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Study of the Decline of Foreign Location Production in Canada

March 2005

Department of Canadian Heritage

Canada

ISBN: CH44-62/2005 0-662-68990-9

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EXECUTIVE SUMMARY

Foreign location production generated 52,000 direct or indirect jobs in 2003-04. It represents a large sector of film and television production in Canada, or 39 percent of an industry totalling roughly $5B. Clearly, these are significant benefits for the Canadian production infrastructure. However, between 2002-03 and 2003-04, the foreign location production sector experienced a one percent decline, by volume (i.e., dollars spent in Canada).

Indications are that the number of foreign location productions shot in Canada in 2004-05 will decrease to a greater degree. Unfortunately, the data available at the time of writing is incomplete. In the absence of an accurate and timely national reporting framework for the film and television production sector, the extent of the anticipated decline cannot be validated.

That being said, the factors that contributed to the decline in this sector last year include: sharp increase to the Canadian exchange rate; a U.S. reaction against so-called "runaway" production and the implementation of competitive state incentives; increased global competition; and external factors and trends, such as the SARS scare in 2003, reality television, and in the case of key production centres, competitive provincial incentives.

The Canadian film and television industry benefits from foreign location production to the extent that the activity generated by this sector helps to enhance and sustain Canada's world-class infrastructure. Canadian producers, technical crew and infrastructure-related facilities and services benefit tremendously from foreign location production. Indirect services provided by hotels, restaurants, transportation companies, etc. also benefit. However, Canadian creators—our directors, actors, writers, editors, musicians and set designers—benefit only marginally from this sector of production activity, if at all.

As of late 2004, early 2005, Ontario, Quebec, British Columbia, Nova Scotia and Manitoba all increased their respective tax incentives for foreign location production. It is expected that these more competitive rates will help to stem the decline experienced recently. In effect, current and anticipated levels of production in these provinces for 2005-06 are positive at the time of writing.

1. INTRODUCTION

1.1 Objective of the Study

There have been reports of a decline in foreign location film and television production in Canada since 2003. At the request of the Minister of Canadian Heritage, the Department undertook a study in December 2004 of foreign location production in Canada. This study seeks to determine:

i) the extent of the decline in this sector, by volume (i.e., the total production costs spent in Canada) and by activity (i.e., the number of projects electing to locate here); and

ii) how the Canadian film and television production industry was affected by the decline.

1.2 Methodology

To provide the most comprehensive assessment of Canada's foreign location production sector, this study analyzed several key sources of data and information, including federal, and provincial association and film commission statistics. Key stakeholder groups contributed their perspectives as well as assessments of the causes and recommended solutions.

