increased hours of quality Canadian programming, in English, French and Aboriginal languages.</li> <li>Increased production rates and programming hours for priority genres.</li> </ul>	<ul style="list-style-type: none"> <li>Number of companies receiving funding support for production projects.</li> <li>Regional balance in project numbers, disbursements and programming hours.</li> </ul>	<ul style="list-style-type: none"> <li>Increased employment of:                             <ul style="list-style-type: none"> <li>Production personnel</li> <li>Talent</li> <li>Support services personnel</li> </ul> </li> </ul>

IMPACTS AND EFFECTS		
Objective #1 - High Quality Canadian	Objective #2 - Industry Capacity	Objective #3 - Employment
<ul style="list-style-type: none"> <li>Larger audiences and greater public exposure to distinctly Canadian themes and subjects.</li> <li>Quality-based awards garnered by fund-supported production.</li> <li>Increased audience and broadcasting support for, and recognition of, currently under-served genres.</li> <li>Increasing trend in the investment per hour of distinctively Canadian programming.</li> </ul>	<ul style="list-style-type: none"> <li>Broadcasting and production sectors with enhanced capabilities to undertake a wide range of production projects of varying complexity.</li> <li>Increased proportion of production companies that are profitable and competitive.</li> <li>Potentially, an increased number of production companies.</li> <li>Potentially, increased costs to access funding support.</li> <li>Strengthened ability to attract private and international production partners and funding using funding from the CTF (and licence fees) as a lever.</li> <li>Increased international sales of Canadian productions.</li> </ul>	<ul style="list-style-type: none"> <li>Improved responsiveness to needs for skilled and experienced personnel within the film and television production sectors.</li> <li>Larger pool of skilled and experienced personnel available to the industry in different regions.</li> </ul>

## F. Evolution of the Fund's eligibility requirements

Criteria for selecting projects have evolved since the Fund's inception to increase the emphasis on distinctly Canadian themes. In 1997-98 in order to be eligible for EIP funding, productions had to:

- Be Canadian owned and under Canadian executive and creative control.
- Have a minimum of 8 out of 10 Canadian Audio-Visual Certification Office (CAVCO) points.
- Have received a commitment from a licenced Canadian television broadcaster to be broadcast within two years of their completion during prime time as appropriate to the category.
- Be of high quality, attractive to peak Canadian viewing audiences.
- Conform to the Canadian Association of Broadcasters' Code of Ethics.
- Be closed captioned.
- Provide employment opportunities to Canadians at all stages of program production.
- Be an official co-production as qualified under established criteria.<sup>1</sup>

By 1998-99, the Board of Directors of the CTCPF had established goals for increasing the emphasis on distinctly Canadian productions. These goals were to:

- Increase the number of hours and projects of distinctly Canadian television programming.
- Enhance the quality and distinctiveness of Canadian programming being supported.
- Increase the overall audience for distinctly Canadian programs.<sup>2</sup>

In spite of these goals, the criteria for selection of projects remained relatively unchanged. From a Canadian content perspective, 8 out of 10 CAVCO points were adequate to qualify for EIP and LFP funding. However, to be eligible for a distinctly Canadian Bonus for the LFP, the

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<sup>1</sup> Summarized from CTCPF—Equity Investment Program Guidelines, 1997-98, p. 5

<sup>2</sup> The wording of these goals are inconsistently reported in the CTCPF Licence Fee Program Guidelines and the Equity Program Guidelines for 1998-99, but both documents reflect the same intent.

production had to meet additional criteria.<sup>1</sup> The distinctively Canadian bonus provided an additional 5% of the program's budget from the LFP.

For 1999-2000, the four project eligibility requirements—known as the 4 ERs—are:

- The project speaks to Canadians about, and reflects, Canadian themes and subject matter.
- The project has 10/10 points using the CAVCO scale.
- Underlying rights are owned, and significantly and meaningfully developed by Canadians.
- The project is shot and set primarily in Canada.

Eligibility requirements are tailored to each genre but generally adhere to these principles. These requirements have resulted in greater emphasis being placed on distinctively Canadian programming. Today, the CTF has the most stringent Canadian content requirements of any public funding or other public policy mechanism for supporting television production and programming.

Although the increased emphasis on funding distinctively Canadian productions has been the most notable evolution in the Fund, there have been other changes as well. Key amongst these are the following changes, all of which were introduced during the last two years.

## **1. Application deadlines**

Another important change was in the timing for applications to the EIP. In the past, there had been no set deadlines for submissions as decisions on funding were based on selection criteria. New application dates were necessary in order to coordinate the EIP process with ranking decisions being made at the LFP, which in many cases needed to know the amount of equity that would be provided in advance of making its allocation decisions. Therefore for 1998-99, deadlines for the applications for EIP were set.

In 2000-2001, there will be multiple application dates and filing for LFP will occur before filing for EIP.

## **2. First-come, first-served**

For the first three years of the Fund, LFP approvals were made on a first-come, first-served basis. This was changed for 1999-2000 and the LFP moved to a ranking system that allowed producers and broadcasters to influence which projects received funding.

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<sup>1</sup> *These criteria were dependent on genre, with drama, children's and documentary productions having to meet three of seven criteria, and performing arts and variety having to meet three additional criteria for the Distinctively Canadian bonus.*

### **3. One application form**

The CTF amalgamated its application forms in 1999-2000, thus reducing the amount of paper work required by applicants.

### **4. Changes affecting the Canadian Broadcasting Corporation**

In 1998-99, 45-55% of EIP and up to 50% of LFP funding was allocated to independent producers with a licence fee agreement with the CBC. In 1999-2000, productions licenced by the CBC could access up to 45-55% of the EIP and up to 38% of the LFP available for television programming, excluding official co-productions and aboriginal language productions. In 2000-2001, the separate envelope for the CBC will disappear. These changes have been announced but have not yet taken affect.

The impact of this change is significant in that the CBC will have to compete with the private broadcasters for funding. As funding on the LFP side is based, at least in part, on broadcaster licence fees, the CBC may be somewhat disadvantaged. Its fixed budget suggests that the CBC may not be able to increase licence fees in order to compete. On the other hand, there will be no cap on the total amount of funding the CBC can access.

In summary, guidelines for the EIP and LFP have changed in each year of the Fund's existence. These changes have increased the emphasis on distinctively Canadian themes, sharpened the focus on specific genres, responded to an excess of applications over funds available, and the concerns of both producers and broadcasters regarding selection criteria, transparency, timing and the coordination between the LFP and EIP. However, the changes have also contributed to confusion amongst producers, which is examined later in the report.

## **G. Issues related to mandate**

The objectives of the CTF are not necessarily complementary. In administering the program, the CTF is required to make trade-offs and balance what are sometimes competing imperatives. For example, the objectives include both increasing the quality and quantity of Canadian production and encouraging regional production. Increasing the quality of Canadian productions may best be achieved by making higher budget productions, something which can be undermined by trying to increase the number of projects funded. Furthermore, while there are high quality production companies in all areas of the country, the expertise and ability to generate financing for high budget drama is concentrated in fewer centres. Therefore, we can conclude that it is difficult to get both quality and quantity in all regions at the same time, with limited resources.

On the other hand, support for regional production may be consistent with the concept of increasing the number of distinctively Canadian productions. Regional productions are likely to reflect a regional perspective and allow for a regional expression that is distinctively Canadian.

Similarly it may be argued there is a consistency between increasing the quantity of Canadian productions and assisting in job creation. The more productions—the more jobs. However, this

can raise questions about the nature of jobs created. Higher budget productions tend to provide more of the highly skilled jobs to Canadians.

Enhancing Canada's capacity to produce and distribute programs abroad and increasing the production of distinctively Canadian programming may offer the biggest challenge. Programs that are distinctively Canadian often deal with highly topical and localized subject matters that are not readily understood outside the country. Programs such as *This Hour has 22 Minutes* or *Air Farce*, which are distinctively Canadian, do not have a ready international market. French language programs have even more limited export markets than English language programs, in some cases because the use of local dialects reduces the market internationally. In addition, the distinctive sense of humour of a program such as *La Petite Vie*, which is a smash hit in French Canada, does not necessarily appeal to tastes in other French-language markets. This does not suggest that international sales of distinctively Canadian programs are not possible—after all some programs, such as, *Anne of Green Gables* and *Les Filles de Caleb* have been highly successful internationally—only that successes have tended to be exceptions rather than the rule.

In summary, the mixed objectives of the CTF have created tensions. The government has not prioritized its objectives. Over time the focus has been on trying to address multiple priorities while supporting the production of distinctively Canadian productions. Whether this has been the result of a need to rationalize the allocation of scarce resources, a recognition that funding can only be justified on cultural grounds, or because the support of distinctively Canadian productions is actually a top priority is not clear. Government policy is not lucid enough to allow us to establish what priorities actually should be. A policy statement on the part of the government would be most beneficial and could help rationalize the Fund allocation process.

## Recommendations

- We recommend that the CTF be clearly established as a cultural fund rather than as an industrial fund or a combination of the two. A policy statement enunciating this cultural mandate should be issued.
- We recommend that the objectives of the Canadian Television Fund be clarified and reported on consistently.

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## ***IV***

### ***The Impact Of The CTF***

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Our terms of reference required us to determine whether the CTF has had a positive impact on the Canadian television and cable production and broadcasting industry in the following areas:

- Viewership.
- The quality of Canadian products.
- Employment and the vitality of Canadian companies.
- The availability of Canadian products.
- Objectives related to genres, regional and minority language communities.

This chapter ends with an analysis of the CTF impact on the mandate of the Fund, that is its impact on the production of distinctively Canadian programs.

#### **A. Impact on viewership**

##### **1. Data sample**

The purpose of reviewing viewership statistics was to determine whether CTF funded productions were able to attract audiences comparable to non CTF-funded programs. Our analysis was extremely limited because of the paucity of data. In this section, we have provided information on our data sample and the constraints it imposed. This is followed by a breakdown of data by genre and language.

We obtained viewership data from Nielsen Media Research. We selected 130 programs (funded and non-funded) that were produced for the 1998-99 season. Of our sample, 24 had not been aired by April, 1999 (our cut-off date). A further 33 could not be tracked because the program name had changed, Nielsen did not have access to the channel (TVA and TV5), or scheduling arrangements had been changed. In the end, we were able to obtain viewership statistics on 73 funded and non-funded programs—a very small sample size. As a result, our ability to draw broad conclusions on viewership of CTF-funded programs was constrained. This constraint was aggravated when we tried to analyze viewership by genres.

In an effort to improve our ability to draw some conclusions, we obtained additional Nielsen generated data from a survey commissioned by Telefilm. We incorporated these data with ours to provide a sample size of 90 programs. This is still a very small sample size, but it did improve our ability to draw some limited conclusions for some genres.

Because Nielsen data is not provided in consolidated fashion, our analysis requires some explanation.

- As a first step we calculated an “average of average audience”. That is to say that we calculated an average of viewership using the data for each of several time slots provided to us by Nielsen. Average audience, however, does not provide completely accurate statistics. This is because of what Nielsen calls “duplication”. Duplication implies that viewers may watch a program concurrently and for different lengths of time. This means that to have viewed a complete program, it may take several sittings. In theory, at the first sitting the viewer could watch the program for 5 minutes, 10 minutes at the second sitting (in a different time slot) and watch the final 15 minutes on a third sitting. However, Nielsen “People Meters” will count the viewer on each of the three sittings. This duplication may not occur in the majority of cases, but it does skew the data somewhat and should be considered in the final analysis. The same phenomenon applies to both CTF and non-CTF funded programs. Therefore, the impact is seen across the whole samples.
- It should be noted that the viewership data for the 11 pm to 7 am time slot is of relatively insignificant value. Typically, viewership in this time slot is very low and averaging the telecast rating or this time slot could provide a deceptively low average viewership. For this reason, we omitted these statistics from our analysis.
- Drama productions may be aired on several occasions and in different time slots. Typically, the production’s first airing provides us with the best indicator of a program’s popularity. For this reason, the viewership data used to indicate drama viewership is from the first telecast of a given production.<sup>1</sup>
- Additional Nielsen viewership data was provided by Telefilm. Since Telefilm analyzed the data in a similar fashion, these data were incorporated with the data we obtained from Nielsen. Telefilm’s viewership data are marked with an asterisk (\*).

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<sup>1</sup> *Although we were intending to use cumulative viewership data or gross impressions for drama productions, we were concerned that doing so given that our viewing period was only 8 months, could lead to inappropriate conclusions. The number of episodes seen over an 8 month period may differ from series to series. As a result, a series with 12 episodes would appear to have a higher viewership using gross impressions than a series with 10 episodes shown over the same time frame. Since broadcasters often air their high profile Canadian series up to three times over two years, it would have been extremely difficult to track cumulative viewership. However, not being able to track multiple offering effects cost per viewer data which is provided later in this section.*

We recognize that our analysis of the data does not strictly follow scientific principles of data analysis. However, the data provided to us by Nielsen imposed strict limitations on the manipulation of the data. In spite of this fact, the average of average audience does provide us with a general indication of overall viewership, albeit imperfect.

We were particularly constrained in our analysis of French language productions. In three cases—French language documentaries, performing arts and children’s programming we were only able to obtain viewership statistics for CTF-funded programs. We were not able to identify and obtain statistics on comparable programs that did not receive CTF funding.

However, we did draw some limited conclusions about viewership within the remaining genres. These are provided below.

## **2. Drama**

### **a) English drama**

Overall, the statistics suggest that English drama productions that received CTF funding were able to attract a more significant audience than those that did not receive funding. In Exhibit IV-1 below, the CTF-funded programs have been displayed in bold type, whereas, non-funded programs have not. The Exhibit has been divided into four groupings. The first grouping compares series where national audience viewership statistics are available. The second grouping compares viewership statistics for the Toronto Hamilton region only. Although some of these programs are shown nationally and we do have some national data, comparative data could only be shown for this one region. Groupings three and four, provide one-off program viewership statistics.



### Exhibit IV-1 Viewership Statistics for English Drama—National Statistics

Group 1: Series

Name	AA
<b>*Da Vinci's Inquest</b> CBC	<b>812</b>
<b>Made in Canada—Series I<sup>1</sup></b>	<b>713</b>
<b>Nothing Too Good for a Cowboy</b> CBC	<b>653</b>
<b>*Emily of New Moon</b> CBC	<b>640</b>
<b>*Cold Squad</b> CTV	<b>618</b>
<b>*Wind at My Back</b> CBC	<b>593</b>
<b>*Power Play</b> CTV	<b>559</b>
Nikita CTV	504
Foolish Heart CBC	305
<b>*Riverdale</b> CBC	<b>276</b>
<b>Kevin Spencer</b> Comedy Network	<b>29</b>

\*Telefilm Data

Group 3: One-off Programs

Name	AA
<b>The David Milgaard Story</b> CTV	<b>1557</b>
<b>The Waiting Game</b> CTV	<b>1065</b>
<b>In the Blue Ground</b> CBC	<b>1022</b>
<b>The Sue Rodriguez Story</b> CBC	<b>1018</b>

### Global Data for the Toronto Hamilton Region

Group 2: Series

Outer Limits Global	251
<b>Psi Factor</b> Global	<b>183</b>
<b>Traders</b> Global	<b>131</b>
Student Bodies Global	97

Group 4: One-off Programs

<b>Jenny &amp; the Queen of Light</b> Global	<b>138</b>
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In two groupings, CTF-funded programs had high viewership in relation to the comparable programs for which we obtained statistics. In fact, CTF-funded series had higher viewership for 6 of the 10 programs for which we were able to obtain data. For

<sup>1</sup> *Made In Canada —Series I was not funded by the CTF though later episodes (7-19) were. The CBC considered this to be a Performing Arts/Variety Program but it was funded in later episodes as a drama.*

the grouping showing only the Toronto-Hamilton area, CTF funded programs are holding their own.

It should be noted that Psi Factor is no longer funded because it did not apply for funding in 1999-2000, the first year in which the four essential requirements were applied. Traders may be receiving cumulatively better audiences than is reflected in the Toronto-Hamilton figures because it is shown on both CBC and Global. The lower Global audience may result from it being shown against ER—the most popular program on television, and because Canadians can also watch the program on CBC. In fact, Traders is considered one of the most successful distinctively Canadian programs by many in the industry.

## **b) French drama**

The viewership of French drama productions—both those funded by the CTF and those that are not—is considerably higher than the viewership of English language drama productions. Most of this difference can be attributed to the preference for American television on the part of English-speaking Canadians. Whereas the majority (59%) of English speaking Canadians can and do watch American channels at least 50% of the time, fewer than 20% French-speaking Quebecers spend most of their time watching American channels.<sup>1</sup> Canadian French programming is more culturally relevant to francophone Quebecers, because it depicts their specific linguistic nuances, their environment, the issues that affect them, and features the stars with whom viewers are familiar. This may explain the popularity of programs such as *La petite vie*.

Although the viewership of both funded and non-funded French drama programs is high, the non-CTF funded programs in our limited sample appear to draw a higher audience. Possible explanations include the popularity of the new docu-dramas that are made without scripts or professional actors. These “real life” docu-dramas can have unexpected results and be quite exciting.

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<sup>1</sup>. *Audience Viewing Habits and Attitudes with respect to Programming and Canadian Content*, <http://www.crtc.gc.ca/ENG/PROC-BR/Crop/crp9809e.htm>, p.3.

**Exhibit IV-2  
Viewership Statistics for French Drama**

Group 1: French Series

Name	AA
Métier Policier (Docudrama) <sup>1</sup> TQS	4078
Fils à Papa (Docudrama) TQS	3160
La petite vie Radio-Canada	3079
*KM/H TVA	1111
*Diva I/II TVA	1052
*Radio Radio-Canada	1015
*Caserne 24 Radio-Canada	1011
Opération Tango (limited series) TQS	480
Watatatow Radio Canada	427

\*Telefilm Data

Group 3: One-off Programs

Name	AA
<b>Zaza D'abords Radio-Canada</b>	<b>827</b>

**3. Documentaries**

**a) English documentaries**

CTF-funded English documentary productions obtained viewership that is better than or at least comparable to non-funded English language documentaries on specialty channels. There appears to be a major difference between viewership on the specialty channels and viewership on the major networks. As both the series and on-off documentary statistics show, the CBC is able to attract much higher viewership than the specialty channels. This may be attributed to viewers preference for national networks or the inability of any single specialty channel to draw large audiences for a single program.

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<sup>1</sup> Earlier episodes of *Metier Policier* were funded by the CTF.

### Exhibit IV-3 Viewership Statistics for English Documentaries

#### Group 1: Series

Name	AA
The Nature of Things <sup>1</sup> CBC	390
<b>*Champions of the Wild Discovery</b>	<b>49</b>
<b>*Foodessence I/II Life</b>	<b>35</b>
<b>*Flight Path II/III Discovery</b>	<b>33</b>
<b>Great Canadian Parks Discovery</b>	<b>29</b>
<b>Inferno Life</b>	<b>23</b>
The Canadians <sup>1</sup> History	22
<b>Historyland History</b>	<b>20</b>
<b>*Whole Notes Bravo</b>	<b>19</b>
Trendsponding Life	17
<b>It Seems Like Yesterday History</b>	<b>16</b>
Beyond Medicine WTN	9.5
Acorn, The Nature Nut—VI Discovery	9
<b>Expecting a Child WTN</b>	<b>6.5</b>

\*Telefilm Data

#### Toronto-Hamilton Region

##### Group 2: Series

Titans City TV	6
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#### Group 3: One-off Programs

Name	AA
Kurt Browning CBC	942
<b>Life and Times of Terry Fox CBC</b>	<b>542</b>

#### Group 4: One-off Programs

Norman Jewison Tribute Global	108
To Have and To Hold ONT TV	87

<sup>1</sup> *The Nature of Things and The Canadians are strands with a variety of programs in them. Some of the episodes received CTF funding.*

**b) French documentaries**

We were unable to identify any French language documentary productions that did not receive CTF funding. Therefore the figures below simply provide a perspective on viewership for CTF-funded documentaries. Given the difference in potential audience between English and French Canada, it appears that French specialty channels are attracting reasonable audiences for CTF-funded French language documentaries (please refer to Exhibit IV-3).

**Exhibit IV-4  
Viewership Statistics for French language documentaries**

Series	
Name	AA
<b>Biographies Canal D</b>	<b>13</b>
<b>Ecce Homo Canal Vie</b>	<b>12.5</b>
<b>Lignes de vie Canal Vie</b>	<b>11</b>

**4. Variety and Performing Arts**

The CTF regularly reports variety and performing arts together, because of the small number of performing arts programs. We have chosen to do so as well, because of the relatively limited number of performing arts projects that we were able to track. We have identified the variety programs as such in the Exhibits below.

**a) English Variety and Performing Arts**

The English variety and performing arts programs that received CTF funding have done reasonably well. The most watched one-off program that we tracked was funded by the CTF, and three of the top five series that we tracked received CTF funding. Again, it is worth comparing the viewership statistics for the CBC and the Comedy Network. The figures show again that viewership statistics for specialty channels tend to be lower than those of the networks. This helps to put the documentary viewership statistics presented in Exhibits IV-3 and IV-4 into perspective.

**Exhibit IV-5  
Viewership Statistics for English Language Performing Arts/Variety Programs**

**Series**

Name	AA
Royal Canadian Air Farce CBC (Variety)	923
<b>This Hour has 22 Minutes CBC (Variety)</b>	<b>876</b>
<b>New Red Green Show CBC (Variety)</b>	<b>776</b>
<b>Sketchcom CBC (Variety)</b>	<b>455</b>
Just for Laughs CBC (Variety)	395
Just for Laughs Comedy Network (Variety)	40
<b>Tom Green Show Comedy Network (Variety)</b>	<b>39</b>
<b>Café Campus Blues* Bravo (Variety)</b>	<b>3.5</b>
<b>Jazz cabaret Bravo (Variety)</b>	<b>3</b>

\*Bilingual

**One-off**

Name	AA
<b>This Hour has 22 Minutes (XMAS) CBC (Variety)</b>	<b>1371</b>
Royal Canadian Air Farce (XMAS) CBC (Variety)	1088
<b>New Red Green Show (XMAS) CBC (Variety)</b>	<b>748</b>
The Gemini Awards CBC	654
The Governor General Awards CBC	646
Joni Mitchell Special CBC	334

**b) French Variety and Performing Arts**

Once again we were not able to obtain the names of any variety and performing arts programs in French that did not receive CTF funding.

**Exhibit IV-6  
Viewership Statistics for French Variety / Performing Arts Programs**

**Series**

Nam	AA
<b>La fin du monde est à 7h TQS</b>	
<b>100 Chansons Canal D</b>	<b>18</b>
<b>Festival de Jazz de MTL 98 Bravo</b>	<b>5</b>

**One-off**

Name	AA
<b>Québec en Humour TQS (Variety)</b>	<b>1261</b>

## 5. Children’s Programs

### a) English Children’s Programs

The CTF-funded English children’s programs have done quite well, attracting more viewers than non-funded programs. In fact, 7 of the top 10 programs we were able to track are CTF-funded programs. Here, the statistics suggest that both the specialty channels and the CBC are drawing comparable audiences.

#### **Exhibit IV-7 Viewership Statistics for English Children’s Programs**

Series

Name	AA
<b>Shirley Holmes YTV</b>	<b>126</b>
Are You Afraid of the Dark YTV	123
<b>*Worst Witch YTV</b>	<b>120</b>
<b>Anatole YTV</b>	<b>117</b>
<b>Scoop and Doozie CBC</b>	<b>113</b>
<b>My Hometown YTV</b>	<b>106</b>
<b>*Incredible Story Studio YTV</b>	<b>98</b>
Wimzie’s House CBC	95
Theodore Tugboat CBC	91
<b>The Little Lulu Show Family Channel</b>	<b>71</b>
Deepwater Black YTV	66
<b>*Panda Bear Daycare YTV</b>	<b>65</b>
<b>Franklin Family Channel</b>	<b>43.5</b>
<b>Believe It or Not Family Channel</b>	<b>30.5</b>
<b>Once Upon a Hamster YTV</b>	<b>30</b>
Rolie Polie Olie CBC	120

\*Telefilm Data

**b) French Children’s Programs**

Once again, there were no children’s programs that had not received CTF funding in our list of programs. However, a comparison with English language children’s programs demonstrates that French language children’s programs, which have a much lower potential audience draw, are doing well. In fact, Watatatow draws a higher viewership than any English language children’s program that we tracked.

**Exhibit IV-8  
Viewership Statistics for French Children’s Programs**

Series

Name	AA
<b>Le retour des débrouillards Radio-Canada</b>	<b>140</b>
<b>Rouli-Roulotte Radio-Canada</b>	<b>57</b>
<b>Pinpon Canal Famile</b>	<b>33</b>

**6. Cost per viewer per hour**

In addition to examining viewership statistics for specific programs and genres, we were able to obtain some statistics on the cost per viewer per hour. With the exception of viewership data, the data in Exhibit IV-9 were provided by Telefilm Canada. Viewership statistics which were generated by Telefilm survey are marked with an asterisk (\*). The remaining viewership statistics are taken from the Nielsen survey conducted for this study. The Telefilm survey provided data on a larger sample than we are reporting here, we eliminated any programs that were not aired during the same timeframe (September 1998 to April 1999).

A comparison of cost per viewer per hour provides some interesting insights:

- English language drama costs considerably more per viewer than French language drama. This is consistent with the finding that English language drama productions in general have higher production budgets than their French counterparts. It should be kept in mind that English Canadian drama must compete head to head with big budget, well-promoted and popular U.S. drama available in the same language on both Canadian and foreign stations. At the same time, it should be remembered that English drama programs have a greater potential of attracting viewers in re-runs and a greater potential for being sold internationally. We have no statistics on whether any of the programs listed in Exhibit IV-9 were in fact sold internationally or how they did on a longer term basis.
- The cost per viewer for Children’s programs—both English and French—is much higher than the costs for any of the other genres. This may be attributed to



the fact that the total potential audience for Children’s programs is low and therefore the actual viewership for any given program is not likely to be high, thus driving the cost per viewer up.

- Because viewership for documentaries is lower than it tends to be for drama programs, the cost per viewer is often higher than the cost per hour per viewer for drama.

The following two Exhibits provide a breakdown of the cost per viewer per hour by genre (Exhibit IV-9a) and by language (Exhibit IV-9b).

**Exhibit IV-9a**

**Cost Per Viewer Per Hour**

	# Episodes	Length	Total Hours	Budget	\$/ Hour	Viewership	\$/Viewer
<b>Children's</b>							
Adventures of Shirley Holmes III (The)	13	30	6.5	\$6,400,000.00	\$984,615.38	126,000.00	7.81
*Incredible Story Studio II	13	30	6.50	\$4,475,000.00	\$688,461.54	98,000.00	7.03
*Panda Bear Daycare/Ruffus The Dog	26	15	6.50	\$1,999,000.00	\$307,538.46	65,000.00	4.73
Pin Pon III	65	30	32.5	\$2,233,833.00	\$68,733.32	33,000.00	2.08
<b>Average</b>							<b>5.41</b>
<b>Documentary</b>							
*Champions of the Wild III	13	30	6.5	\$2,047,500.00	\$315,000.00	49,000.00	6.43
*Foodessence II (27-52)	26	30	13.00	\$1,569,940.00	\$120,764.62	35,000.00	3.45
Life & Times of Terry Fox	1	60	1.0	\$176,920.00	\$176,920.00	542,000.00	0.33
*Whole Notes I (1-6)	6	30	3.0	\$740,439.00	\$246,813.00	19,000.00	12.99
<b>Average</b>							<b>5.80</b>
<b>Drama</b>							
*Caserne 24 (aka: P'tits Coeurs Les)	26	30	13.0	\$4,823,000.00	\$371,000.00	1,011,000.00	0.37
*Cold Squad II	15	60	15.0	\$14,550,000.00	\$970,000.00	618,000.00	1.57
*Diva II (21-38)	18	60	18.0	\$8,559,000.00	\$475,500.00	1,052,000.00	0.45
*Emily of New Moon III	13	60	13.00	\$14,100,000.00	\$1,084,615.38	640,000.00	1.69
In the Blue Ground	1	120	2.0	\$2,825,000.00	\$1,412,500.00	1,022,000.00	1.38
*KM/H	22	30	11.0	\$2,164,595.00	\$196,781.36	1,111,000.00	0.18
Nothing Too Good For A Cowboy I	13	60	13.0	\$12,805,000.00	\$985,000.00	653,000.00	1.51
*Power Play I	13	60	13.00	\$15,600,000.00	\$1,200,000.00	559,000.00	2.15
*Radio	13	60	13.0	\$4,810,000.00	\$370,000.00	1,015,000.00	0.36
*Riverdale II	11	60	11.00	\$6,262,113.00	\$569,283.00	276,000.00	2.06
*Wind At My Back IV (40-52)	13	60	13	\$11,500,000.00	\$884,615.38	593,000.00	1.49
Zaza D'Abord	1	120	2.0	\$340,000.00	\$170,000.00	827,000.00	0.21
Hard Time: The David Milgard Story	1	120	2.00	\$3,225,000.00	\$1,612,500.00	1,557,000.00	1.04
Opération Tango	5	60	5.00	\$4,498,254.00	\$899,650.80	480,000.00	1.87
<b>Average</b>							<b>1.09</b>

Source: The number of episodes program length and budget data were provided by Telefilm Canada. Viewership data were provided by Nielsen Media Research with the exception of those programs that have an asterisk preceding the program name; Telefilm Canada provided the viewership data for those programs.

**Exhibit IV-9b**  
**Cost Per Viewer Per Hour**

	# Episodes	Length	Total Hours	Budget	\$ / Hour	Viewership	\$/Viewer
<b>English</b>							
Adventures of Shirley Holmes III (The)	13	30	6.5	\$6,400,000.00	\$984,615.38	126,000.00	7.81
*Champions of the Wild III	13	30	6.5	\$2,047,500.00	\$315,000.00	49,000.00	6.43
*Cold Squad II	15	60	15.0	\$14,550,000.00	\$970,000.00	618,000.00	1.57
*Emily of New Moon III	13	60	13.00	\$14,100,000.00	\$1,084,615.38	640,000.00	1.69
*Foodessence II (27-52)	26	30	13.00	\$1,569,940.00	\$120,764.62	35,000.00	3.45
*Incredible Story Studio II	13	30	6.50	\$4,475,000.00	\$688,461.54	98,000.00	7.03
*Panda Bear Daycare/Ruffus The Dog	26	15	6.50	\$1,999,000.00	\$307,538.46	65,000.00	4.73
*Power Play I	13	60	13.00	\$15,600,000.00	\$1,200,000.00	559,000.00	2.15
*Riverdale II	11	60	11.00	\$6,262,113.00	\$569,283.00	276,000.00	2.06
*Whole Notes I (1-6)	6	30	3.0	\$740,439.00	\$246,813.00	19,000.00	12.99
*Wind At My Back IV (40-52)	13	60	13	\$11,500,000.00	\$884,615.38	593,000.00	1.49
Hard Time: The David Milgard Story	1	120	2.00	\$3,225,000.00	\$1,612,500.00	1,557,000.00	1.04
In the Blue Ground	1	120	2.0	\$2,825,000.00	\$1,412,500.00	1,022,000.00	1.38
Life & Times of Terry Fox	1	60	1.0	\$176,920.00	\$176,920.00	542,000.00	0.33
Nothing Too Good For A Cowboy I	13	60	13.0	\$12,805,000.00	\$985,000.00	653,000.00	1.51
<b>Average</b>							<b>3.71</b>
<b>French</b>							
*Caserne 24 (aka: P'tits Coeurs Les)	26	30	13.0	\$4,823,000.00	\$371,000.00	1,011,000.00	0.37
*Diva II (21-38)	18	60	18.0	\$8,559,000.00	\$475,500.00	1,052,000.00	0.45
*KM/H	22	30	11.0	\$2,164,595.00	\$196,781.36	1,111,000.00	0.18
*Radio	13	60	13.0	\$4,810,000.00	\$370,000.00	1,015,000.00	0.36
Pin Pon III	65	30	32.5	\$2,233,833.00	\$68,733.32	33,000.00	2.08
Zaza D'Abord	1	120	2.0	\$340,000.00	\$170,000.00	827,000.00	0.21
Opération Tango	5	60	5.00	\$4,498,254.00	\$899,650.80	480,000.00	1.87
<b>Average</b>							<b>0.79</b>

*Source: The number of episodes, program length and budget data were provided by Telefilm Canada. Viewership data were provided by Nielsen Media Research with the exception of those programs that have an asterisk preceding the program name; Telefilm Canada provided the viewership data for those programs*

## 7. Conclusion and recommendation

Viewership statistics suggest that CTF-funded programs are attracting reasonable viewership in certain genres. In particular, the viewership for English language drama and performing arts programs are very encouraging. CTF funded French language documentary programs and children's programming in both language also appears to be acceptable. However, the sample we have analyzed is extremely limited. In order to conduct any conclusive analysis, a larger sample over an extended time will be required. This sample should include data that allow the CTF to conduct analysis on cost per viewer over a full year, be used for series renewals and as input to the type of funding that should be provided to different genres/language applications. Chapter VIII of this proposal provides additional information on this subject.

### Recommendation

- We recommend that the CTF enter into an arrangement with Nielsen and/or BBM to generate audience data on a continuing basis to the specifications of the CTF.

## B. Impact of the CTF on quality

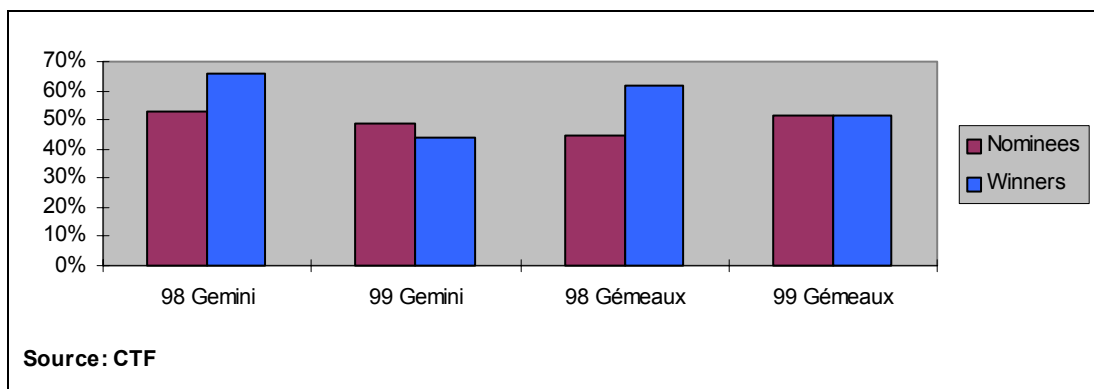
To gain an understanding of the CTF’s role in increasing the quality of Canadian productions available, we solicited opinions on the definition of quality. It was generally agreed that there was no single definition of quality. Viewership, which was addressed above can be an indicator of quality, on the assumption that more viewers will be attracted to quality productions. However, viewers preference is extremely subjective and cannot be considered the sole indicator of quality.

In this section, we deal with other potential indicators of quality—namely awards, the views of critics and the cost of productions.

### 1. Awards

In Canada, the Gemini awards and their French counterpart, Prix Gémeaux represent some of the most prestigious awards Canadian programs can be nominated for. Exhibit IV-10 shows the percentage of nominees and winners at the Gemini and the Gémeaux that received CTF funding in 1998 and 1999 (data from previous years are not available since the CTF only started tracking the awards in 1998).

**Exhibit IV-10**  
**Percentage of Nominees and Winners of Gemini and Gémeaux Awards that Received CTF Funding**



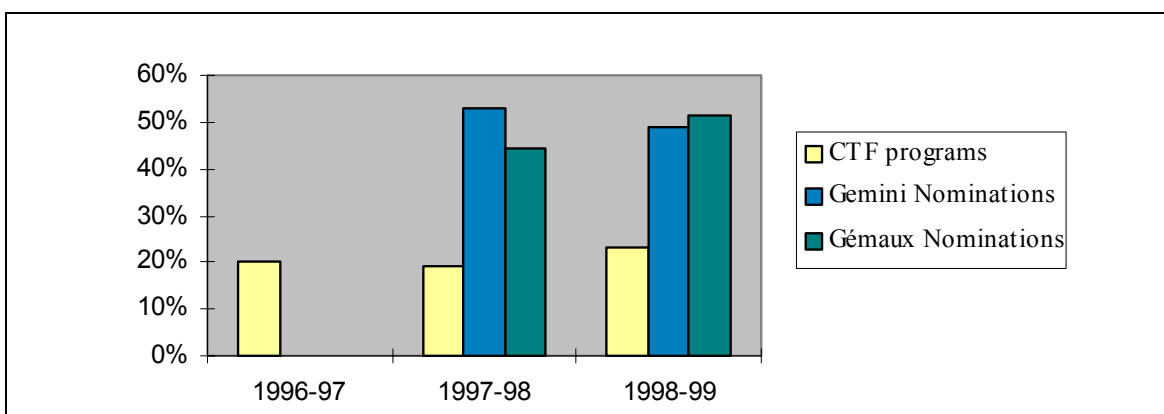
The results seem to be relatively similar between the two years. CTF funded programs represent about 50% of all nominees and winners, in the categories for which CTF funded programs are eligible. In order to get a better appreciation for these results, they were compared to the percentage of CTF funded programs within the Canadian production industry.

Although statistics on the total number of CTF-funded programs exist, statistics on programs that did not receive CTF funding do not exist. However, the CFTPA does produce statistics on the total volume of film and television production in Canada. Over the

last three years for which volume information is available, growth has been in the order of 3% per year.<sup>1</sup>

If we project that the total volume of film and television production for 1998-99 has grown by a further 3%, the percentage of programs receiving CTF funding has gone from around 20% in 1996-97 to about 23% in 1998-99. Our extrapolations suggest that while CTF-funded programs represent approximately 23% of all industry production, they have been nominated for 50% of the Geminis and G meaux. These results seem to indicate that CTF funded programs are of higher quality than non-funded programs.

**Exhibit IV-11  
CTF-Funded Programs Receiving Awards as a Percentage of Total Volume of Film and Television Production**



Source: CTF, CFTPA 1999 Profile

**2. Critical reviews**

Reviews of Canadian programming provide another perspective. In order to obtain information on the critics' views on CTF funded programs, four respected television and film critics were interviewed (one from Vancouver, two from Toronto and one from Montreal).

All critics interviewed agreed that the overall quality of Canadian programs has been increasing over the past 10 years, particularly in the past few years. From their point of view, the CTF has had a very central role in increasing the quality of programs available to Canadians by allowing productions to have larger budgets. As a result, producers can use more experienced writers, actors, directors and spend more on the technical aspects of production, resulting in higher quality programs. Even though the quality of Canadian programming has improved, the drama genre is still inferior in quality to American counterparts in their view. Documentary and children's programming on the other hand, are among the best in the world.

<sup>1</sup> The volume of production figures include the production budgets of CAVCO and non-CAVCO certified productions, foreign location shooting, non-theatrical productions, and conventional broadcasters' and specialty and pay channels' in-house productions. Volumes for 1995-96, 96-97, and 97-98 were \$2.817M, \$2.940M and \$3.005M respectively. CFTPA, 1999 Profile, p. 16.

This view is consistent with the perspective reflected in a CRTC survey of audience which shows that most viewers<sup>1</sup> still rate the acting, production quality and entertainment value of Canadian programs lower than those of American programs. However, information and the quality of language—key aspects of documentary productions are rated higher than American productions.

**Exhibit IV-12  
Audience Viewing Attitudes on Aspects of Quality**

% Claiming to be “very satisfied”	American Programs		Canadian Programs	Quebec Programs
	English Canada	Quebec	English Canada	Quebec
<b>Acting</b>	49	32	29	39
<b>Production Quality</b>	48	43	25	26
<b>Entertainment Value</b>	41	30	24	22
<b>Information</b>	28	26	40	32
<b>Dialogues</b>	28	19	25	22
<b>Quality of the language</b>	24	21	39	21

Source: CRTC September 1998 report “Audience Viewing Habits and Attitudes with Respect to Programming and Canadian Content”

Some of the critics raised the question of whether the CTF should concentrate on promoting the strengths of the Canadian television industry, instead of funding high budget dramas that cannot compete with American productions. However these same critics do acknowledge that providing the Canadian public with a Canadian alternative is perhaps what the CTF is all about.

**3. Cost of production**

A number of stakeholders indicated that the cost per hour of programming was an effective quality indicator. This contention is based on the belief that higher costs of production allow producers to hire more experienced writers, directors, actors and technical personnel. This in turn leads to a higher production quality.

Since the Fund’s establishment 4 years ago, the total average investment per hour of production has fluctuated, increasing from about \$263,250/hour of production in 1996-1997 to \$337,490/hour in 1998-1999; then decreasing to \$282,620/hour of production in 1999-2000 (Exhibit IV-13). There has been an overall increase in investment per hour of production in spite of the fluctuations.