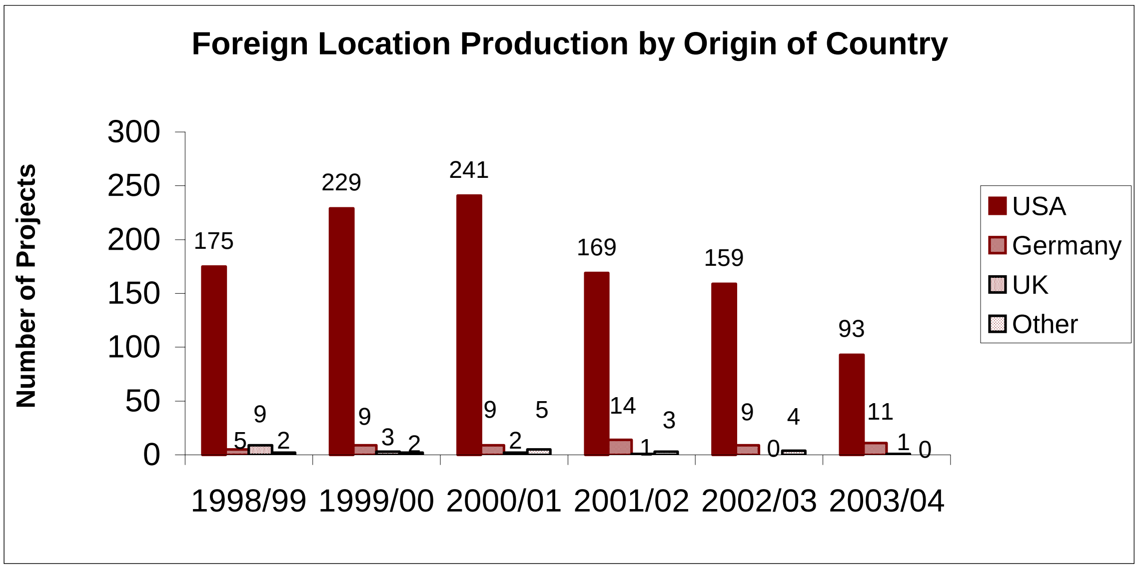
However, the statistics available at the time of writing did not include a complete account of figures for 2004, due to the manner in which the data is collected at both the federal and provincial levels. Moreover, federal and provincial data are not collected in the same way, nor are definitions applied consistently. For example, many provinces tend to report on production trends for a given calendar year, whereas key federal sources report data based on trends over the fiscal year, ending March 31. As a result, while every effort has been made to present only those statistics which can be validated, the conclusions drawn in this report are unavoidably based on incomplete information. That being said, the drop in service production in 2004 is thought by some to represent the most dramatic ever.

A list of source material can be reviewed in Annex A –Sources.

2. DEFINITION OF FOREIGN LOCATION PRODUCTION IN CANADA

Foreign location or service production is film or video production taking place in Canada, but financed by a non-Canadian owned and controlled company. This report uses the terms interchangeably. With service production, the foreign producer retains the copyright and creative control, but Canadians benefit from the direct and indirect jobs and economic activity created. The majority of foreign-service production originates with U.S. decision makers. However, foreign location production may also originate in other countries, most typically Germany and the United Kingdom (U.K) (see Figure 1).

Figure 1



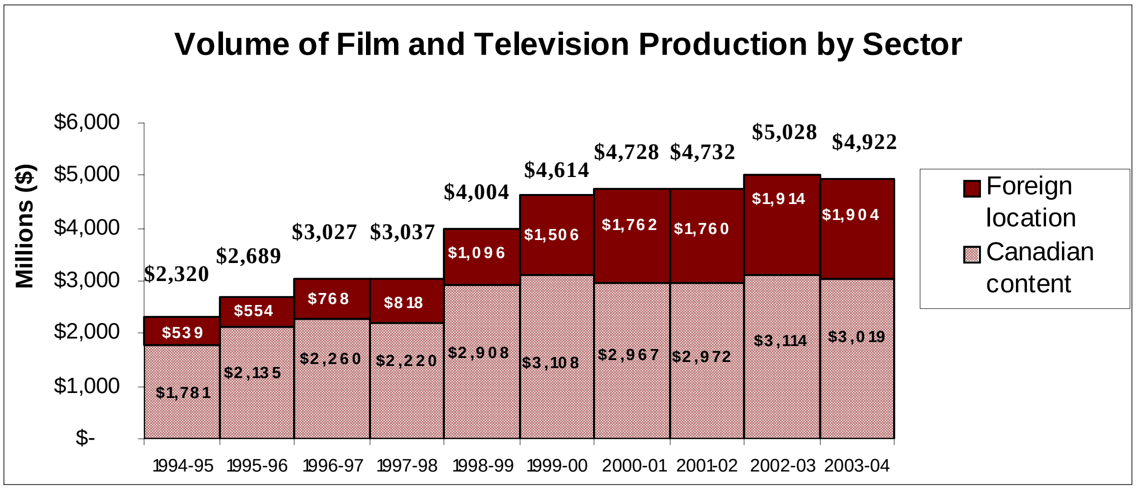
Source: CAVCO

Foreign service production includes pilots for television series, made-for-television series or movies of the week (MOWs) and films for theatrical release. The sector does not include official treaty co-production, which is considered Canadian content.