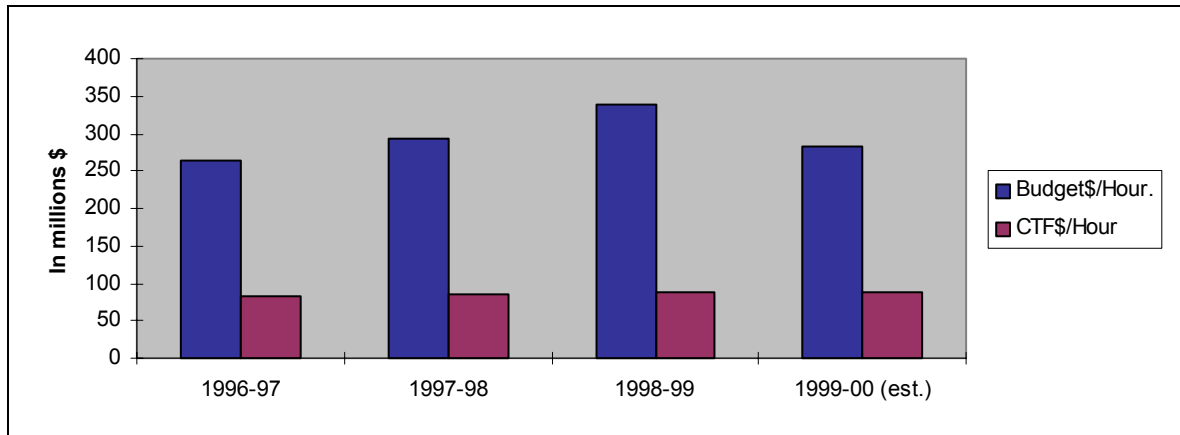
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<sup>1</sup> *Exhibit IV-12 is intended to compare Canadian and American programming. Canadian programming therefore refers to English language programming and Quebec Programs refer to French language programs. The mother tongue of the viewers may be English or French or other. In Quebec, 83% of 502 respondents were French speaking, 8% were English speaking and 9% identified another mother tongue. In the rest of Canada, 7% of 1,101 respondents identified French as their mother tongue, 78% identified English as their mother tongue, and 16% identified other.*

Exhibit IV-13 also shows that this increase in average investment per hour of production was achieved with a relatively constant amount of CTF funding per hour, suggesting that producers have been able to use CTF support to lever an increasing amount of funding from other sources.

**Exhibit IV-13**

**Total production budget and CTF investment per hour of production**



Source : CTF

**C. Impact of the CTF on employment and the vitality of Canadian companies**

The vitality of Canadian production companies in effect drives employment. In other words, if the sector is healthy, employment should increase. In this section of our report, we assess the vitality of Canadian production companies, and then determine whether employment data support our conclusions that the vitality of the sector has improved since the introduction of the Fund.

**1. The vitality of Canadian production companies**

We measured the vitality of the Canadian production sector in three ways—by determining whether the sector’s access to private sector funds including foreign investment in Canadian productions had increased, by determining whether exports of Canadian programs had increased, and by determining whether the number of co-productions in which Canadian firms were involved had increased.

**a) Access to private sector funds**

As stated in Chapter II of this report, the number of production companies in all areas of the country that are able to create high quality programs has increased. The increasing numbers of publicly-traded companies that are able to attract significant equity and bank financing has helped build an infrastructure whereby producers have the means to invest in programs to a greater extent than in the past and, to bring new sources of revenue to their projects. In the mid 1980’s, no Canadian production companies were publicly traded. Today, 8 of the top 10 production companies are

publicly traded.<sup>1</sup> It cannot be claimed that this can be attributed solely to the existence of the Fund, given the many other supports available, but the Fund has played a role.

Furthermore, there has been an increase in foreign financing of Canadian productions. In 1994-95, financing from foreign sources represented 7.4% of total financing. By 1996-97, foreign financing accounted for 28.6% of total financing, representing an increase of close to 300%. However, in 1997-98, there was a decline in the amount of financing from foreign sources (both U.S. and others) from approximately \$190M to about \$175M.<sup>2</sup>

The CTF's Activity Reports for 1997-98 indicates that foreign funds represent 6% of all television budgets and that foreign investment in the financing of programs receiving Fund support totaled \$23,857,656. This number is significantly less than the total amount of foreign funding available and may be attributed to the fact that it is more difficult to attract foreign money for distinctively Canadian programs in advance of those programs establishing a track record in Canada. If the track record is established, programs can be sold internationally. Unfortunately, there are no available data on post-production sales of CTF-funded programs.

#### **b) Export of Canadian programs**

The vitality of the Canadian industry can also be measured by the number of exports in the film and video sector. Statistics Canada data indicates that exports in the film and video sector rose nearly 174% between 1992-93 and 1996-97, from \$132M to \$361.5M.<sup>3</sup>

#### **c) Increase in international co-productions**

The number of co-productions rose from 28 in 1993-94 to 71 in 1997-98.<sup>4</sup>

The Fund also increased the number of television productions supported from 17 in 1997-98 to 24 in 1998-99. During that same time, the number of hours of television co-productions increased from 76 to 120, and Fund contributions rose from \$8 million to \$11.4 million. This has resulted in a significant increase in the budgets of the programs to be broadcast—high quality Canadian content programs that will be available to Canadian audiences within two years of the production.

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<sup>1</sup> *Alliance Atlantis, Cinar, Telescene, Nelvana, Coscient, Salter Street, Peace Arch, and Fireworks.*

<sup>2</sup> *Until data are available for 1998-99, it is not possible to determine if this decrease represents a trend.*

<sup>3</sup> *It is not clear if there is a relationship between the Fund's activities and these increases. However, in spite of the lack of quantitative data, anecdotal information from producers would support a conclusion that such a relationship does exist.*

<sup>4</sup> *Telefilm Canada, "20 Years of Co-productions on the International Scene" [www.telefilm.gc.ca / en/affint/coprod/20\\_ans.htm](http://www.telefilm.gc.ca/en/affint/coprod/20_ans.htm)*

Those independent producers who were involved in co-productions indicated that the presence of the Fund has had two very beneficial effects for them in this area:

- The ability to bring money from the Fund as well as a broadcaster licence fee means that the producer is able to attract foreign production partners and their funding programs, where they exist.
- The larger amounts of investment that they are able to bring to the deal mean that they are able to have greater creative and financial control, thereby increasing the relevance to Canadian audiences as well as maintaining a greater portion of the post production revenues.

## 2. Employment

One measurement that can be used in determining whether the CTF has achieved this objective in its first two years is the number of direct jobs in the industry. However, the number of direct jobs involved in the creation of independently-produced programs for Canadian television is not available. As noted in the Environmental Scan (see Chapter II), between fiscal years 1991-92 and 1997-98 the number of direct jobs in the entire television production industry increased by over 87%.<sup>1</sup> However, this includes employment in CAVCO and non-CAVCO certified productions, foreign location shooting, non-theatrical productions and broadcasters' in-house productions. In fact, some of the people we interviewed suggested that most of this job creation was due to the growth in foreign location shooting, rather than domestic production.

In the absence of employment data, we carried out an estimation of the number of jobs created because of the CTF.

Statistics Canada, based on internal research related to the Film Production Survey, has calculated that for every million dollars of production activity in Canada, 14 people are directly employed in production.<sup>2</sup> This implies that the 1997-98 CTF funding to the industry of \$161.2 million created an additional 2,250 production-related jobs.<sup>3</sup>

If we use the total production budgets for CTF funded programs, the number of jobs created would be considerable. As many of the CTF funded programs would not be made without a Fund contribution, this extrapolation can be justified.

In addition, Statistics Canada estimates an employment multiplier of 1.24 in other industries as a result of every person directly employed in production. Consequently, a further 2,800 (estimated) people were employed in other sectors of the economy due to the \$161.2 million provided by the Fund to the Canadian television production industry.

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<sup>1</sup> CFTPA/APFTQ, "The Canadian Film and Television Production Industry, A 1999 Profile", February 1999.

<sup>2</sup> Data regarding internal Statistics Canada direct job and multiplier impacts were provided by Canadian Heritage.

<sup>3</sup> Overall, the \$552 million of productions supported by the CTF in 1997-98 created a total of 7,728 full time equivalent jobs.



In addition to this statistical evidence, it is worth noting that many of the producers interviewed for this study indicated that CTF-funded productions tend to utilize more Canadian resources than non-funded productions, since the additional funds give producers more flexibility to hire more Canadian talent and “better” Canadian talent.

Job creation is certainly an important and worthwhile benefit of the CTF. However, as noted earlier in this report, more emphasis should be placed on cultural objectives rather than economic benefits in order to strengthen the cultural focus of the Fund in an environment of global concerns over industrial support mechanisms. This is not to say the 10/10 point requirement should not be maintained. However, the intent of this requirement should be focussed on the cultural importance of having Canadian control over creative decisions to ensure productions remain “distinctively Canadian”, rather than the economic importance of job creation. Job creation will most certainly continue, but as a secondary benefit.

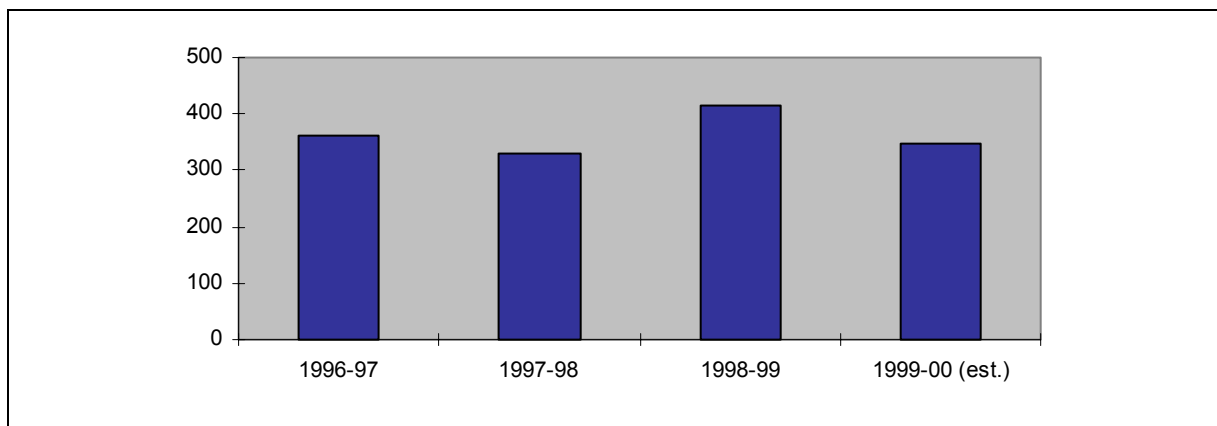
## D. The impact of the CTF on the availability of Canadian programs

The Request for Proposal requested for an analysis on the impact of the assistance provided through the CTF on the availability of Canadian products. In this section we look at changes in the number of programming hours and number of productions and funding commitments and draw the conclusion that there has been some increases on the availability of Canadian programs as a result of the CTF.

### 1. Number of CTF funded productions and hours

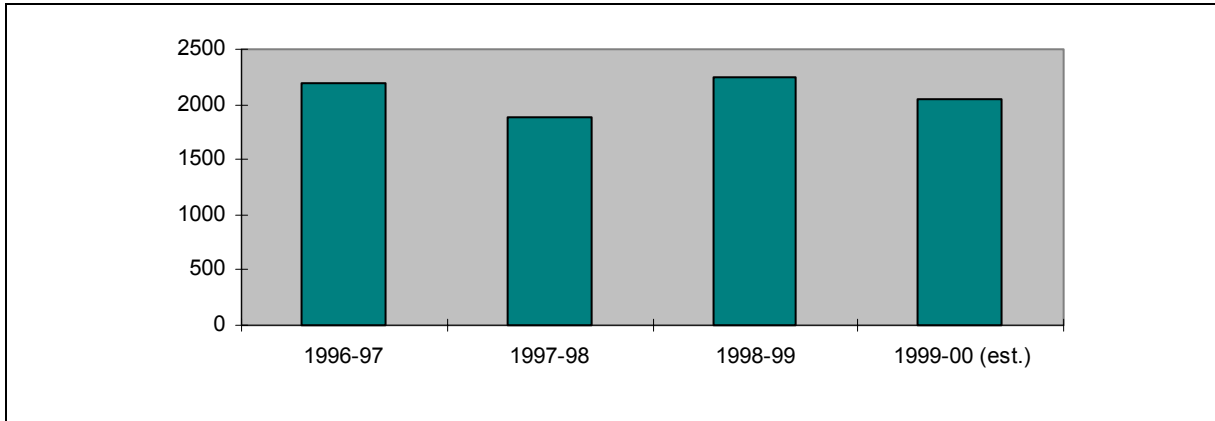
The amount of CTF funding available has increased since the Fund was established, going from \$199 million in 1996-97 to \$212 million in 1998-99. However the increase in funding available does not seem to be significant enough to have any impact on the total number of productions or total number of hours as Exhibits IV-14 and 15 indicate.

**Exhibit IV-14**  
**Total Number of CTF-Funded TV Productions by Year**



Source: CTF

**Exhibit IV-15  
Total Number of CTF-Funded TV Programming Hours by Year**



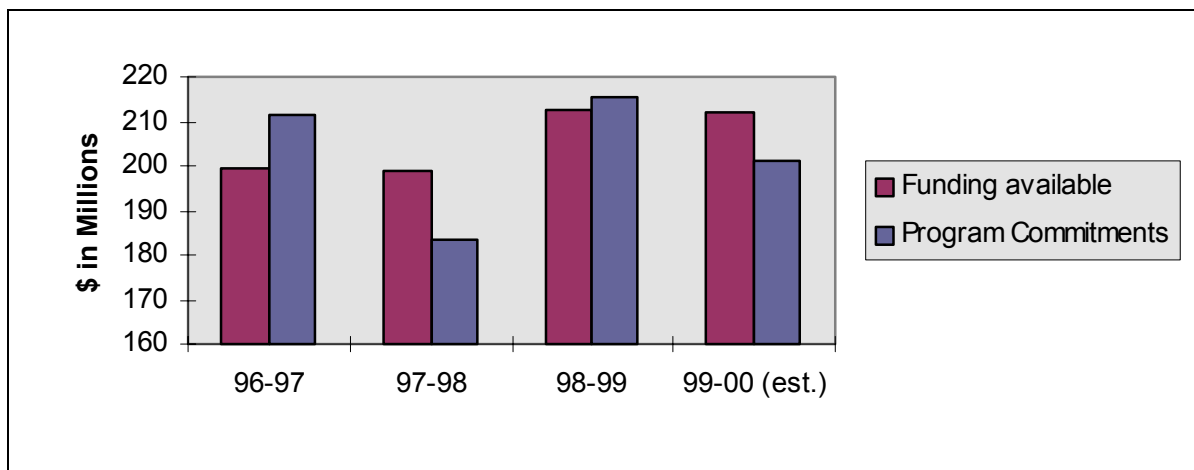
Source: CTF

During the 1996-97 funding cycle a total of 362 productions were funded (excluding 14 feature films), creating 2193 hours of programming. In 1999-00 there will be 349 productions (excluding 15 feature films), generating 2048 hours of programming.

**2. Funding commitments**

It is important to recognize that an increase in available funding does not automatically translate into an increase in funding commitment. The available funding is also used to cover administrative costs as well as over-commitments from previous cycles. In 1997-98 and 1999-00 the decrease in the number of hours and the number of productions was the result of compensation from over-commitment in 1996-97 and 1998-99. To compensate for over-commitment, the CTF seems to under-commit the following year, as shown in Exhibit IV-16.

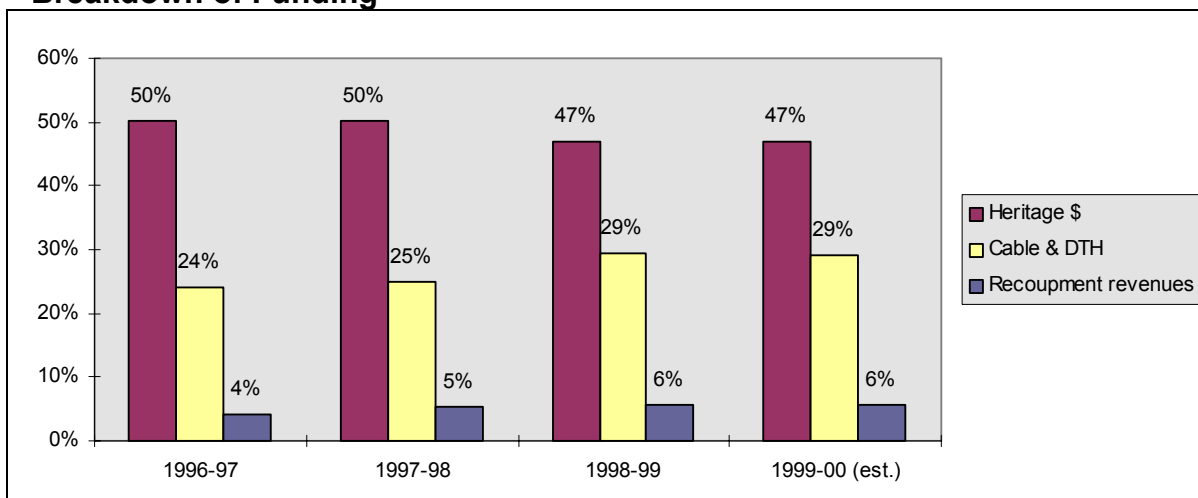
**Exhibit IV-16  
Total CTF Funding vs. Commitments by Year**



Source: CTF, Telefilm

The amount of funding available has increased over the past four years, without Canadian Heritage increasing its contribution. In fact, the amount of Canadian Heritage funding available for projects decreased as a result of the 0.45% charge for general administration of the Fund, implemented for the first time the 1998-99 funding cycle. The increase in available funding is a result of private sector and recoupment dollars. The overall contribution of Canadian Heritage as a percentage of available funding has decreased as seen in Exhibit IV-17, while private sector funding has increased marginally.<sup>1</sup>

**Exhibit IV-17  
Breakdown of Funding**



Source: CTF, Telefilm

**3. Conclusion**

Although the availability of Canadian programs has remained stable since the CTF was initiated, if a comparison is made to the period before the CTF was in existence, the total volume of film and television production has increased. In 1991-92 the total volume of film and television production was about \$1.6B; in 1997-98 it was just over \$3B.<sup>2</sup> Of that amount, Canadian television production represents the largest share (61% in 1997-98).

**E. The allocation of funds by genre**

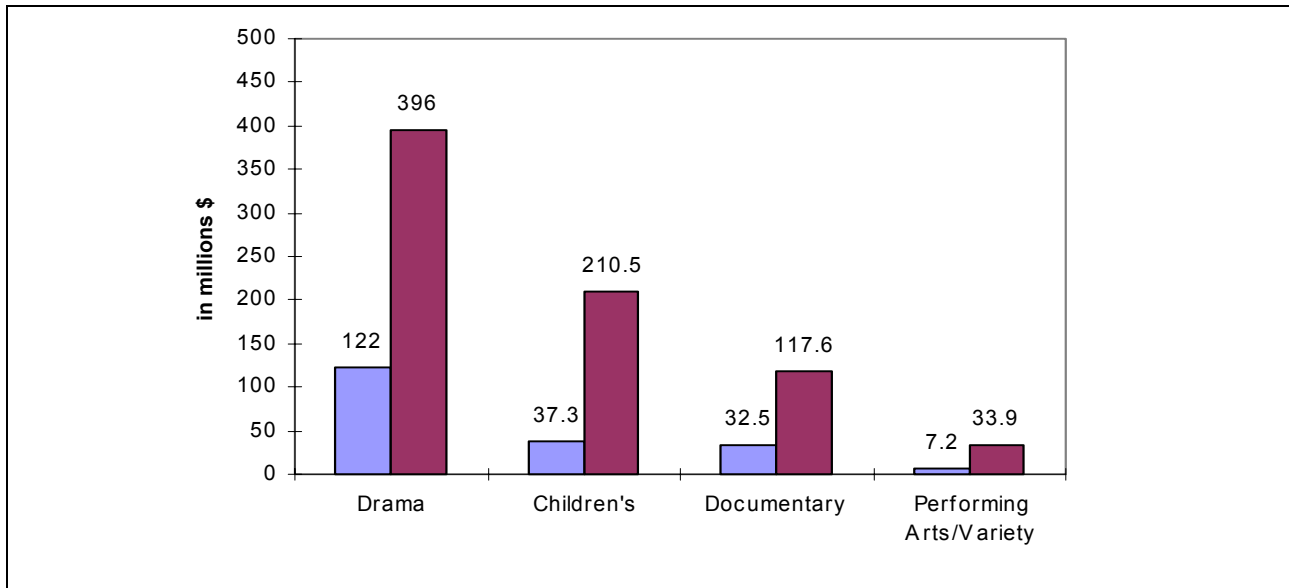
In the 1998-1999 season, the CTF used \$122M out of a total of \$199.2M (63% of total funding) to support 78 drama programs, resulting in a total of 600 hours of programming and generating an aggregate of \$396M in production activity. In the documentary genre spending was at \$32.5M (16.8%), an increase from \$28.4M over 1997-1998 values. These programs generated 715 hours of programming with aggregate budgets of \$117.6M. The Children’s genre also

<sup>1</sup> Funding does not include Telefilm appropriations.

<sup>2</sup> Please refer to Chapter II of this report, Exhibit II-16.

experienced an increase in funding with 647 new hours of programming, 61 projects and \$37.3M (19.3%) of funding. This support generated \$210.5M of children’s production activity. The smallest of the genre envelopes, Performing Arts and Variety, benefited from \$7.2M (3.7%) in support of 43 projects, with total production budgets of \$33.9M<sup>1</sup>.

**Exhibit IV-18  
Production activity generated showing amount of CTF contribution**



Most stakeholders agree that genre envelopes are necessary for a variety of reasons. For example, genre envelopes prevent other genre productions from being swamped by high-end big budget drama. Conversely, they also allow the drama genre to obtain enough funding to produce significant projects.