2.1 Economic Highlights

The foreign location production sector has exhibited the most rapid growth—roughly 350 percent over the past ten years, reports *Profile 2005: An Economic Report on the Canadian Film and Television Production Industry*, the annual publication of the Canadian Film and Television Production Association (CFTPA) and l'Association des producteurs de films et de télévision du Québec (APFTQ). (see Figure 2)[1].

Figure 2



Source: Economic Report on the Canadian Film and Television Production Industry (Profile 2005)

In 1994-95, foreign location production represented $539M, or 23 percent of all Canadian production volume. By 2003-04, foreign location volume had more than tripled to $1.9B, or 39 percent of all Canadian production volume.

2.2 Major Centres of Foreign Location Production

Historically, the majority of foreign services production gravitated to Vancouver, Toronto and Montreal. These production centres provided foreign producers with available, seasoned crews, supportive services like equipment rental and attractive studio and post-production facilities. Since the late 90s, competitive provincial incentives have resulted in impressive growth in a few smaller locales.

In 2003-04, the British Columbia (B.C.) region[2] held the largest share of foreign location production volume, or 65 percent of the total. Ontario had an 18 percent share, while Quebec took 10 percent. The remaining 7 percent was split between Manitoba with 4 percent and Nova Scotia with 3 percent (see Figure 3). Further analysis of each province's production activity levels and trends is set out in Annex C.

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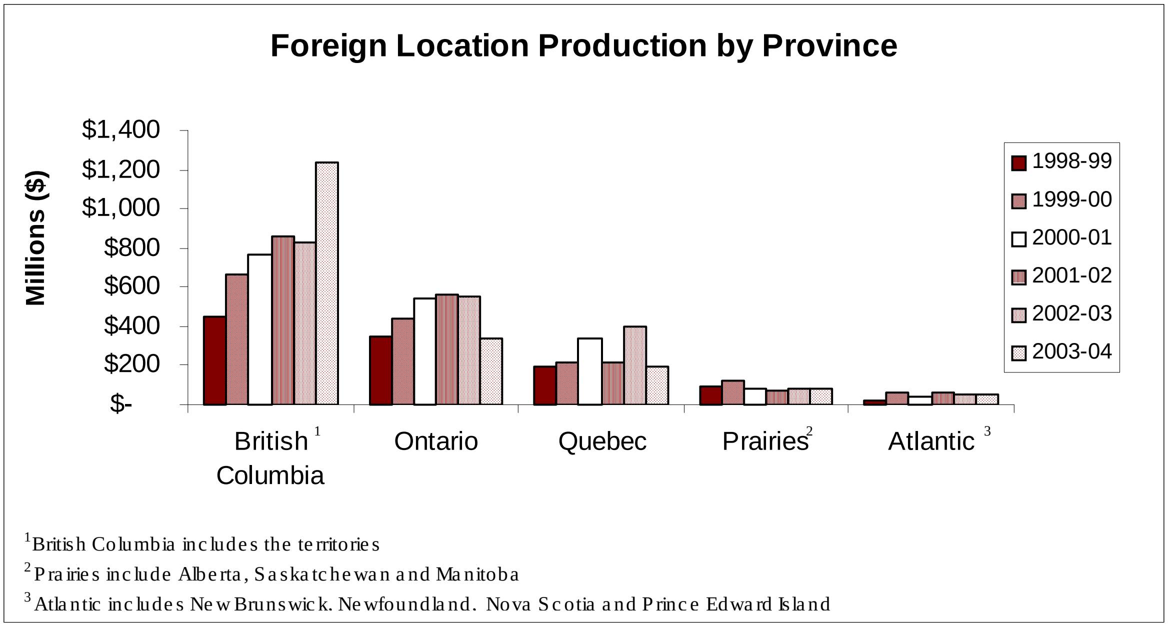
[1] Prior to 1994-95, there is little data about the sector.
[2] For reporting purposes, includes the three territories.

Figure 3



Source: Economic Report on the Canadian Film and Television Production Industry (Profile 2005)

In effect, several Canadian municipalities have established film bureaus, or commissions, to provide direct assistance to service productions, offering knowledgeable help with location scouting, reservations, city permits, etc.

Toronto and Montreal, for example, each have film commissioners who actively promote their cities as destinations of choice to producers from Los Angeles and elsewhere. In B.C., there are municipal film coordination offices in every region, each of which has its own set of guidelines for productions wishing to shoot in its jurisdiction. There are also municipal commissions in Edmonton, Calgary, Yarmouth, Gander and several other Ontario and Quebec cities, including Hamilton, Ottawa and Quebec. Clearly, the economic impact of film and television production is important to many municipalities.[3]

[3] Association of Film Commissioners International.

3. BENEFITS OF FOREIGN LOCATION PRODUCTION TO CANADA

3.1. Infrastructure

Two types of production fuel the Canadian film and television industry; production that qualifies as Canadian content, and service production, that does not.

From a cultural perspective, Canadian content production is the foundation of the film and television production industry. There are well over 600 independent producers in Canada, most of them small and medium-sized enterprises, or SMEs. These producers face the challenge of a small, fragmented Canadian market making the financing of Canadian content a constant challenge.

Canadian content and foreign service production have some of the same needs from the basic infrastructure in which both operate. When referring to the production infrastructure, one refers to the combination of labour, services and facilities. The Canadian production infrastructure is well known for its skilled labour, highly developed services, and state of the art facilities.

Canadian content production injects important investments into this infrastructure.

Generally, it is recognized that this infrastructure also benefits from the economic activity generated by the service production sector.

3.2 Employment

In 2003-04, 134,000 direct and indirect jobs were generated by the Canadian film and television production industry. 52,000 of these, or 39 percent, were tied to the foreign location production sector.[4]

3.2.1 Direct Employment

Some Canadian producers focus their business around the service sector. Others act as service producers in order to capitalize their companies so that they can develop Canadian content projects. The national producers' associations, the CFTPA and the APFTQ, include members active in both Canadian content production and in foreign location production. In most service productions, a Canadian producer is engaged to hire crew, organize equipment rentals, and effectively manage the day-to-day requirements of the productions. In exchange for these services, the Canadian producer receives a fee.

The principal beneficiaries of the foreign location production sector in terms of the Canadian film and television industry, are producers, technical professionals and infrastructure-related services and facilities.

[4] Profile 2005

Canadian creators, most particularly French-speaking creators, do not derive benefits from a strong service production sector. The notable exceptions to this assertion are Canadian directors and to a lesser extent, performers who may enjoy some benefits from the service sector, but only in a limited, or supportive fashion.

In a submission to the Department[5], the Writers Guild of Canada (WGC) noted that: "The real beneficiaries of [service] productions are the Canadian producers who co-produce and the below-the-line workers such as production managers and technical crews who are hired on site."[6]

In effect, foreign location production does not need to meet content requirements in Canada in order to obtain federal and provincial incentives. Therefore, these productions tend to provide their own key creative and other above-the-line workers.

In terms of French-speaking creator groups, there are virtually no professional opportunities afforded by the presence of foreign location production in Canada. However, technicians do benefit from service production located in Quebec, for example.

In addition to Canadian skilled labour, foreign location production also makes use of Canadian services: equipment rental companies, transportation and catering services, and often, post-production services. Post-production includes a wide array of services, e.g. digital imaging/special effects, laboratory processing, editing, etc., many of which employ highly skilled professionals who offer important contributions to Canada’s knowledge-based economy.