**1. The Drama genre**

Because drama is the category of programming which draws the largest audiences, the opportunity to affect cultural output may be perceived as being greatest in the drama genre. It should be noted that in order to produce high quality distinctively Canadian productions, that are marketable internationally (e.g., attracting actors with marquee value), Canadian productions will continue the trend towards high budget. If it is important to continue to provide a Canadian “alternative” to foreign drama, it must be made clear to the industry that this investment is being made for specific reasons and better define the return, monetary or cultural, that is expected on this investment.

<sup>1</sup> The 1998-99 LFP regional applications received a 10% bonus. In 1999-2000, these bonuses were reduced to 5%.

## 2. Other genre issues

Some stakeholders feel that public money would be better invested in the already successful children's and documentary genres. These are genres in which Canadians have an international reputation. Others felt that we may get more hours of programming per dollar spent on genres other than drama—an opinion not borne out by our cost per viewer statistics.

Some stakeholders feel that the drama genre itself needs to be redefined, excluding comedy and entertainment productions from contention.

The market and production schedule for one-off documentaries is significantly different from documentary series. Consideration should be given to creating a sub-category for one-off documentaries.

It should not be taken for granted that cultural impact is best felt in the drama genre. If we want to have a cultural impact, some stakeholders felt that we should pay more attention to the Children's genre, arguing that childhood is the best time to expose Canadians to their own culture.

The lack of funding for the performing arts and variety genre has virtually killed the genre in Canada. Some stakeholders feel that the current genre allocation has become "irrelevant". Stakeholders wonder if this is a "conscious" CTF decision.

## 3. Conclusions and recommendations

While previous demand and producer and broadcaster input are important considerations in determining the size of genre envelopes and should continue, there is no cost-benefit analysis done for allocation to the categories. We recognize that this is a difficult exercise to undertake, but it would be worthwhile to look at the number of viewers delivered for each dollar spent by category of programming, or to develop some other method of assessing the efficiency and effectiveness of investment in each category.

This should not be the only or determining analysis. A strict reliance on such a criterion would result in all of the drama investment going to French-language programming as its lower budgets deliver higher audience shares. But it might be useful in making adjustments between some of the categories. Combined with an environmental scan that indicates broadcaster priorities, the types of new channels that are emerging and audience preferences, a more scientific analysis could guide the annual allocation process.

Our interview process did not show any great dissatisfaction with the allocations, although both documentary and children's producers did argue that their allocations should be increased. Their comments were not strongly expressed but were more of the nature "it would be nice if we had a higher allocation".

The Fund is supporting the categories of programming that need the greatest support, from both economic and cultural points of view. We do not see any need to include additional categories of programming nor to eliminate any of the existing ones.

We do not have any scientific method of evaluating the efficacy of investment in each category. While we do not believe that this should be the only analysis undertaken, such a review would provide the Board with another tool in assessing the annual allocations and would add a degree of transparency to the choices made.

## **Recommendations**

- We recommend that genre envelopes be maintained, but the amount of funding allocated to each genre be reviewed on a regular basis. The review should take into account market demand and audience delivered per dollar.
- We recommend that the reason for providing a high level of support to the drama genre, as well as the monetary and cultural returns expected from this investment, be made clear.

## **F. The CTF impact on regional productions**

The examination of this issue included a review of the definition of regional production, an analysis of comments received from stakeholders, and an analysis of the quantitative data that supports the conclusion that there has been an increase in regional programming. This leads to conclusions and recommendations on regional productions.

### **1. Definition of regional production**

The Canadian Television Fund recognizes that production expertise can be found across the nation. Recognizing that the Canadian mosaic is fertile ground for diverse and colourful Canadian storytelling, the CTF encourages regional producers to make their voices heard by telling regional stories, thereby contributing to the diversity of the Canadian cultural landscape.

The CTF definition of a “regional production” is as follows:

- Principal photography occurs in the regions (a production centre at a distance of more than 150 km from Montreal or Toronto), with suitable exceptions for documentaries.
- The applicant producer is based in the regions, and:
  - Exercises full control of the creative, artistic, technical and financial aspects of the project or, if a regional/non-regional co-production, the regional producer has such control in proportion to its copyright ownership.
  - Owns more than 50% of the copyright in the production.
  - Initially owned and controlled the distribution rights to the project and retains ongoing financial interest in the project or, if a regional/non-

regional co-production the markets and potential revenues are shared equitably in proportion to the financial participation of each co-producer.

- Initiated the project or has meaningfully participated in its development.

Regional productions are eligible for an LFP bonus equaling 5% of the production budget. The EIP encourages regional productions by establishing genre envelopes or targets for each region based on the population of that region.<sup>1</sup> This causes some confusion and has resulted in some trade-offs to accommodate the reality of television productions in the regions of Canada.

For example, in 1999-2000, the genre target for drama productions allocated to British Columbia was greater than the indigenous production industry could support. As a result, B.C. had an unused portion of its drama genre budget, while Toronto had serious shortfalls. This disparity triggered the “trade-off” that took place during the 1999-2000 application cycle. In this ad hoc exercise, regions bartered for the right to produce more of a given genre (e.g., more drama in Ontario) than was allocated to the province based on the population formula. This exercise permitted the EIP administrators to fund all of the critical quality Toronto-based productions that it needed to fund, while British Columbia was able to fund more documentaries and children’s productions than the population-based formula allocated.

## **2. Stakeholder feedback**

In speaking with a representative sample of producers from across the country, we found that most producers are cognizant of the fact that a country with a small population base such as Canada cannot support regionalized production industries. The United States supports a colossal film and television industry that allows for regional expression, but it is very much centered in two major centres: Los Angeles and New York. Why should Canada’s adolescent film and television production industry be so different?

However, a vocal minority feel that regional envelopes should be established, in spite of strong arguments that the country cannot support 10-12 major production centres. These producers believe that each region in the country, if not each province should be entitled to an allocation that directly correlates to the size of the population. Some of this attitude stems from what is known in the industry as the psychology of “entitlement”, and a general lack of clarity with respect to the Fund’s overall objectives and goals. In addition, some stakeholders felt that tax dollars collected in the region should be spent in the region. Others are concerned that even allocating genre envelopes on the basis of population de-emphasizes the quality aspects of project selection. As a result, projects that might have been funded if there were no regional genre envelopes, may be passed over.

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<sup>1</sup> *The EIP Policy Guidelines for 1998-99 refer to regional production under the category of envelopes but do not specify a specific dollar value or percentage of funds to be allocated to regional production. Page 6.*

### 3. Increase in regional productions

In this section, we demonstrate that the CTF has indeed achieved its objectives in terms of increasing regional programming.

In 1996-1997, the CTF distributed over \$50M, or 28% of its total funding, to 105 regional projects, representing 309 hours of programming.<sup>1</sup> In 1997-98, the CTF's contribution was somewhat diminished with just over \$40 million, or 24.9% of its total funding, going to 106 regional projects, representing 365 hours of programming.<sup>2</sup>

In 1998-99, the Fund's contributions to regional production increased significantly, with 33.9% of the CTF's total contributions (\$67.5M out of a total of \$199.2M) going to regional production, assisting in the production of 164 projects (or 550 hours of programming).<sup>3</sup>

The CTF regional allocations are similar to the regional allocations of one of its predecessors, Telefilm's Broadcast Program Development Fund. In 1994-95, that Fund allocated 32% of total funding to regional production, while in 1995-96, 25% of funding was allocated to the regions.<sup>4</sup>

Although data on the number of regional productions (as defined by the CTF) prior to the introduction of the Fund are not available, it is possible to compare the number of productions in each province, prior to and after the introduction of the Fund. Exhibit IV-19 compares the number of productions by province in the two years prior to the introduction of the CTF (1994-95 and 1995-96) to the number of productions by province in the two years after the CTF was implemented (1996-97 and 1997-98).

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<sup>1</sup> *Canada Television and Cable Production Fund, "1996-1997" Activity Report*

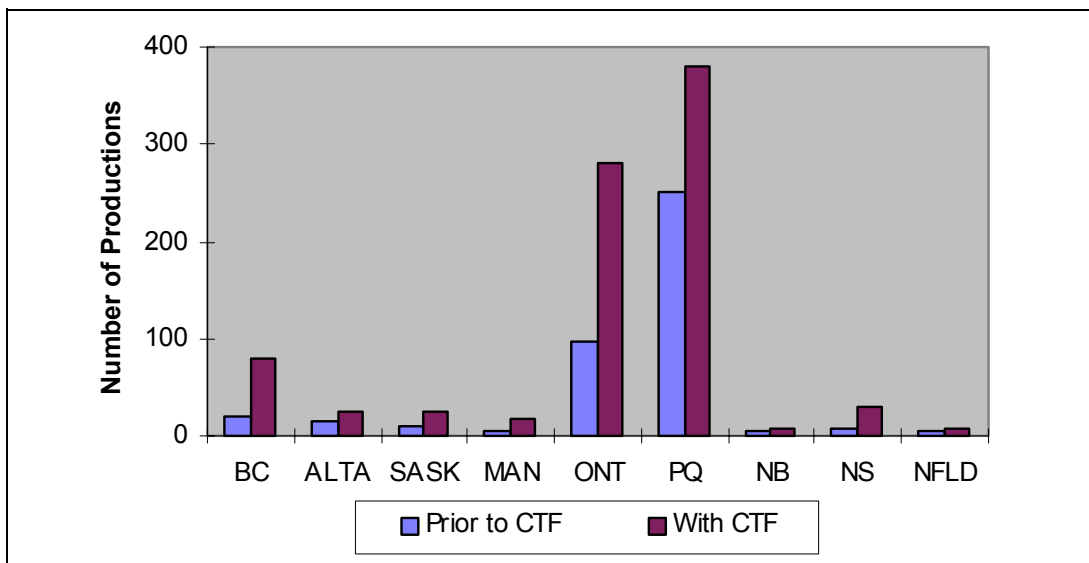
<sup>2</sup> *Canada Television and Cable Production Fund, "1997-98 Activity Report"*

<sup>3</sup> *Canadian Television Fund, "1998-99 Activity Report"*

<sup>4</sup> *Telefilm, "Annual Report 1994-95", and "Annual Report 1995-96."*



**Exhibit IV-19**  
**Number of CAVCO certified television productions two years prior to CTF**  
**and in two years following the introduction of the CTF**



Our comparison reveals that there have been increases in the number of CAVCO certified productions in all provinces, with the largest increases (in terms of percentage) in British Columbia, Manitoba, Nova Scotia and Newfoundland. In each of these provinces the number of productions has more than quadrupled.<sup>1</sup>

The budgets of CAVCO certified television productions in total for each province have also increased as shown in Exhibit IV-20. The largest increases (in percentage terms) have occurred in Saskatchewan (nine times higher), Manitoba (eleven times higher), Nova Scotia (ten times higher), and Newfoundland (eight times higher). Interestingly, the total budgets in each province have increased at a much higher rate than the number of productions. This indicates that the average budget per production in each province has increased. This is especially true for Manitoba and Nova Scotia, where average budget per production increased by 150% and in Saskatchewan where average budget per production has more than tripled.

It is also interesting to note the changes in minority official language production over the past three years. In 1997-1998, eight (8) French-language programs produced outside of Quebec (Alberta, Manitoba, New Brunswick and Ontario) received more than \$1.8 million in CTF support. English productions within the province of Quebec received support in the order of \$12.4 million for over 30 productions<sup>2</sup>. In 1998-1999 support for French-language production outside Quebec increased to a total of 12 French-language productions from

<sup>1</sup> Note that because in some provinces the total number of productions and the budget levels are relatively small, small increases in absolute terms translate into large “percentage” increases.

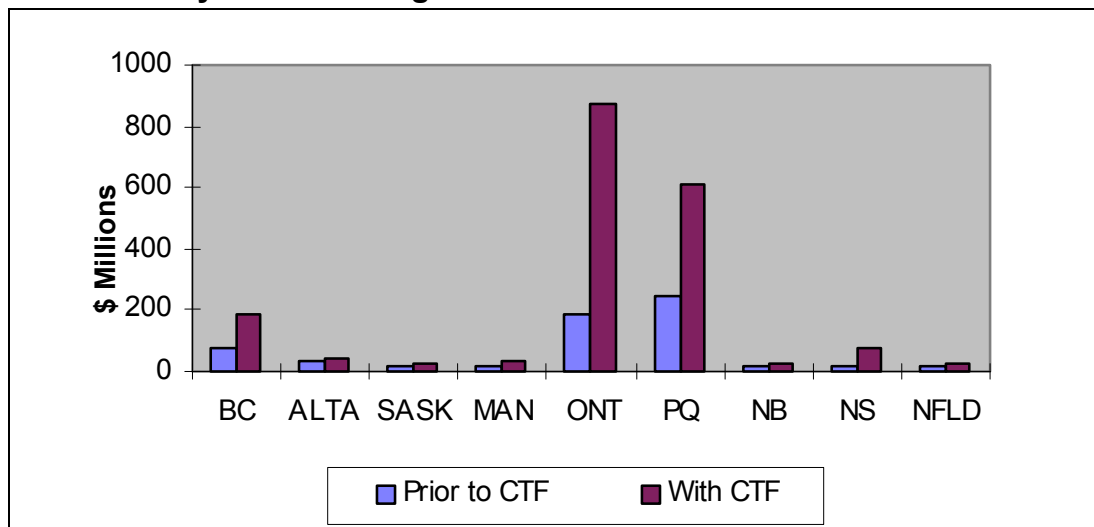
<sup>2</sup> Canadian Television Fund Activity Report, 1997-1998, page 9

outside Quebec (New Brunswick, Manitoba and Ontario), receiving \$4.7 million. This represented a 50% increase in comparison to the hours of programming produced in 1997-1998<sup>1</sup>. For that same time period, English-language productions inside Quebec received a total of \$11.3 million, a slight decrease over the previous year. In 1999-2000, 11.5 French-language productions outside Quebec (British Columbia, Manitoba, Ontario, New Brunswick, Nova Scotia) received slightly increased support in the order of \$5.3 million. In 1999-2000, English-language production inside Quebec also received increased assistance, supporting 25.5 productions with \$12 million in CTF assistance<sup>2</sup>.

Exhibit IV-21 shows that there has been a shift in the percentage of production budgets spent in Ontario and Québec, where most large publicly-traded firms are located and the percentage of production budgets spent in the rest of Canada.

**Exhibit IV-20**

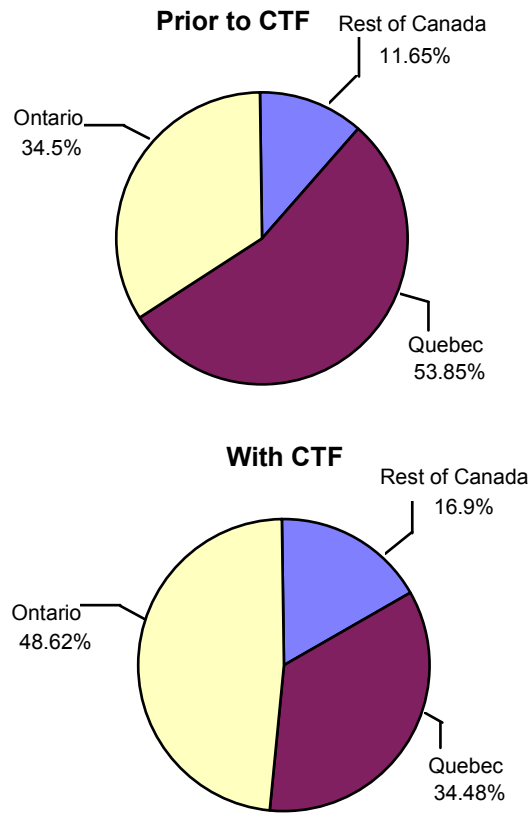
**Budgets of CAVCO certified television productions two years prior to the CTF and the two years following the introduction of the CTF**



<sup>1</sup> Canadian Television Fund Activity Report, 1998-1999, page 15

<sup>2</sup> Canadian Television Fund Communique, August 4, 1999, Issue 2, page 1

**Exhibit IV-21  
The shift in percentage of production budgets before and after the CTF**



From these two charts we can draw the following conclusions:

- In the years following the introduction of the Fund, there has been an increase in the dollars spent in every province of Canada.
- When we look at where these increases have occurred as a percentage of total spending, the balance has shifted. The percentage of production budgets spent in Ontario has increased, as has the percentage in other regions outside of Québec.

Some Ontario producers would say that this puts Ontario producers from outside Toronto at unfair disadvantage. First, because the Ontario tax credits are not as generous as those of other provinces. Secondly, because it is much more difficult to make broadcasting arrangements with Toronto-based broadcasters who are hundreds of miles away, and third these regional producers must compete with production “giants” and “network” with industry heavyweights.

#### 4. Conclusions and recommendations

Expressing the current CTF objectives as ‘encouraging regional production’ and/or increasing industry job creation could well be interpreted as industrial objectives. In keeping with our belief that the primary objective of the Fund is cultural, we believe that the concept of regional bonusing based on the location of the production company should be abandoned. Instead, the bonus award should be based on “depicting” a regional story.

Of course, regional depiction will still involve on-location shots and local resources. For this reason, established regional production companies may well be the organizations best suited for telling such stories. But this may not always be the case. A revised emphasis on cultural expression would potentially allow production companies from outside a given region to film and produce projects that depict distinctively Canadian regional stories (e.g., *Emily of New Moon*) and still obtain a regional bonus.

Regional producers might raise strong objections to such a move, stating that the CTF needs to assist fledgling production companies with the development of their infrastructures—and in *all* regions—so that they can compete with central Canadian production companies. This however goes far above and beyond the mandate of the CTF.

Although the CTF has successfully increased regional production and followed its guidelines for doing so, now may be the opportune time for modification of the guidelines and providing greater clarity of understanding with respect to the Fund’s overall objectives. Rephrasing the CTF objective of regional support so that it emphasizes regional expression rather than regional production and regional job creation would emphasize that the Fund supports a cultural objective not an economic objective.

#### Recommendations

- We recommend that the CTF modify its objectives related to regional production and regional job creation, replacing them with an objective that clearly supports the depiction of regional stories. Doing so would underline the cultural orientation of the Fund.
- We recommend that the quasi allocations of funds to the regions be eliminated.<sup>1</sup>

#### G. The CTF impact on increasing productions in both official languages

There has been a steady increase in the number of English and French language television productions supported by either the Broadcast Program Development Fund or the CTF since 1995-96, as indicated in Exhibit IV-22. We are not able to determine whether this has been the result of the CTF alone or if it should be attributed to a general increase in funds available for

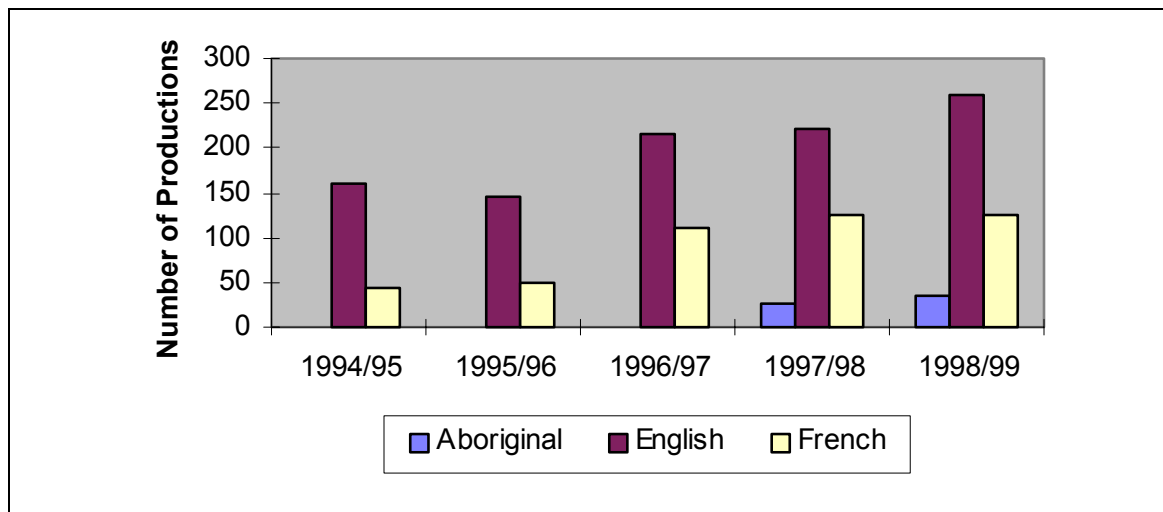
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<sup>1</sup> Chapter V covers this issue in greater detail.

television production. However, given the relative size of the CTF in relation to other sources of funding, we can conclude that the CTF has had a positive impact.

**Exhibit IV-22**

**Number of television projects supported by federal funding programs by language—1994-95 to 1998-99**



The relative proportion of funding allocated to French language and English language productions has not changed substantially over the last five years. In 1994-1995, 68% of the Broadcast Program Development Funds were allocated to English language production, while 32% were allocated to French language television productions. The funding distribution was similar in 1998-1999, with 66% of the funds going to English and 31% going to French language production (3% was allocated to aboriginal productions).

**1. Aboriginal programming**

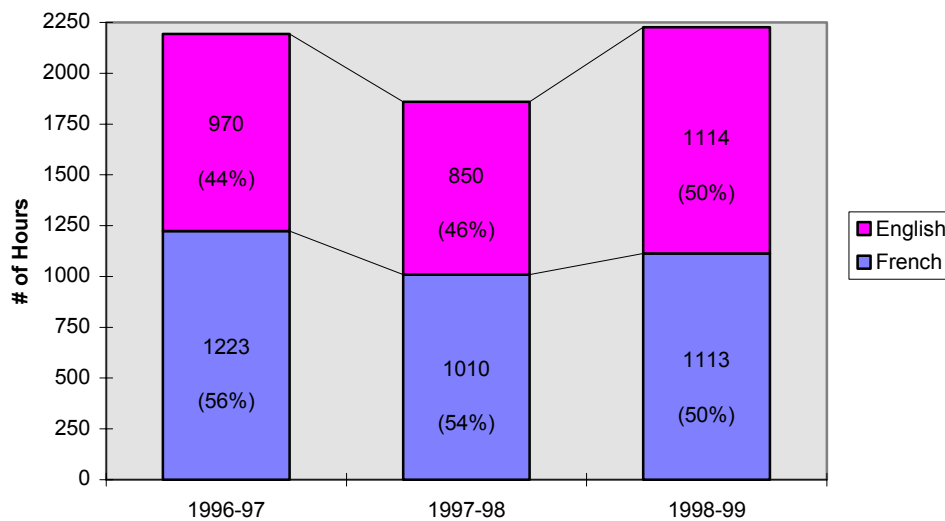
In 1997-98, the CTF had earmarked \$1M for Aboriginal language programs. In 1998-1999, the CTF supplemented EIP support, by establishing a corresponding LFP envelope, resulting in overall support to Aboriginal language programs of \$1.9M. In all, during the 1998-1999 season, 17.5 new hours of programming were produced. With the licensing of the Aboriginal People’s Television Network (APTN), it can be expected that the increase in the level of Aboriginal programming will continue.

**2. The continuing commitment to both English and French-language productions**

The Canadian Television Fund is committed to directing two-thirds of its annual program dollars to English-language projects, while one third is committed to French-language programming. The CTF has consistently maintained this commitment over the past few years, although the number of total hours of language programming produced has varied from year to year.

When the committed funding levels are converted to actual programming hours, a gap becomes evident. Over the past 3 years, while approximate 66% of funding went to English language productions, only 44-50% of total programming hours were produced in English. Approximately 31-32% of funding was allocated to French language productions, these productions account for 50-56% of programming hours, as shown in Exhibit IV-23.

**Exhibit IV-23  
French and English Language Programming Hours (CTF Funded)**



French-language programming decreased by 17% to 1,010 hours in 1997-1998 from the 1996-1997 total of 1,223 hours of French-language programming time. In 1998-1999 French-language programming time rebounded by 10% to reach a total of 1,113 production hours.

English-language programming decreased less markedly than French-language programming (by 12%), declining to 850 hours in 1997-1998 from the 1996-1997 total of 970 hours of English-language programming time. In 1998-1999, English-language programming time rebounded to 1,114 hours, an increase of 31%. It should be noted that English-language production budgets are higher than French language budgets. This helps explain why there have been fewer hours of English-language productions.

### 3. The French-language film and television production industry

Although the CTF provides support to minority official language productions (i.e., support for French-language production outside Quebec and for English-language production within Quebec), for the purposes of this section our focus is on French-language productions produced in the Province of Quebec.

French broadcasting viewership statistics demonstrate that the French-language film and television industry is alive and well in francophone Canada, and especially so in the province of Quebec. This is due in large part to the distinct “flavour” of Quebec-produced

programs. Viewership statistics demonstrate that the Quebec entertainment voice speaks to its population in such a way that the average Quebec resident continues to listen and to “tune in”.<sup>1</sup>

For example, the French-language production, *Diva*, produced at a cost of \$470K per episode, is watched by over 1.3 million viewers. A comparable English-language production, *Cold Squad*, produced for \$970K per episode was watched by an average of 600,000 viewers for its first 13 episodes. Because of this excellent return in terms of viewership and overall cost per viewer, it could be argued that the CTF money invested in French-language productions is money well spent.

However, as Exhibit IV-9 indicates, using cost per viewer per hour data as a standalone indicator of what genres and languages of production should be supported can lead to decisions that would be questionable from other perspectives.

Generally speaking, although 66% of the total CTF budget is directed toward English-language productions, 1998-1999 CTF statistics tell us that the total number of French-language production hours is virtually the same with only 33% of the total budget. However, French-language production is well supported by the Quebec provincial government and does get monies from other sources (e.g., SODEC). In addition, French language programs tend to be produced with lower budgets.

#### **4. Feedback from producers**

##### **a) The need for continued support**

The French-language production industry’s home grown success is a double-edged sword. Although its distinct “flavour” is appealing to French Canadians, Canada’s French-language productions are much less interesting to international audiences. In fact, it is an accepted industry fact that French-language Canadian productions are much less “exportable” than English-language Canadian productions.

In spite of the fact that French language productions have successfully promoted Canadian culture and obtained excellent Quebec viewership, Telefilm Canada cannot recoup on its investment on its Quebec viewership alone. In order for it to do so, producers must sell the product internationally; something few French-language productions can actually do.

For this reason, some French-language producers argue that continued support is essential. Some also argue that French-language production and Quebec culture continue to be endangered. If funds do not continue to be provided to French-language productions to ensure the production of quality French-language film and television, francophone audiences will no longer tune in.

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<sup>1</sup> Please refer to Exhibits IV-4 and 5 for a comparison of English and French viewership statistics from our survey.

Others feel that because of excellent viewership statistics in French Canada, French Canadian culture is in less danger of assimilation than English Canadian culture.

#### **b) The Quebec production industry’s affinity for Telefilm Canada**

In our discussions with French-language producers, we determined that the French-language production industry is decidedly more comfortable with the EIP program and the Telefilm Canada administration than it is with the Toronto-based LFP. Of course some of the comfort has much to do with the relative “subjectivity” of the EIP and the ability of French language producers to have access to EIP decision-makers to explain the concepts and the value of the projects they are proposing. In addition, proximity also allows French language producers to understand the EIP’s priorities and interests.

French language producers have developed this affinity for EIP in spite of the fact that they often do not meet one of the key criteria for EIP project evaluation—that is, recoupment on the initial project investment. The recoupment score is granted based on a production’s projected ability to generate revenues both in Canada and abroad. Several of our interviewees suggested French-language productions generally recoup less than English language productions because the potential market is smaller.

#### **c) Need for more “LFP influence”**

Obviously the proximity of Telefilm Canada’s offices to the offices of Montreal producers has been a key factor in the development of the comfortable relationship between Telefilm Canada and French-language producers. The fact that Telefilm Canada’s offices are conveniently located in Montreal, makes it easy for producers to go directly into Telefilm Canada’s offices and “negotiate the terms of Telefilm’s involvement”. In the short-term this arrangement is comfortable and workable.

## **H. CTF impact on producing distinctively Canadian programs**

One of the Fund’s fundamental objectives is to provide support to the Canadian film and television production industry so as to facilitate the production of high quality, “distinctively Canadian” programs. In this section we would like to provide insight into the development of this approach, discuss its impact and explain why we believe that the distinctively Canadian emphasis of the Fund is of critical importance.

### **1. Background**

The development of the Canadian broadcasting and television production industries has followed a distinctive path. The early days of the production industry were characterized by relatively small cottage-industry production houses which occasionally sold programs to the CBC, which itself was the major producer of all genres of Canadian programs. Some of these producers were more oriented to selling programs internationally and their programs



rarely reflected Canadian themes. In French Canada, most production was done in-house by the CBC and later by TéléMétropole.

Initially, English private television broadcasters broadcast little or no Canadian content other than local programs and network programs from the CBC, if they were affiliated. They produced national, regional and local Canadian news and sports, some game shows, children's programming with relatively low production values, in addition to some local variety programs and/or game shows. Drama as a genre was left to the CBC or was acquired from American broadcasters and producers.

With the arrival of the new CRTC in 1968 and the Broadcasting Act, a new orientation that attempted to reflect Canadian culture began to change the production and broadcasting industries. The CRTC enacted more exacting Canadian content regulations than its predecessor. Nonetheless, at the outset, the CRTC requirements were for hours of Canadian content alone and not for any particular type of content. During the 1980s, government began to take a greater interest in developing an industry that could provide high quality Canadian programming in categories that broadcasters were generally unable to afford or unwilling to risk.

The Broadcast Development Fund was mandated with supporting programs that would help build an industry. The Capital Cost Allowance was also aimed at developing the infrastructure that would ensure a Canadian industry. The CRTC and CAVCO definitions of Canadian programming were similar but not identical. Both were based on having creative functions (e.g., director, writer) filled by Canadians, rather than gauging the Canadianness of the project by its theme or subject matter. These initiatives enabled the development of a program production industry that provided Canadian producers, directors, writers, on-camera talent and craftspeople with employment.

In the late 1980s, the CRTC turned its sights on improving the quantity and quality of Canadian programming. Conditions of licence were imposed upon CTV, the CBC and Global for the broadcasting of drama, documentaries and children's programs. By the same token, other local stations were required to maintain or increase the quality of their programs by committing to spending on Canadian programs. These requirements resulted in an increase in Canadian drama and other under-represented programs to a limited degree.

As mentioned earlier, up to this point the emphasis of such programs was primarily on slotting Canadians into key creative/production positions to create a viable industry in Canada. However, with the introduction of the Cable Production Fund, the CRTC began to move towards not only using Canadian talent in production but introducing greater Canadianness in subject matter. In order to do so, the Commission increased the point count required for a program to be eligible for funding from 6 out of 10 to 8 out of 10. In tandem, Telefilm Canada increased its emphasis on Canadian storytelling resulting in an overall increase in Canadian subject matter in Canadian programming.

Driven by the fact that the most distinctive of Canadian programs generally had more difficulty in attracting foreign investment and were consequently more expensive to licence, the Fund's board introduced an additional bonus for programs qualifying as distinctively Canadian in 1998-1999. This cultural incentive was provided to assist in producing

projects that would be more difficult to market, but would ultimately contribute to increasing productions that reflected Canadian culture and themes. In its most recent year, and in reaction to the over-subscription in 1998-1999, the CTF's board introduced a new requirement for funding. This new requirement stipulated that in order to meet funding eligibility requirements the proposed program had not only to meet a higher point count (10 out of 10), but also be “*distinctively Canadian*” by meeting four Essential Requirements (ERs). We will discuss these four ERs later in this section.

## **2. Have we produced more distinctively Canadian programs?**

We developed an understanding of the Fund's impact on the production of distinctively Canadian programming from analyses of CAVCO statistics, the CTF's Eligibility Criteria for both 1998-99 and 1999-2000, the CTF Annual Activity Reports, and interviews with producers and other stakeholders.

It is clear that there has been a significant increase in the number of distinctively Canadian productions both in absolute numbers and as a percentage of all productions funded by the CTF. Nevertheless, quantifying this impact further is challenging because of the absence of data measuring distinctively Canadian programs prior to the introduction of the distinctively Canadian bonus. Neither the regulator or funders required distinctively Canadian programs or defined distinctively Canadian programming. The “Canadianness” of a program was measured using the CAVCO point count, however. This is a valid measurement to some extent, and in fact the 10 of 10 point count is one of the four ERs.

Exhibit II-23 of the Environmental Scan demonstrates substantial increases in the percentage of all Canadian productions certified by CAVCO that receive all the points available to them. The percentage rose from 74% in 1994-95 to 83% in 1997-98 and these numbers were attained before the introduction of the Distinctly Canadian bonus in 1998-99 and the four Essential Requirements for 1999-2000.

While some of the increase can be explained perhaps by the CRTC's 150% Canadian content credit for 10-point drama and children's programs, that bonus has been in place since 1984. What is coincident with the increase is the introduction of the Cable Production Fund (CPF) in 1994 with the first funding provided in 1995. The CPF required 8 of 10 points for a program to qualify for funding. In many cases, given that the 2 points available for foreign input are not sufficient to include both a foreign director or writer and a principal performer, many producers chose to use all 10 points for Canadians. In fact, 95% of the programs that received funding were awarded all 10 points.

However, there are a number of high quality Canadian programs that were awarded all 10 points, and in some cases received funding from the CTF or its predecessors which are not recognizable as Canadian in theme or subject matter. Such programs often receive good ratings and are able to crack the American market. The introduction of the distinctively Canadian bonus in 1998-99 gave producers and broadcasters a greater incentive to produce and air fewer of the above mentioned Canadian productions and more “distinctively Canadian” programs. On top of that, the introduction of the Four ERs for the year 1999-2000 meant that all programs funded (with the exception of some co-productions) were to be distinctively Canadian. In fact, in 1998-99 94% of LFP-funded projects received the

distinctively Canadian bonus, while 100% of LFP and EIP-funded projects were distinctively Canadian in 1999-2000.

For all of these reasons and despite the lack of data for previous years, we believe that it is reasonable to assume that the CTF has increased the number of distinctively Canadian programs that are produced and broadcast.

Additionally, qualitative feedback from broadcasters, producers and other stakeholders indicates that the Fund's presence has resulted in an increase in the number of distinctively Canadian programs produced and broadcast in Canada. We therefore conclude that the CTF has met its objective of promoting distinctively Canadian programming.

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## V

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### ***The Relationship Between The EIP And The LFP***

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The Request for Proposal specifically identified the need to review:

*the relationship between equity participation (EIP) and licence fee top-up LFP), based on the experience of the Canadian Television Fund to date in supporting productions, including an assessment of their relative effectiveness.*

In this chapter, we have summarized our findings with respect to both components of the Fund, reported on stakeholder feedback and drawn conclusions about the relative effectiveness of the EIP and LFP.

#### **A. Background information**

The economic realities of Canadian broadcasting are that the margins between the cost of acquiring Canadian programs and the revenues generated tends to be much smaller than the margins that can be generated with the acquisition of foreign, mainly American programs. In fact, broadcasters have indicated that in many cases they do not make back the amount of money paid for licence fees in advertising revenue. This is even more likely for programs made with Canada as the primary marketplace. Therefore, to encourage the development of Canadian expression, the government determined that financial support was necessary. That support is provided in the form of the Canadian Television Fund.

The Canadian Television Fund consists of two separate programs—the Equity Investment Program administered by Telefilm Canada and the Licence Fee Program which is administered by the CTF (as an organizational unit as opposed to the Fund). Applicants can apply for either EIP funding, LFP funding or both.

##### **1. The EIP**

The EIP can contribute up to 49%<sup>1</sup> of a project's allowable costs for production of Canadian television programs and feature films through a direct cash investment. The intent of the EIP is to recoup its investments “no less favourably than on a pari passu and pro rata basis with all other financial contributions”.<sup>2</sup> In many cases because there is no

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<sup>1</sup> *The EIP's negotiated participation has been about 28%.*

<sup>2</sup> *Canadian Television Fund, 1999-2000 Guidelines, Main Document, page 17.*

recoupment, this converts the investment into a grant. The EIP also contributes to the development of programs and feature films through advances.

## 2. The LFP

The LFP contributes to the production of Canadian television and feature films in the form of a non-recoupable licence fee top-up. The financial contribution ranges from 15% to 35% of production costs.

In 1998-1999, the Canadian Television Fund provided \$199.2 million to support 413 television productions with total budgets equaling \$758 million. The LFP was able to contribute to the vast majority (91%) of the applications submitted to it—354 projects of the 387 that submitted applications received project funding. Similarly, the EIP contributed to 90% of the projects that applied for funding—383 of the 425 projects that applied to it.<sup>1</sup>

## B. Advantages and disadvantages of the LFP and EIP

We asked producers, broadcasters and other stakeholders their opinions of the EIP and the LFP. These are reflected in the following sections.

### 1. The LFP

If a broadcaster agrees to licence a program, which presumably would only happen if analysis suggested that there was potential audience and advertiser interest in the program, the producer can apply for a licence-fee top-up. The licence-fee top-up serves the purpose of closing the gap between what a broadcaster would be required to pay to licence a Canadian program versus the cost of licence for an American program.

The LFP was designed to be easy and quick to administer. There was no in-depth analysis required as awards were based on straightforward criteria (e.g., a broadcaster supported the project and it received the specified number of CAVCO points, therefore the LFP supported the project). As there was no payback required, there was no need for recoupment analysis. Creative decisions were left to producers and the broadcasters who paid the licence fee, thus eliminating the need for a creative assessment. Furthermore, there were no protracted negotiations required, because the LFP was not an investor. Many producers and most broadcasters supported this approach to funding.

A major disadvantage of the LFP was that there was no direct dollar return for the taxpayer if the project was successful.

Over the past few years, two changes have occurred that have changed the perception of the LFP to a degree. Firstly, in the opinion of some, the four ERs have introduced a degree of subjectivity into the decision-making process. Nonetheless, in comparison to the EIP, the LFP process remains a much more objective and straight-forward process.

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<sup>1</sup> *Canadian Television Fund Annual Activity Report, 1998-99, page 10.*

The second change raises other concerns. Some broadcasters have in the past few years, issued more licence commitments than they expect to meet. As a result, the CTF is not presented with the real broadcaster agenda and therefore, may make decisions that are based on false premises. If the trend continues, awards will have to be reversed and the overall efficiency of the process will be reduced.

## **2. The EIP**

There are two unique advantages resulting from the EIP's role as a cultural investor. The first is that the EIP administrators at Telefilm Canada conduct a thorough business analysis as part of their due diligence process, and the second is that the EIP is designed to recoup at least part of the investment. The use of business case analyses imposes a discipline on producers who have access to public funds. This business analysis approach has been of service to the milieu in general. Either the results of the EIP analysis or an independent business analysis process are now being used by some of the private funders in making their decisions to invest equity, provide grants and/or loans to production projects.

Recoupment has the advantage of ensuring that successful projects repay at least some of the investment provided. This in turn ensures more money is available to the Fund to assist a greater number of projects. In addition, it serves as a brake on the interest of some producers who may have to repay some of the money.

However, there are disadvantages to the EIP's involvement as a cultural investor as well. First, the decision-making process is considered by many producers and by other stakeholders to be overly subjective, and lacking in clarity and transparency. While almost all stakeholders felt that the business case analysis was valuable and took into account marketplace criteria, they contended that subjectivity crept in at other points in the analysis. They hold that this is true, in spite of the introduction of the EIP evaluation grid in the 1999-2000 season. A number of stakeholders commented that the EIP "is wonderful if the producer fits into their agenda or knows how to work the system". However, decisions are said to be made with little regard to objective criteria especially when EIP staff at Telefilm do not care for the producer making the application. Some of the stakeholders interviewed indicated that there was enough flexibility in the system to allow EIP to show a significant degree of recoupment during periods when that was seen as a government priority, and lower levels of recoupment when this was seen as a lower priority. There have also been several suggestions that the percentage of funds recouped is low in relation to the costs associated with obtaining the money.

While our case study analysis suggests that there is less subjectivity than is perceived by some stakeholders, there were sufficient numbers of concerns expressed to suggest that action is required in the areas of subjectivity, transparency and recoupment.

## **C. Leveraging production activity**

An underlying goal of the CTF is to leverage its contribution to the television production and broadcasting industries, to attract financing from the private sector so that higher cost, higher

quality projects can be produced. The analysis of the leveraging impact of the CTF is somewhat complicated by the fact that about \$60M (1998-1999) of the Canadian Television Fund is private sector money, provided primarily by the cable industry. However, for purposes of this analysis, the cable industry's contribution to the CTF is not broken out.

Exhibit V-1 provides a breakdown over 4 years of the leverage generated by the LFP alone, the EIP alone and the leverage generated when both the EIP and LFP contributed to a project. Exhibit V-2 provides a breakdown of the total leverage from the EIP and LFP for each of the same four years.

As Exhibit V-1 indicates, the impact on leverage of the LFP and EIP has varied from year to year. There are explanations for these differences which should be taken into consideration before any decisions on changing the mix or increasing or reducing the number of projects that receive funding from both programs.

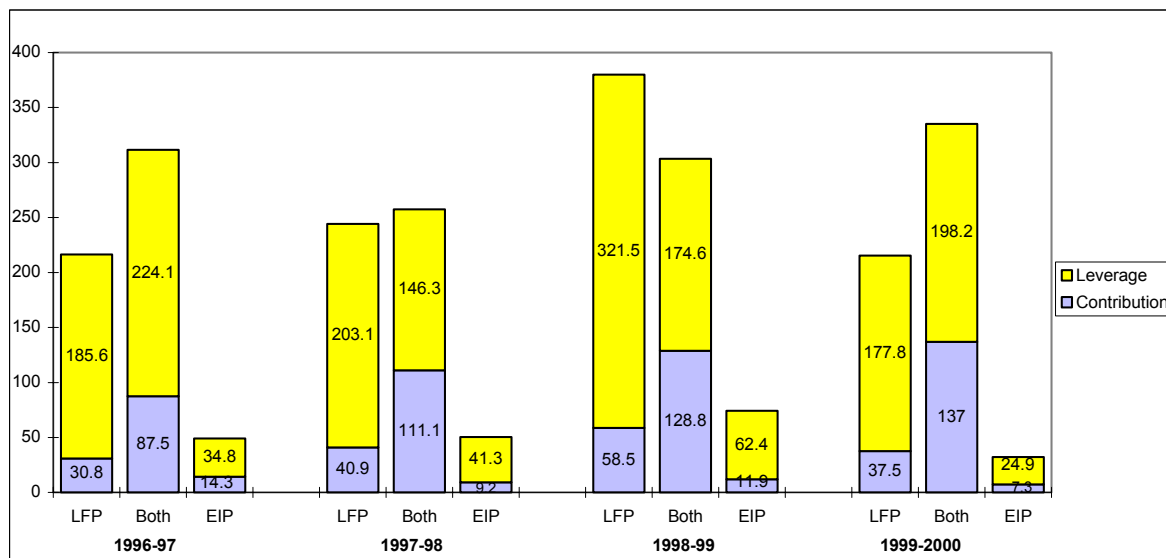
We have not identified all of the reasons for the leveraging differences by year and by program, but offer the following as a starting point. More in-depth analysis could not be undertaken because economic factors have changed annually over the 4 years of the Fund's existence, the criteria governing allocation of funds have changed. Both these factors may have influenced the ability of projects to attract private financing. In particular, the move to fund only distinctively Canadian programs may have had an impact on the ability to attract private financing, especially foreign financing.

- Leverage figures for 1996-97 may be skewed by the fact that in September of 1996, \$100M was made available through the introduction of the Fund. By that time, all LFP monies and Telefilm Broadcaster Fund monies had already been allocated. The production industry made an extraordinary effort to identify additional projects that would be eligible for the funding that was suddenly available. This pace could not be maintained by the industry on an on-going basis and this is apparent in the figures for 1997-98. Not only did LFP leverage, and the leverage for jointly funded projects drop that year, the number of projects funded by the CTF dropped from 362-330.
- In 1997-98, the EIP provided approximately \$5M less in funding and its leverage increased from 2.4 times funding in 1996-97 to 4.5 times funding in 1997-98. The total amount of EIP funding available increased in 1998-99 by about \$2.5M and leverage increased, to 5.2 times EIP funding. When EIP funding was reduced by about \$4.5M in 1999-2000, leveraging dropped as well to 3.4 times funding. An increase or decrease in EIP funding does not appear to correlate to the leveraging capacity of the program.
- The same can be said for the LFP, where increases in monies available have led to both increases and decreases in leveraging. It may be as simple as saying that the type of projects funded effect the ability of the CTF to leverage private sector funds. To prove this hypothesis however, would require an analysis of each project funded, as well as a review of its viewership draws and foreign sales for each program funded.
- When funding was restricted to distinctively Canadian programs in 1998-99, figures suggest that leveraging was not affected. In fact, the leveraging capacity of the LFP,

EIP and the two programs together improved over the previous year. However, the improvement did not continue into 1999-2000.

- The reduced leverage in 1999-2000 may be explained in part by the fact that the CTF provided \$17M less in funding, or by the fact that the number of jointly funded projects was at an all time high at 156 projects. (In 1996-97, 123 projects received funding from both programs; in 1997-98, 93 projects received joint funding; and, in 1998-99, 124 projects received joint funding.) More funding was provided for big budget English drama productions in an effort to improve quality and production value.

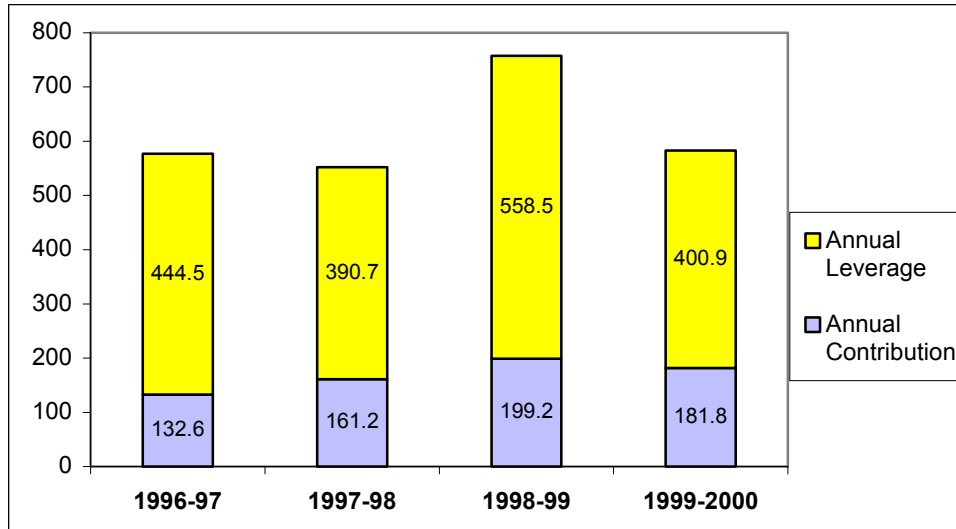
**Exhibit V-1  
Leverage Analysis for Television Programs**



Source of Data: Canadian Television Fund—LFP



**Exhibit V-2  
Total Leverage Analysis, by Year**

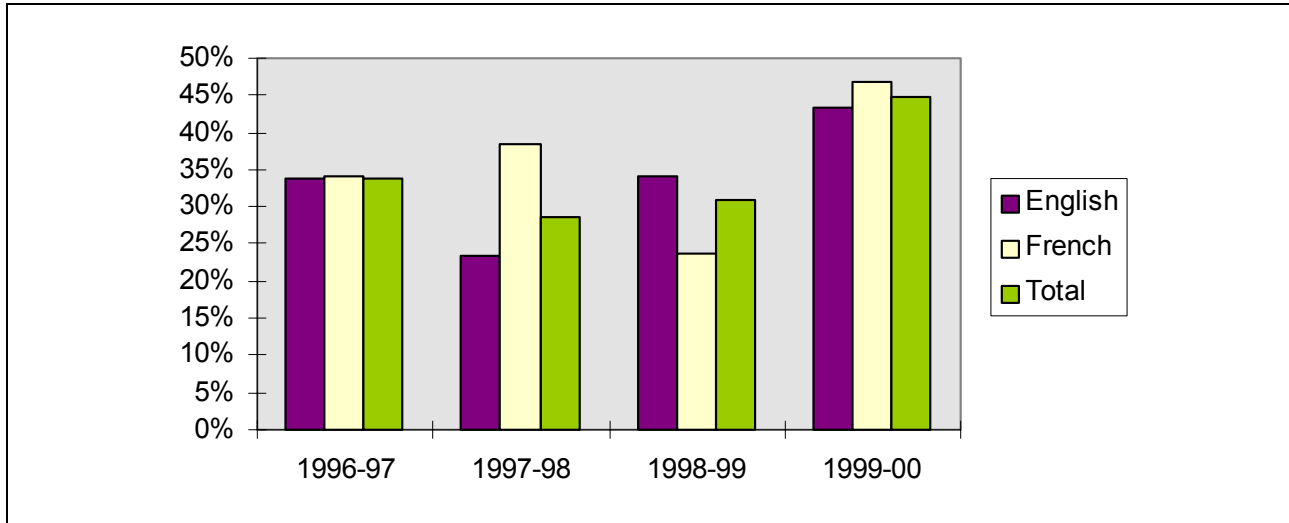


Source of Data: Canadian Television Fund—LFP

**D. Linkages between the EIP and LFP**

As Exhibit V-3 demonstrates, the number of English-language projects that were funded by both EIP and LFP programs rose from 23% in 1997-1998 to 43% in 1999-2000. This 20% percent difference is due to the new funding criteria that provided additional points to any project that applied for and received EIP funding. The linkage between EIP and LFP also increased with French-language productions, moving from 38% in 1997-1998 to 47% in 1999-2000.

**Exhibit V-3  
Percentage of funded projects that received both LFP and EIP support**



**1. Why the linkage?**

In the press release announcing the guidelines that bonused EIP involvement in the LFP ranking scheme, the Fund was not explicit about the reasons why it considered such linkage important. However, the Fund did note that the changes introduced in evaluation were intended to make the Fund's decisions more market-driven.

If the linkage between the EIP and LFP was to make the Fund more market driven, the fact that EIP approval was required first is confusing. The more market-driven funding mechanism is the LFP, not the EIP. However, by increasing the probability that EIP funded projects would also receive LFP funding, this action did in fact serve the same purpose.

Producers felt that the linkage between the two programs had been put in place for two reasons. Some felt that the linkage was simply to increase the budgets of distinctively Canadian projects. It is clear that both EIP and LFP funding would increase budget and quality proportionately.

Others felt that this linkage was a strategy used by the CTF Board to have the EIP administrators at Telefilm Canada “march to the beat of the same drummer”, that is, to ensure that both organizations were working towards the achievement of the same objectives.

**2. Bonusing for the EIP linkage only?**

A number of stakeholders were curious to know why involvement by private equity funds such as the Shaw Children’s Program Initiative or the Independent Film and Video Fund<sup>1</sup>

<sup>1</sup> Formerly the Maclean Hunter Fund.

does not receive the same bonusing. These funds also have due diligence processes that are followed before committing the funds. Private equity fund involvement could potentially decrease the demands on the EIP and thereby stretch the public's dollar.

## **E. What the case study analysis revealed**

We examined eight cases that covered all possible combinations of EIP and LFP linkage, language and genre.

Based on this limited number of cases, the Fund currently practices exactly what it purports to when conducting project evaluations. This indicates that in spite of the criticisms levied at the two CTF programs, the processes used work more often than not.

This exercise was valuable because of the fact that it permitted us to draw three conclusions:

- There are differences between the application and analysis processes of the EIP and the LFP. The EIP uses a more complex business analysis, with definite elements of subjectivity and judgement; while the LFP has a more streamlined and transparent process. We found this to be generally true, although with the addition of the 4 ERs an element of subjectivity was introduced. An animated Children's series, illustrates this point. This project was rejected by the EIP, because it was not sufficiently "creative". The more objective LFP process, which is a straight point score calculation, providing each applicant with a score that either qualifies it or disqualifies it from funding, approved the project for funding.
- When comparing projects applying to the EIP in 1998-1999 with those applying for funding in 1999-2000, we found that the introduction of the evaluation grid provided greater transparency. In examining 1998-99 files, it was not always evident what criteria or processes were being used to evaluate the proposed projects. The 1999-2000 evaluation process revealed this more clearly, and allowed us to pinpoint criterion ratings that were in particular, more judgemental (e.g., creativity).
- Some files contained recommendations that were negative. However the projects were funded in spite of this initial recommendation. This apparent contradiction led us to discover more about the group discussions that finalized decisions regarding the relative merit of projects. In this process, an initially negative recommendation could be overturned by a more positive group/panel evaluation.

## **F. The relative effectiveness of the EIP and LFP**

Both the EIP and LFP contributed to improvements in the quality and quantity of programming; both supported regional productions and fostered programming in both official languages; both assisted in creating jobs; and, both contributed to the production of distinctively Canadian programming. In addition, as the CTF moved towards increasing the production of distinctively

Canadian programming, early indications are that it may have reduced the ability of the industry to distribute television programming abroad.<sup>1</sup>

Overall we would have to conclude that both programs were effective. The issue becomes one of determining whether greater success could have been achieved if more funding had been allocated to one program or the other, or if one program or the other had been eliminated altogether. Undertaking the type of analysis required to establish relative effectiveness is complicated by a number of factors:

1. The criteria for funding have changed from year to year. Therefore, it is impossible to conduct a meaningful analysis of the impact of funding decisions over time.
2. Data on viewership and employment are not available in a format that would allow them to be used in an econometric model.
3. There is inconsistency in the evaluation of the four ERs as the case studies illustrated, and stakeholder feedback suggested.
4. The EIP, which was designed as an equity fund has achieved a recovery rate of only 10 to 12%. Although it can take some years to recoup on an initial equity investment, these recovery rates suggest that return on investment is not the driving factor in the allocation of EIP funds.
5. There is considerable overlap in funding with 43% of English language programs and 47% of French language programs receiving both EIP and LFP funding in 1999-2000.

These factors and the absence of any consistent year over year data made the task of establishing the relative effectiveness of the two programs an impossible task.

In the absence of hard data, we could examine the problem from a theoretical perspective. LFP funding, because it is in effect a grant should improve the ability of producers to generate more and better quality programs, create infrastructure and more jobs. To the extent that producers have to return any portion of profits, that is repay investors, their capacity to invest directly in the industry must be diminished. This then suggests that if all funding were in the form of a grant, the likelihood of achieving CTF objectives would be increased.

However, the end result of providing grants has at least two problems associated with it. The first is that this would create a dependency on public funding. The second is that there is no justification for asking the taxpayers to provide financial support to profitable projects.

On the other hand, if all funding was based on equity investment and recoupability remained an important criterion, it is likely that many culturally relevant programs would not be funded.

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<sup>1</sup> *The reduction in the amount of foreign investment in 1997-98 reported in Chapter II supports stakeholder comments that “distinctively Canadian “ projects are more difficult to sell internationally.*

## **G. Stakeholder feedback**

We asked producers, broadcasters and stakeholders their opinions on the types of funding provided. As was the case for many other questions asked of stakeholders, there was no clear consensus.

Some respondents suggested that one equity fund was all that was required, while a smaller number indicated that they preferred a single licence top-up program. The majority, however, suggested that two programs were required—some because they felt that the EIP was not transparent, too subjective and capricious; others because the LFP was too objective. As one interviewee commented, the LFP has no way of rewarding innovation or artistic and cultural risk taking. “The LFP eliminates subjectivity and quality issues. This isn’t any way to fund cultural/artistic productions.” Still others felt that it was important to have “more than one door to knock at”.

These variant opinions on the relative values of the two programs can be correlated to some extent to the stakeholder’s genre, size, location and linguistic group. For example, more small documentary producers and French language producers prefer the EIP approach, as do some regional producers. By contrast, broadcasters and larger producers involved in high-end big budget drama are more supportive of the LFP approach.

Some stakeholders suggested that funding mechanisms should not be limited to equity and licence fee top-up only. These stakeholders suggested the Fund make greater use of grants, loans and lines of credit in addition to existing mechanisms

Some raised questions about the need to fund projects produced by publicly traded or vertically integrated companies given that total funding is limited. Others argue that these companies are the ones with the creative and financing capacity to produce high budget drama. Restricting large and successful firms from access to the Fund would be counter-productive to creating a critical mass of Canadian programs in the categories that draw the lion’s share of Canadian viewers.

## **H. The need for flexibility and accountability**

To recap—providing all funding in the form of a grant would improve the ability of the industry to generate more and better programs, create infrastructure and more jobs. It is also likely to create dependency on government funding. Whatever type of funding mechanisms are put into place, it is necessary to guard against creating an increased dependency on continuing public sector support. To some extent, there is already an “entitlement” mentality in some segments of the industry. Some producers feel they are entitled to receive government funding for their distinctively Canadian programs. Some have even suggested that the Fund should be uncapped.

To avoid dependency and create accountability, it is necessary to ensure that equity funding means that monies will be recouped. Currently, EIP recoupment averages between 10-12% of annual EIP funding. This is a very low figure for a program that, in theory, is supposed to generate at least some money to reinvest into the industry. This low rate leads us to believe that

the recoupment process is artificial and is used to justify the funding of projects that are judged culturally or artistically worthy, but that are not necessarily ever going to be profitable.

In all fairness it must also be mentioned that it can take several years to recoup on an initial equity investment. However, it does seem impractical to lend money to producers without any strict requirement for future repayment. This would be tantamount to going to a financial institution and borrowing money, wherein the borrower then states that he will speculate on the stock market and if he happens to make money he will repay the monies borrowed. Obviously no financial institution would survive using such a strategy. However, this seems to be the method that Telefilm currently employs.

At the same time, some producers argued that if Telefilm were to be aggressive on recoupment, this could be a disincentive for other private sector investors who might invest more if they could be on an earlier tier of recoupment.

In the final analysis the solution that is required is one that provides CTF with the flexibility to provide grants to programs that are culturally or creatively worthwhile and are not likely to ever generate a profit, while supporting those projects that are likely to generate some return with other support mechanisms such as bank loans, equity or lines of credit. This would provide producers with the opportunity to apply for the type of funding they felt was necessary as well—something they have indicated is important.

At the same time, the process must ensure that there is accountability—that equity investments are not treated as loans.

## **I. Conclusions and recommendations**

Most of the conditions that existed at the time of the CRTC's Structural Hearing in 1993 continue to exist. The profit margins for broadcasters on distinctively Canadian productions are smaller than they are on non-Canadian programs or less distinctively Canadian programs. Therefore, there is a need for both a regulatory framework that will require broadcasters to purchase distinctively Canadian programs and financial incentives for producers to make them.

Producers have indicated that the June 1999 CRTC Television Policy weakened the regulatory framework that encourages broadcasters to purchase distinctively Canadian productions. Time will tell whether broadcasters will continue to licence as many 10 out of 10 productions. If there is a market for the programs, producers are bound to make them. What might be required is the licence fee top-up to encourage the purchase of the programs.

There are some conditions however, that have changed since 1993. For instance, there are more publicly traded companies and more profitable companies in 1999-2000, than there were a decade ago. At the same time, there are very few companies that could compete on a continuing basis with the large, highly profitable American companies that produce much of the programming watched by Canadians on Canadian television.

The publicly traded or vertically integrated Canadian companies should be able to apply for funding support that is available to smaller companies. In other words, success should be encouraged. But it may make more sense to provide the encouragement needed through guarantees of a bank loan, equity, or a line of credit. In other words, different types of producers in different parts of Canada need different funding support mechanisms. The type of support mechanism required may be influenced by:

- The type of producer:
  - Independent or part of a larger organization.
  - The size and profitability of the organization.
  - Location of producer.
  - The experience or lack thereof of the organization/producer.
- The nature of the project:
  - The genre.
  - The language in which the project will be produced.
  - The marquee value of the cast appearing in the project.
  - The extent to which the project is innovative (the idea being that more innovative projects may have greater difficulty obtaining financial support from the private sector, particularly if the producer does not have a well-established track history).
  - The extent to which the potential audience can be projected (i.e., a return series production versus a first run).
- Type of broadcaster likely to licence the production.

This list is not intended to be all inclusive; it is simply an indication of the types of issues that need to be considered when allocating funds and determining the most appropriate funding mechanism.

At the same time, it is necessary to ensure that public funding does not create increased dependency and if possible, levers private investment. To that end, an appropriate business case analysis needs to be undertaken, similar to the type of analysis that is now done for EIP applications. Under the proposed scenario, a business case would be undertaken for all CTF applications as a first step in determining the type of funding mechanism that will be provided.

If it is determined that the project should receive funding in the form of an equity investment, a repayment schedule should be worked out. This repayment would be required, regardless of

whether the project makes or loses money. Part of the funding could be provided in the form of an equity investment (that would be repayable) and part could be provided in the form of a direct grant. The decision would be made on a case by case basis.

In some cases of culturally significant programs or programs in certain genres where it is highly unlikely that equity investments could be recouped, it may be more realistic to provide a greater degree of top-up, grant or other funding mechanisms. In other cases, there would be no expectation of recouping on investment and this would be clear from the start. There would be no equity investments that had no return.

In the final analysis, one funding program is needed, with the capacity to use a variety of funding mechanisms and avoid a cookie-cutter approach. The EIP currently has the authority to use grants, loans and loan guarantees as well as equity loans. However, it normally provides equity loans that turn out to be primarily grants. We are suggesting that there be one fund with a number of funding mechanisms that might include licence fee top-up, equity investment, grants, loans and lines of credit, or a combination of more than one mechanism. The CTF would publish guidelines related to each type of funding mechanism.

The administrators will also need flexibility to adjust allocations between funding mechanisms rather than having fixed envelopes that may not reflect the needs of applicants.

## **Recommendations**

- We recommend that the Canadian Television Fund consist of one program.
- We recommend that the administrators of the new Canadian Television Fund, consisting of one program, have the flexibility of determining the appropriate funding mechanism for each application including licence fee top-up, equity investment, grants, loans, lines of credit or a combination of more than one mechanism.

## **J. Summary of benefits of one funding program**

Having one program with multiple funding mechanisms will provide flexibility and transparency and can help to reduce dependency on public funds.

### **1. Flexibility**

The process we envision would require the CTF to develop criteria for each different type of funding mechanism (i.e., there would be different criteria for grants, equity funding, licence fee top-ups, guarantee lines of credit). This would allow producers to apply for the type of funding mechanism they felt would be most appropriate to their needs, but would not necessarily result in the reward of that type of funding. There would not be a need to determine in advance the amount of money allocated to a specific type of funding mechanism (e.g., equity funding). The administrators of the CTF could determine how much of each type of funding is required based on a business case analysis of each



application. Applications for grants may as a result be offered equity funding or a guaranteed line of credit.

There would continue to be genre envelopes but there would no longer be envelopes for different types of funding mechanisms. Nor would there be regional envelopes or quasi regional envelopes. However, there would be bonuses for producers that produce programs that tell a regional story. This could help dispel some of the confusion that currently exists.

Having one program might also facilitate adjustments to the four ERs to reflect the realities of each genre, without undermining the goal of funding distinctively Canadian productions. All of the stakeholders interviewed recognized the necessity of developing demanding criteria for entry—both to ensure the distinctively Canadian nature of the programs supported, as well as to deal with the issue of over-subscription. Nonetheless, many interviewees raised issues concerning the applicability and interpretation of the four ERs.

One example should serve to illustrate the point. According to the ERs, the proposed production must take place primarily in Canada. This generally eliminates Children’s programs, animation and science fiction from consideration. As one producer was informed “Fantasyland is not in Canada”. This is an issue that many of the producers felt could benefit from a more relaxed interpretation, particularly when all of the other ERs have been met.

If there were genre envelopes and all applications for that genre were reviewed by one group of CTF administrators, a decision could be made to apply a more relaxed interpretation to a specific application—provided funding were available.

## **2. Transparency**

Applications would be subject to a business analysis that would be more in-depth for grants, equity, and lines of credit, and simpler for licence fee top-ups. Decisions would be supported by documentation on why an application was successful or not. Which criteria made the biggest difference? The Canadian Independent Film and Video Caucus has called upon the Fund to provide much more information regarding supported and non-supported projects. We understand that the CTF has already agreed to do so. One supported decision would avoid the concerns now raised when a project is awarded an LFP but not an EIP or vice versa, because one group of administrators felt the application met the 4 ERs and the other did not.

Transparency would also improve because it would be clear from the start that projects awarded equity funding would be required to repay the loan. Grants in the form of equity funding would no longer occur.

## **3. Reduced dependency**

The CTF has attempted to reduce dependency in the past by introducing the concept of dollars at risk, and by providing a bonus for projects for which broadcasters are willing to provide licence fees over a given threshold. The first effort (i.e., dollars at risk) was generally misunderstood and was opposed by the industry, and has been removed from the

guidelines for 2000-01. The second was considered to be more effective and was strengthened for 2000-01.

We believe that requiring a repayment of an equity investment is another means by which dependency will and can be reduced. If the producers feel that the project is likely to be profitable, they may look for funding elsewhere. If they turn to the CTF for assistance, they will recognize that the loan must be repaid, whether or not the project is successful. The amount of equity versus grant provided to any given project will vary and will take into consideration the nature of the project and the extent to which the producer is established and can access other sources of funding. Over time, it would be worthwhile considering some equity investment and payback from every project.

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## VI

### **Governance And Organizational Structure**

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The Request for Proposal identified the need to examine the governance of the CTF, while acknowledging that a separate analysis of this issue was being undertaken simultaneously by the Board of the CTF.

In the previous chapter, we recommended that the CTF should consist of one program that uses different types of funding mechanisms. This would quite naturally lead to the assumption that one program should be managed by one administration. Regardless of the program structure, there are strong arguments for modifying the current governance and organizational structure of the CTF. These are developed in this chapter.

#### **A. Different mandates and objectives**

The administrative arms of the CTF have different mandates and objectives, which has been an on-going challenge to the cooperative management of the CTF. Telefilm Canada, which administers the EIP, has a much broader range of objectives and a mandate which includes a focus on the feature film industry, new media, as well as distribution and marketing, and training and professional development

For example, Telefilm Canada's mandate includes encouraging regional production and has resulted in Telefilm establishing regional offices. Consequently the EIP must bear this concern in mind in its allocation of funds while the LFP has no such imperative. While the EIP does not have regional envelopes per se, the allocation of funds to each of its regional offices has created de facto regional envelopes, sometimes referred to as targets. These genre allocations are roughly based on the percentage of the population in the region served by the office.

Telefilm Canada does have a regional envelope for feature films<sup>1</sup>. The fact that a regional envelope exists for film but not for the EIP can cause confusion for applicants, as both programs are administered by the same people.

Telefilm also has a specific corporate goal to support Small and Medium Enterprises (SMEs). Smaller, regionally-based producers who have had dealings with Telefilm expect both CTF programs—the EIP and the LFP—to support this mandate. When they don't, there is increased frustration and confusion about the “real” mandate of the CTF.

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<sup>1</sup> *Equity Investment Program, Policy Guidelines 1998-99, page 6.*

Telefilm Canada's objectives are currently diffused. Its responsibility to support the feature film industry, which operates in a much different context than the television production industry, gives rise to practices that are not wholly consistent with those of the CTF in general. Similarly, its requirement to meet a wider range of public policy objectives creates tensions with some of the objectives of the Fund.

One of the areas that has caused some confusion relates to Telefilm's mandate for administering the certification of television programs and films under Canada's co-production treaties. This certification role is separate from the EIP role of cultural investor in such programs. Applicants for international co-production projects can receive both the LFP and EIP. Because the four ERs can limit Canadian co-producers ability to close international co-production deals, the Fund used to rank applications to the co-production envelope by their degree of congruity with the spirit of the ERs. However, the co-production envelope no longer exists, and all new co-productions must now meet the four ERs.

## **B. Different guidelines and procedures**

There have been a number of efforts in the past few years to better coordinate the guidelines and procedures between the two programs that make up the CTF. As a result there is now one application form and linkages have been made between the two programs. Nevertheless, there are still significant differences.

For example, the allocations between the genres are different for the EIP and LFP. Each year the Board of the CTF sets envelopes for each genre of programming based on the previous year's demand and the results of consultations with producers and broadcasters. The EIP also has the flexibility to vary these percentages in that 90% of its budget must be spent in accordance with these allocations. The organization has the flexibility to spend the remaining 10% in accordance with Telefilm's Business Plan objectives.

The evaluation of applications for funding differ by organization as well, with the EIP applying a much more rigorous approach to its analysis and at the same time, in the view of a number of stakeholders, being more subjective and less transparent in its decision-making. The LFP, on the other hand is considered to be much more objective, too much so in the view of some stakeholders.

As has been pointed out elsewhere, many stakeholders believe that the LFP is more objective in its approach and the EIP more subjective. Whether these perceptions are accurate or not, they point to the fact that the processes used by the EIP and the LFP are different. Some of our interviewees suggested that it was not only the guidelines that account for these differences. The staff who were responsible for the decisions influenced the outcomes more than is desirable. Many staff of Telefilm Canada have been employees of long standing which provides a good deal of industry knowledge, experience and corporate history. Unfortunately long tenure can also lead employees to becoming somewhat "set in their ways" and developing a sense of ownership for the monies administered. A number of interviewees even suggested that it was possible to tell who had worked on the file based on the nature of the final project (story line, degree of introspection in the project).

## C. Locations

Our interviews indicated that the French language production industry is decidedly more comfortable with the EIP program and the Telefilm Canada administration. Obviously, the proximity of Telefilm Canada's offices to the offices of Montreal producers has been a key factor in the development of this comfortable relationship.

The LFP is perceived as an anglophone organization with a lesser capacity to meet the needs of the francophones in the industry. Although documents can be provided in French, there is a perception in the French-language production industry that the LFP is a Toronto-based, anglophone organization.

Despite a regular consultation process with both broadcasters and producers in all regions of the country, the LFP does not have a regional resident presence. Some producers indicated to us that this makes it more difficult to access decision-makers. This in turn causes regional producers to feel disenfranchised. Regional Telefilm staff have not filled this void, in spite of the fact that they could operate as the regional arm of all CTF programs. Instead, regional Telefilm Canada offices operate as regional representatives of all of the programs operated by Telefilm Canada, including the EIP. While it is true that the forms and information packages for both programs are available at the regional offices, none of the stakeholders we interviewed perceived these offices as representative of the CTF, much less the LFP.

## D. Duplicate infrastructure

Two administrations are both inefficient and costly<sup>1</sup>. Duplicate infrastructure costs, including office space and administrative overhead (e.g., two payroll administrators, multiple receptionists, two financial systems) are not justified for an industry of this size. Telefilm has offices across the country which administer the EIP and the other Telefilm programs. The size of these regional offices raises some questions, but the fact that there is little co-operation between the two programs in the regions, exacerbates the situation and raises further questions about the effectiveness of the two infrastructures.

## E. Lack of clear accountability

Accountability is not clearly established. Telefilm Canada is in the unenviable position of serving two masters: its own Board and the CTF's Board. This also creates difficulties for the CTF Board since parts of the Fund's administration are out of their hands and/or beyond their

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<sup>1</sup> *The administrative costs identified by Telefilm Canada for the EIP (\$2,599,079 as reported in the 1998-99 Activity Report) are lower than those of the LFP (\$3,273,193 as reported in the 1998-99 Activity Report). This contradicts the general perception that is held that EIP administrative costs must be higher than the LFP costs because the EIP recoupment and creative assessments and business analysis are not required by the LFP. The existence of regional offices would also suggest that EIP administrative costs are higher than those reported. Short of conducting an activity-based costing analysis, we cannot clarify the discrepancies.*

control. Stakeholders have indicated to us that this can make it difficult for the CTF Board to ensure that both components of the Fund are adhering to the same policy direction.

The lack of clear accountability can be seen in day-to-day operations. Some Telefilm staff are involved with programs other than the CTF—that is, they work on both the EIP and Telefilm programs. Therefore, establishing the costs of administering the EIP component of the Fund is extremely difficult. In fact, inquiries in this regard result in approximations only. In our view accountability requires the provision of costing information. Most observers believe that the cost of administering the EIP is justifiably higher than the cost of administering the LFP. This is attributed in part to the cost of recoupment and the detailed analyses of program proposals undertaken. We are not suggesting that detailed analysis is not required. In fact we believe it is essential, as is the effort to recoup on investment. We simply suggest that the cost of conducting the analysis and administering the EIP should be accurately tracked and reported, to ensure that the accountability link is closed.

## **F. Confusion in the minds of stakeholders**

There is confusion about the name and the administration of the Fund. The CTF is viewed by most people as the LFP; the names are often used interchangeably. The EIP is often considered to be Telefilm Canada.

## **G. Conclusions and recommendations**

The CTF is the result of the amalgamation of the Cable Production Fund and the Canadian Broadcast Development Fund which had been administered by Telefilm. It is at best an awkward and cumbersome structure with a number of disadvantages and inefficiencies.

### **Recommendations**

- We recommend that one new organization be established to administer the CTF.
- We recommend that Telefilm Canada retain responsibility for the certification of film and television co-productions. In addition, Telefilm should retain responsibility for all funding mechanisms dealing with film including those that fall under the ambit of the CTF. Telefilm should also continue to administer its new media fund and the many other activities they carry out in support of the film and television industries.
- We recommend that the new structure have a regional presence. We suggest that consideration be given to establishing store front offices that can provide advice, interpretation and assistance to producers. Assessment of applications should be done centrally, as this would speed up the assessment process, eliminate any assumptions that there were regional envelopes, and be less costly.

- We recommend that a staffing plan for the new administration (which would consist of staff from both the existing EIP and LFP) be developed that provides a better mix of experience and fresh ideas. Experienced analysts could provide the necessary corporate memory, while new staff can bring fresh ideas and experiences to the table. The Fund should implement processes that allow the CTF to benefit from the expertise of tenured staff while avoiding “ownership behaviours” that ultimately limit innovation.

## **H. Summary of benefits of one organization to administer the CTF**

The most significant benefit of creating one organization to administer the CTF is improved accountability. One Board, responsible for providing direction, would ensure that all efforts are directed towards the achievement of one mandate and one set of objectives.

Secondly, the focus of the Canadian Television Fund would be solely on television. The CTF was established to support television production, which represents the largest share (61%) of the \$3B film and television production industry in Canada.<sup>1</sup> It deserves the attention that one organization with a clearly established mandate can bring to it.

Third, one organization dedicated to television would help eliminate the confusion that now exists with respect to goals, regional allocations and processes.

Lastly, the creation of one organization would help reduce administrative duplication. This may not result in a reduction in costs as two separate organizations would continue to exist, each with a regional presence, but it would ensure that the costs of administering the two programs—the CTF and Telefilm Canada—were clearly accounted for and reported upon. More importantly, one organization with regional offices focused on television producers would improve service to clients.

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<sup>1</sup> CFTPA/APFTQ, *The Canadian Film and Television Production Industry, A 1999 Profile, February 1999*. Figures presented are for 1997-98.

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## VII

### *The Need For The Fund*

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The CTF does not exist in a vacuum but rather is part of a complex web of support mechanisms that ensure that Canadians have access to programming of relevance to them. These include various regulatory requirements for Canadian programming as well as a variety of federal and provincial supports for the industry—both tax based and in some cases, grants or equity. In addition, there are a number of private funds, which exist due to the CRTC’s “benefits” test.

They serve different and in some cases overlapping purposes—some are more oriented to support regional or national employment; others focus on industry building and still others support narrowly focused types of program genres.

Given the existence of these other support mechanisms, is there a continuing need for the CTF? This chapter begins with a summary of the factors that have an impact on Canadian television production, and ends with the conclusion that the CTF is essential to the production of Canadian programs that speak to Canadian values and themes.

#### **A. Canadian content regulations and the capital cost allowance**

The CRTC enacted a regime of Canadian content regulations early in its existence to give expression to the Broadcasting Act’s requirement that the programming of the Canadian Broadcasting system make predominant use of Canadian creative and other resources. Parliament made it very clear both in the 1968 Act and in the amended Act of 1991 that the Canadian system serves important public policy goals. For example, Section 3(1) (b) of the 1991 Act states “the Canadian broadcasting system ... provides, through its programming, a public service essential to the maintenance and enhancement of national identity and cultural sovereignty.”

In order to develop regulations requiring the broadcast of quotas of Canadian programming, it was necessary to define a Canadian program. At the same time, the federal government provided a tax allowance to investors in Canadian programs. The Canadian Audio-Visual Certification Office also developed a definition of a Canadian program. While there are important differences in the definitions, both defined a program by the creative and craft positions occupied by Canadians. While this allows a reasonably objective decision as to what constitutes a Canadian program, it does not ensure that the resulting program contributes to national identity or cultural sovereignty directly.

However, the important result of this approach was to ensure the development of a corps of skilled Canadian writers, directors and other crafts people and the development of companies



with the expertise to arrange financing and negotiate all of the various aspects of program production. If anyone were to produce programs that would speak to Canadian values, it would most likely be Canadians, whether in the independent production industry or working in the broadcasting industry or at the National Film Board.

It is worth noting that the CRTC indicated its intention to broadcasters (conventional, pay and specialty) that it will continue to have specific Canadian content requirements, both as a condition of licence and in general regulations. This will, according to the CRTC, continue to create a demand for Canadian content productions.

## **B. The federal film and video tax credit**

The federal government followed the lead of a number of the provinces and changed the Capital Cost Allowance to a labour-based tax credit in the early 1990s. After extensive consultation with broadcasters, producers and stakeholders the government introduced modifications to the definition which had the effect, *inter alia*, of ensuring the control of program ownership and ongoing exploitation of underlying rights by Canadian production companies. These companies were then in a position to make use of the cash flow from the on-going use of their programs both in Canada and abroad. Along with their financing and distribution activities, this enabled Canadian companies to grow to a size that improved their access to capital markets, whether by becoming public companies, having access to bank lines of credit and other instruments, or both.

These changes did not guarantee that the programs produced would speak to Canadian themes. In fact, many of the programs receiving federal film and video tax credits are intended for broadcast both domestically and abroad, and as a result are less likely to be distinctively Canadian. Nonetheless, the tax credit program ensured that solid Canadian companies would flourish and that new ones would emerge.

## **C. Provincial tax credits and other programs**

Provincial tax programs provide an additional source of funding for distinctively Canadian projects, however, tax credits on their own are not an adequate source of support. They should be considered as a complementary program of the CTF.

The most successful of the tax credit programs and one that has served as the model for many other similar programs has been the *Crédit d'impôt* put in place by the Government of the Province of Québec. It is a labour-based tax credit that is automatic if the criteria are met. It has had the effect of ensuring the development of Québec-based companies and has increased employment of Québec creators and technical people. Because of the unique nature of Québec television, where domestically produced programs dominate, many of the resulting programs are culturally relevant and specific. But they are not required to be so to qualify. Furthermore, the degree of support is not sufficient to ensure the production of high production value, culturally specific programming alone.

Most other provinces have tax credit or other programs to support film and television production. None have requirements for the resulting programs to be culturally relevant or to speak to

regional themes and concerns. In a few cases, there are tax credits in place that do not require Canadian financial or creative control. These programs serve an important function in building regional infrastructure by supporting companies and providing employment across the country. As in the case of the Québec tax credit program, the amount of support is not high enough to eliminate the need for other support to ensure the production of the program. If the program is culturally specific and distinctively Canadian, the need for additional support is usually even higher as the exportability of such programs is often lower than for those with more international themes.

## **D. Public broadcasting and production**

There are a number of publicly funded broadcasters in the country. The CBC is of course, the largest and has always played an essential role in providing an expression of Canada's national identity. In fact, it is specifically mandated to do just that by the Broadcasting Act in Section 3 (1) (m).

At one point in its existence the CBC was to all extents and purposes the only broadcaster providing distinctively Canadian programming in categories other than news, public affairs and sports. The Corporation produced substantial amounts of drama and high quality children's programs along with internationally recognized documentaries in its own studios. It also acquired some programming from the independent sector.

However, with the growth of the private broadcasting and production sectors, the CBC was no longer the "only game in town". The need for successive governments to deal with burgeoning public deficits and debt has meant a shift in orientation resulting in CBC budget reductions. The Corporation's ability to finance the same wide range of programming as in the past, and in particular, in categories where the private independent production sector excels, has greatly diminished.

Yet the Corporation remains an important exhibitor of Canadian programming with the on-going Canadianization of its schedule. Nonetheless, the Corporation can no longer be sole producer of most kinds of programming but must seek out private partners, whether in the production community, other public broadcasters or private domestic broadcasters to be able to maintain its tradition of high quality culturally relevant programs.

Provincial educational broadcasters also provide significant amounts of culturally relevant programming. Given the relatively modest budgets that they work with and their primarily educational mandates, they have not been active in the area of high budget drama or feature film. However, they are active in the commissioning or acquisition of high quality children's, educational and documentary programs. In many cases these are distinctively Canadian but given their limited resources, these broadcasters are not able to underwrite big budget Canadian programming by their licence fees only.

The National Film Board was created with the mandate of producing films that would speak to Canadians of Canadian themes and to advance the state of film-making in Canada. Through its work in its own studios and in co-production with Canadian independent filmmakers and broadcasters as well as with foreign partners, the Board was instrumental in developing a

generation of film producers, directors, writers and craftspeople with particular emphasis on documentary and animation films. These productions, while not primarily directed to the small screen have provided many hours of programming for television and in particular for specialty broadcasters. However, the Board's means are limited and it also had to deal with fiscal restraint.

## **E. Private funds**

There are a number of independently managed funds that support program production in a variety of manners. They are described in greater detail in Chapter II. Most of these funds have resulted from regulatory requirements. In some cases, they resulted from the CRTC's requirements that applicants for the acquisition of existing stations provide public benefits commensurate with the size of the transaction. In other cases, broadcast distributors started these funds as third party programs to receive a portion of the programming funds that they are required to provide under the Broadcasting Distribution Regulations.

These funds provide equity investments, grants and bridge financing to program producers and often are specialized in specific genres of programming, such as children's, long form drama, feature films or documentaries. In some cases, their activities are similar to one or other of the programs of the CTF. However, none of them has the resources to supplant the CTF. Moreover, many of them depend on the business case review done by the EIP to make their own decisions on investment.

As is noted elsewhere in this report, these funds are often required to change their plans in order to keep up with changes in the CTF's criteria or schedule. They are important players and can involve themselves in support of individual programs in a way that a publicly funded agency cannot. But at the same time, they are not as essential to the provision of distinctively Canadian programs as is the CTF, nor do they require that programs be distinctively Canadian to be eligible.

## **F. Stakeholder feedback**

In our interviews with producers and other stakeholders, we asked the interviewees to rank the importance of various support mechanisms as follows:

- the Canadian content regulations
- the Canadian Television Fund
- public broadcasting
- tax credits, and
- provincial and other programs.

With very few exceptions, the interviewees identified the presence of the Canadian content regulations as the most important support for Canadian programs. As one producer put it, "without them broadcasters would not spend a cent on Canadian acquired programs." Another producer who did not choose the regulations as the most important element, nonetheless indicated that they were like the wallpaper in the industry and therefore were taken for granted.

The second most important support was generally seen to be the Fund. One producer who chose it as the most important stated that the Fund “ensures high quality and therefore that programs will be watched and possibly exported”. While some stakeholders also identified the tax credit programs and the other programs as important additional supports, the general comment was that the CTF was essential to creating high quality Canadian programs.

In addition, we asked interviewees to assess the impact of removing the Canadian content regulations while keeping the Fund and the impact of removing the Fund while keeping the Canadian content regulations. Generally interviewees indicated that without the Fund, broadcasters would be forced to air programs with less of a Canadian focus. The need for foreign pre-sales would mean less creative and financial control by the Canadian producer resulting in programs whose first market was not Canada.

Conversely, without the Canadian content regulations but with the Fund’s continued existence, most stakeholders felt that broadcasters would do many fewer Canadian programs and that the CBC would be the only place with a decided Canadian focus in its non-news, non-sports programs.

## **1. Fewer productions without the CTF**

When asked about specific projects, most producers identified projects they would not have been produced without CTF funding. Producers indicated that they would produce 50-70% fewer productions without the CTF. Others indicated that they would not be able to continue to work in a given genre (e.g., documentaries) without the CTF. Still others indicated that they would not be producing any projects without the CTF.

Additionally, producers interviewed indicated that there would be less foreign distribution without the Fund and that productions that did not receive CTF funding would be less Canadian because of the requirement for greater foreign investment. The resulting foreign investment would diminish Canadian creative control and consequently affect the overall Canadian content and Canadian resources used in production. Moreover, there would be less Canadian financial control resulting in less revenues to these companies to initiate additional programs.

## **2. Fewer co-productions without the CTF**

Interestingly, some producers also indicated that there would be much less co-production without the CTF. CTF funding allows producers to bring money to the table in discussions with international co-producing partners, thereby providing bargaining power and allowing for maintenance of creative control. Increased creative control results in an ultimately more Canadian cultural product.

Without the Fund the industry would have to rethink its business from scratch. A resulting new production industry would most likely have a strong non-Canadian market orientation.

### 3. The broadcaster perspective

According to broadcasters the industry has succeeded in maximizing the value of the \$200M in funding by producing distinctly Canadian productions—with amazingly high standards. Quality drama especially, is expensive and without the Fund it would be next to impossible to produce high-end distinctly Canadian series, including most of the current Canadian drama productions. Ninety percent (90%) of the Children’s projects that one broadcaster was involved in were supported by the CTF and in particular the LFP. This current concentration on the distinctly Canadian productions is proving to be an effective strategy, but one that requires continued support—building an audience takes years.

Removing the Fund from the industry would destroy the current momentum for stronger and stronger Canadian productions. Without the Fund the industry would still be producing Canadian shows, but we would get more industrial-style shows that target foreign broadcasters and distributor participation. Any remaining distinctly Canadian productions would inevitably have lower budgets, producing programs with lower production values and lower overall quality.

Without the Fund certain popular Canadian productions would not exist, e.g., *This Hour Has 22 Minutes*, *North of 60* and *Omerta*. For this reason, some broadcasters not only feel that the Fund should be maintained, but that it could be expanded to produce a more permanent commitment to television programming.

## G. Conclusions

Without all of the elements of the puzzle being consciously put in place, Canada has constructed an elaborate system of mechanisms to ensure its cultural sovereignty. Nowhere has this been done with more success than in the television production area. Three key constructs were put in place over the years to ensure the building of an infrastructure.

1. Broadcasting and film production through public agencies such as the CBC, the NFB and provincial educational broadcasters.
2. A “pull” through requirements for Canadian content on private broadcasters. The construction of a function based definition of a Canadian program ensured the development of a critical mass of Canadian creative and technical expertise.
3. Government funding mechanisms have, by insisting upon creative and financial control of programs and associated rights, helped create companies with the resources to undertake ambitious projects.

But infrastructure is not in itself enough to ensure that distinctly Canadian programming in all categories will be produced. The individual creative and craftspeople can make good careers in service productions undertaken for foreign companies where Canadian locales serve as stand-ins for foreign sites. Similarly, Canadian companies can make programs with Canadian talent aimed as much or more at foreign markets as at the domestic market.

It is only by providing funding for individual programs that speak to distinctively Canadian concerns, experiences and themes that companies will be interested in directing their efforts to such programs, given that production for the larger foreign markets can be much more lucrative. Furthermore, since presales to such markets are less likely for such programs than for more internationally focused ones, the budgets must be based to a considerable extent on recouping their costs in Canada—inevitably requiring broadcasters to pay higher licence fees. While many broadcasters are willing to pay slightly higher fees for such high quality programs that are attractive to Canadian audiences, there are limits to their ability to do so.

The CTF provides this incentive to both producers and broadcasters to provide such programs to Canadians. While all of the other mechanisms also play an important role in ensuring the demand for such programs and the expertise to produce them and are also important parts of the funding puzzle, only the CTF speaks essentially to the cultural imperative.

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## VIII

### ***Measuring The Performance Of The Fund***

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One of the objectives set for this review was to determine “how different statistical sources of information (CRTC, CBC, Statistics Canada) could be used to periodically provide Canadian Heritage and the CTF with relevant information on the impact of the CTF”. In consultation with the Steering Committee for the review, we agreed to devote the majority of our analysis and research to answering the other four review objectives. As such, our findings regarding performance measurement are preliminary in nature and provide a starting point for more detailed investigation and design of an integrated data collection and performance reporting system.

#### **A. Potential performance measures and data collection requirements**

Performance measurement provides a tool for assessing the progress of a program in achieving its defined goals and objectives. In doing so it provides managers and stakeholders with an understanding of how value is created and at what cost. Good performance measurement frameworks contain a relatively small number of performance measures (“the critical few”) that are clearly linked to the program objectives, focused on the key performance issues, and are actionable, timely, valid and reliable, and readily understandable.

Our experience in analyzing the performance and impacts of the CTF shows that it has some way to go in developing its performance measures. Current performance information is often either highly disaggregated, inconsistently maintained or difficult to obtain on a timely basis. In addition, it was not feasible to undertake a detailed macro-economic analysis of the CTF’s performance and impact, primarily because of the relatively short time the Fund has been in existence and the limited availability of up-to-date statistical data for input to various elements of the analysis.

Looking to the future, the selection of appropriate performance measures for the CTF can be facilitated by identifying the critical success factors associated with each of the objectives. In other words, it is necessary to identify those things that the Fund must do extremely well, and the issues that have the potential to block or enable successful achievement of the objectives. A related consideration is the need to obtain a balanced view of the various contributors to overall performance—to understand and observe the relationships between inputs, outputs and outcomes—and the Fund’s overall effectiveness.

Exhibit VIII-1 summarizes our assessment of the critical success factors associated with the achievement of the Fund’s objectives and proposes a series of associated performance measures.

We have used the objectives stated in the contribution agreements with Telefilm Canada and the Canadian Television Fund as the starting point for the selection of the performance measures.

In reviewing the measures it should be noted that the majority of the required data would be collected on an ongoing basis and reported annually while the remainder are based on review and evaluation research that we expect would be conducted on a periodic basis, probably every 2-3 years. In all cases, it will be important to establish baseline measures so that the Department and the CTF have a basis for reviewing and assessing trends in the Fund's impacts and benefits. Establishment of a project-based system to manage commitments, disbursements and recoupment rates for LFP and/or EIP supported projects would also facilitate tracking of the CTF's financial performance.

Data for these performance measures will need to be compiled from a variety of sources, principally:

- Information submitted by applicants for funding from the Fund.
- LFP and EIP administrative data.
- CAVCO data.
- CRTC data collections, e.g., the *Television Statistical and Financial Summary*.
- Statistics Canada surveys, e.g., principally the annual Film, Video and Audio-Visual Production Survey.
- Television audience measurement services, e.g., AC Nielsen and BBM.
- Data collections by industry bodies, such as CFTPA/APFTQ.

In a number of cases—most notably related to measures of audience size and audience per dollar of production expenditure—it is necessary to develop a consistent and agreed basis for measuring and analyzing audience size and characteristics. In other cases, modifications to data collection and submission requirements, forms and data tabulations will be necessary to ensure that it is possible to separately identify CTF-supported activities, where appropriate, and to monitor the performance of the industry and funded productions. Follow-up discussions with the various organizations represented on the above list will be necessary prior to finalizing the choice of performance measures to confirm the suitability of the proposed measures and the cost and feasibility of obtaining information in the form required.

In order to ensure that CTF has access to the data it needs to measure the performance of the Fund, some means of ensuring that producers have submitted information to Statistics Canada is needed. We understand that many producers, particularly smaller ones, do not submit information on employment, costs of productions, etc. It would be worthwhile to get the provincial governments on side with an initiative that would require producers to demonstrate that they have submitted all prior year data to Statistics Canada when applying for a tax credit or CTF funding. The provinces too may be interested in tracking the impact that their funding has.





**Exhibit VIII-1  
Potential performance measures for the CTF**

Fund Objectives	Critical Success Factors	Potential Performance Measures	Current Availability	Types of Measures
<p>1. To increase the broadcast presence of high-quality Canadian programs including Canadian television programming in both official languages and by both the majority and minority official language production sectors.</p>	<ul style="list-style-type: none"> <li>• Increasing the broadcast exposure of Canadian programs to Canadians.</li> <li>• Enhancing the quality of Canadian programs.</li> <li>• Improving understanding of trends in viewer and community preferences.</li> <li>• Improving understanding of trends in production costs.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Number of applications received, by genre and language.</li> <li>◆ Number of productions supported and value of support provided (distribution of amounts allocated, by value ranges), by genre/language.</li> <li>◆ Number, value and proposed hours of programming of non-funded applications that did, or did not, subsequently proceed.</li> <li>◆ Hours of CTF-funded programming, by genre/language and broadcaster.</li> <li>◆ CTF-funded programming’s share of total programming hours, by conventional/specialty channels and genre/language.</li> <li>◆ Audiences for CTF-funded productions, and audience share/rankings, by genre/language.<sup>1</sup></li> <li>◆ Average value, and size distribution, of CTF funding per hour of production supported, by genre/language.</li> <li>◆ Audiences for CTF-funded productions, and audience share/rankings, by genre/language.<sup>1</sup></li> <li>◆ Audience per dollar of expenditure on CTF-funded productions — CTF funding and total funding, by genre.</li> <li>◆ Awards and critical acclaim for CTF-supported productions.</li> <li>◆ Feedback from research into Canadians’ viewing preferences, by genre/language.<sup>2</sup></li> <li>◆ Findings from research into community attitudes toward and the perceived value of Canadian programming.<sup>2</sup></li> <li>◆ Trends in overall production costs (e.g., per hour of programming produced), by genre/language.<sup>2</sup></li> </ul>	<p>Available</p> <p>Available (CTF, Telefilm)</p> <p>Data available; not compiled</p> <p>Available (CTF, Telefilm)</p> <p>Partially available</p> <p>Not available</p> <p>Data available; not compiled</p> <p>Not available</p> <p>Not available</p> <p>Available</p> <p>} Not available on a regular basis (CRTC study in 1998)</p> <p>} Some data available; not compiled</p>	<p>Input</p> <p>Output</p> <p>Output</p> <p>Outcome</p> <p>Outcome</p> <p>Outcome</p> <p>Output</p> <p>Outcome</p> <p>Outcome</p> <p>Outcome</p> <p>Outcome, Explanatory</p> <p>Outcome, Explanatory</p>

<sup>1</sup> Measure of responsiveness to two success factors.  
<sup>2</sup> Obtained from periodic review and evaluation studies.

Fund Objectives	Critical Success Factors	Potential Performance Measures	Current Availability	Types of Measures
<p>2. To enhance the Canadian broadcasting and production sectors' capacity to produce and distribute television programming.</p>	<ul style="list-style-type: none"> <li>• Contributing to a viable and competitive production sector.</li> <li>• Achieving leverage on the amount of CTF funding provided to increase overall production funding.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Trends in the volume, value and composition of production work undertaken by the Canadian production sector (television production work plus other sources of revenue, e.g., films, advertising production, training films/videos, etc.).</li> <li>◆ Trends in the number of production companies, by size range (based on value of production).</li> <li>◆ Trends in operating profits as a percentage of revenues.</li> <li>◆ Regional and provincial breakdowns of companies and production revenues.</li> <li>◆ Trends in the composition of production funding—licence fees, LFP, EIP, tax credits, private investments, distributors, foreign pre-sales and co-productions.</li> <li>◆ Level of EIP recoupment:               <ul style="list-style-type: none"> <li>- Amount/% recouped in current year</li> <li>- Cumulative amount/% of EIP advances recouped.</li> </ul> </li> </ul>	<p>} Partially available; needs further analysis (CAVCO, Stats Can and <i>Playback</i> surveys, CTF, Telefilm, CFTPA/APFTQ)</p> <p>} Partially available; needs further analysis (CAVCO, Stats Can and <i>Playback</i> surveys, CTF, Telefilm, CRTC, CFTPA/APFTQ) Available Data available, not compiled</p>	<p>Outcome</p> <p>Outcome</p> <p>Outcome</p> <p>Outcome</p> <p>Output, Outcome</p>
<p>3. To create increased employment.</p>	<ul style="list-style-type: none"> <li>• Increasing the level of employment in the sector and supporting/dependent sectors.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Trends in the level of employment and composition (full-time, part-time, freelance, working proprietors).</li> <li>◆ Regional and provincial breakdowns of employment.</li> </ul>	<p>} Partially available; needs further analysis (Stats Can)</p>	<p>Outcome</p> <p>Outcome</p>
<p>Efficiency and effectiveness of the Fund's administration.</p>	<ul style="list-style-type: none"> <li>• Keeping administrative costs to an optimal level.</li> <li>• Improving understanding of the impact of alternative selection processes.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Administrative costs as a percentage of total fund expenditures and allocations.</li> <li>◆ Administrative cost per supported production.</li> <li>◆ Elapsed time from submission of applications to decision announcement, by LFP and EIP.</li> <li>◆ Producer and broadcaster satisfaction with criteria and selection processes.</li> <li>◆ Findings from research into the relative impact/contribution of criteria used and consistency and objectivity of the selection mechanisms/criteria used (e.g., via peer review).<sup>2</sup></li> </ul>	<p>} Data available; not compiled (CTF, Telefilm)</p> <p>} Not available on a regular basis Not available</p>	<p>Efficiency</p> <p>Efficiency</p> <p>Efficiency</p> <p>Effectiveness</p> <p>Effectiveness</p>

## Recommendations

- We recommend that a comprehensive performance measurement system be established and that information from this system be presented and discussed as part of the CTF's annual reporting.
- We recommend that Canadian Heritage and the CTF undertake further research into the refinement of the proposed performance measures and development of the underlying data collection and reporting methodologies.
- We recommend that companies receiving support from the CTF be required to provide data for use in the performance measurement and reporting system and, as a condition for receiving funding, that producers demonstrate that they have submitted all prior year data to Statistics Canada when applying for a tax credit or CTF funding.

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## IX

### **Summary Of Recommendations**

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- We recommend that the CTF be clearly established as a cultural fund rather than as an industrial fund or a combination of the two. A policy statement enunciating this cultural mandate should be issued.
- We recommend that the objectives of the Canadian Television Fund be clarified and reported on consistently.
- We recommend that the CTF enter into an arrangement with Nielsen and/or BBM to generate audience data on a continuing basis to the specifications of the CTF.
- We recommend that genre envelopes be maintained, but the amount of funding allocated to each genre be reviewed on a regular basis. The review should take into account market demand and audience delivered per dollar.
- We recommend that the reason for providing a high level of support to the drama genre, as well as the monetary and cultural returns expected from this investment, should be made clear.
- We recommend that the CTF modify its objectives related to regional production and regional job creation, replacing them with an objective that clearly supports the depiction of regional stories. Doing so would underline the cultural orientation of the Fund.
- We recommend that the quasi allocations of funds to the regions be eliminated.<sup>1</sup>
- We recommend that the Canadian Television Fund consist of one program.
- We recommend that the administrators of the new Canadian Television Fund, consisting of one program, have the flexibility of determining the appropriate funding mechanism for each application including licence fee top-up, equity investment, grants, loans, lines of credit or a combination of more than one mechanism.

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<sup>1</sup> Chapter V covers this issue in greater detail.

- We recommend that one new organization be established to administer the CTF.
- We recommend that Telefilm Canada retain responsibility for the certification of film and television co-productions. In addition, Telefilm should retain responsibility for all funding mechanisms dealing with film including those that fall under the ambit of the CTF. Telefilm should also continue to administer its new media fund and the many other activities they carry out in support of the film and television industries.
- We recommend that the new structure have a regional presence. We suggest that consideration be given to establishing store front offices that can provide advice, interpretation and assistance to producers. Assessment of applications should be done centrally, as this would speed up the assessment process, eliminate any assumptions that there were regional envelopes, and be less costly.
- We recommend that a staffing plan for the new administration (which would consist of staff from both the existing EIP and LFP) be developed that provides a better mix of experience and fresh ideas. Experienced analysts could provide the necessary corporate memory, while new staff can bring fresh ideas and experiences to the table. The Fund should implement processes that allow the CTF to benefit from the expertise of tenured staff while avoiding “ownership behaviours” that ultimately limit innovation.
- We recommend that a comprehensive performance measurement system be established and that information from this system be presented and discussed as part of the CTF’s annual reporting.
- We recommend that Canadian Heritage and the CTF undertake further research into the refinement of the proposed performance measures and development of the underlying data collection and reporting methodologies.
- We recommend that companies receiving support from the CTF be required to provide data for use in the performance measurement and reporting system and, as a condition for receiving funding, that producers demonstrate that they have submitted all prior year data to Statistics Canada when applying for a tax credit or CTF funding.

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## ***Appendix A***

### ***List of Interviewees***

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## *List of Interviewees*

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### **Producers**

Nathalie Barton  
Information  
Montréal, Québec

Neil Bregman  
Sound Venture Productions Ltd.  
Ottawa, Ontario

Kevin De Walt  
Minds Eye Pictures  
Regina, Saskatchewan

Stephen Ellis  
Ellis Enterprises  
Toronto, Ontario

Arnie Gelbart  
Galafilm Incorporated  
Montréal, Québec

Michael Hirsch  
Nelvana Ltd.  
Toronto, Ontario

Claude Jolicoeur et Vivianne Morin  
Motion International  
Montréal, Québec

Phyllis Laing  
Buffalo Gal Pictures  
Winnipeg, Manitoba

Ira Levy  
Breakthrough Film & Television  
Toronto, Ontario

Tom Berry  
Filmo Bandito  
Los Angeles, California

Luc Chatelain & Lucie Marion  
Amérimage-Spectra  
Sogestalt et Sogestalt 2001

Michael Donovan  
Salter Street Films Ltd.  
Halifax, Nova Scotia

Charles Falzon  
Catalyst Entertainment Inc.  
Toronto, Ontario

Ole Gjerstad  
Words and Pictures  
Montréal, Québec

Danny Irons  
Rhombus Media  
Toronto, Ontario

Julia Keatley  
Keatley Films Ltd.  
Burnaby, British Columbia

Michel Laliberté  
Tout Écran  
Québec City, Québec

Lorraine Richard  
Cité-Amerique  
Montréal, Québec



Michael MacMillan  
Alliance Atlantic Communications Ltd.  
Toronto, Ontario

Linda Schuyler  
Epitome Pictures Inc.  
Toronto, Ontario

Andy Thomson  
Great North Communications Ltd.  
Edmonton, Alberta

Glynnis Whiting  
Whiting Communications Ltd.  
Vancouver, British Columbia

Christopher Zimmer  
IMX Ltd.  
Halifax, Nova Scotia

## Other Stakeholders

Garry Toth  
Executive Director  
Canadian Television Fund

Andrée Wylie  
Vice-Chairman, Broadcasting  
CRTC

Corey Coe  
Legal Counsel  
Canadian Television Fund

François Macerola  
Executive Director  
Telefilm Canada

Elizabeth McDonald  
President  
Canadian Film & Television  
Production Association

Barri Cohen and Gary Marcuse  
Canadian Independent Film and Video  
Caucus

Michael Wernick  
ADM, Cultural Development  
Heritage Canada

Andra Scheffer  
Executive Director  
Independent Film and Video Fund

Guy de Repentigny  
Director  
Policy, Planning and Research  
Telefilm Canada

Sharon Blank  
Executive Director  
Shaw Children's Programming Initiative  
Calgary, Alberta

Laurier LaPierre  
Chairman  
Telefilm Canada

Jean Pierre Blais  
General Counsel, Broadcasting  
(now Acting Executive Director Broadcasting)  
CRTC

Richard Stursberg  
Chair

Elizabeth Friesen  
Director of Operations, Vancouver

Canadian Television Fund

Karen Franklin  
Director of Operations, Toronto  
Telefilm Canada

Normand Theauvette  
Director of Operations, Montreal  
Telefilm Canada

Rob Scarth  
Vice-President, Television  
Canadian Association of Broadcasters

Telefilm Canada

Bill House  
Director of Operations, Toronto  
Telefilm Canada

Ralph Holt  
Director of Operations, Halifax  
Telefilm Canada

Sandra Graham  
Vice-President, Public Affairs  
Canadian Association of Broadcasters

## Broadcasters

Slawko Klymkiw  
Programming Director  
English Television  
Canadian Broadcasting Corporation

Michèle Fortin  
Vice-présidente  
Télévision de langue française  
Société Radio-Canada

Paul Gratton  
Vice-President & General Manager  
Bravo! and Space  
Toronto, Ontario

Bill Mustos  
Vice-President, Drama  
CTV

Phyllis Platt  
Executive Director  
Arts & Entertainment  
English Television  
Canadian Broadcasting Corporation

André Provencher  
TVA

Joanne Levy  
Vice-President Programming  
The A Channel  
Alberta