3.2.2 Indirect Employment

The Canadian production industry’s contribution to Canadian employment is not limited to direct jobs. The production acquires goods and services from other Canadian industries such as hotels, building suppliers, construction companies, restaurants and other municipal based interests, thereby creating jobs in these ancillary industries as well. Each indirect job created by the production industry results in the creation of an additional 1.6 indirect jobs.

3.3 Economic Spin-offs

Production activity gives rise to an increase in the GDP levels within the economy, from the activity itself as well as from the economic spin-offs that are generated as a result of this activity. Increases in film or video production activity are important because they provide direct, indirect and induced impacts, which affect the economy on a wider scale.

As mentioned above, direct impacts refer to impacts on those industries directly involved in the activity. Firms in the industry expand production activity to satisfy increased demand for a product, thereby increasing their revenue, spending and employment of labour.

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[5] *Addressing the Decline in Production*, a submission to the Department of Canadian Heritage by the Writers Guild of Canada.
[6] *Above-the-line* workers include: producers, directors-of-photography (DOPs), actors, writers, directors, set designers, artistic directors, editors and music composers. *Below-the-line* workers include all elements of a production crew not included in the definition of “above-the-line”.

Indirect impacts result from the ripple effects that occur when the firms producing the product purchase additional inputs from other firms. For example, indirect impacts are created from the rental of accommodations for the cast or the fuel purchased for transport trucks, which in turn increase use of their respective industry inputs.

Induced impacts occur when more employees are hired and additional wages are paid through the expansion in production. As a result, household incomes increase accordingly. After withdrawing a certain portion for taxes and savings, households spend this additional income, which in turn increases demand for other commodities. For example, production crews purchase groceries, consumer goods, vehicles and housing, which creates additional economic impacts.

Using an economic multiplier specific to the industry, we are able to estimate the economic spin-offs generated through direct production activity. In essence, $1 dollar of direct production activity equals $.65 of benefits to the economy at large. Therefore, $1.9B of foreign location activity in 2004 generated another $1.25B in indirect and induced economic spin-offs.[7]

[7] Statistics Canada, *Input-Output National Multipliers*, 2001.

4. BENEFITS FOR FOREIGN PRODUCTION COMPANIES SHOOTING IN CANADA

4.1 Cost Savings and Fiscal Incentives

The main motivation for a non-Canadian production to locate in Canada is the promise of cost-savings in an environment that provides skilled labour, excellent services and state-of-the-art facilities.

Producing in Canada instead of the U.S. could save a typical American production between 20-30 percent, based on the exchange rate alone.[8] If one were to factor in the fiscal incentives offered at both the federal and provincial levels, and the lower cost of goods and services, the potential savings to a U.S.-financed production could be pegged at as much as 40-50 percent.[9] In short, significant savings can be had, by opting to locate the production in Canada.

A key factor in the appeal of Canada as a location of choice for foreign productions was the introduction of the Production Services Tax Credit (PSTC) by the federal government, in 1997.[10] The PSTC is a mechanism designed to encourage the employment of Canadians in film and television production, by a taxable Canadian or a foreign-owned corporation with a permanent establishment in Canada.

As part of the 2003 Federal Budget, the PSTC tax credit was raised to 16 percent from 11 percent of salary and wages paid to Canadians for services provided to productions in Canada. This refundable tax credit has no cap on the amount that can be claimed, and so is linked directly to the amount spent on Canadian labour.

In 2003-04, the Canadian government contributed roughly $65M to foreign location production, via the PSTC. In the same year, it contributed $164M to Canadian content production, via the Canadian Film or Video Production Tax Credit (CPTC).[11]

In addition to the federal PSTC, most provinces now offer incentive programs to attract foreign location production. Currently, the Atlantic provinces and the Prairies have the highest effective tax rates, ranging from 35 percent to 50 percent of eligible provincial labour expenditures. The largest foreign location production sectors, B.C., Ontario and Quebec have the lowest rates, ranging from 18 percent for B.C. and Ontario to 20 percent for Quebec (Refer to Annex B for a table of the effective production services tax credit rates for the provinces).

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[8] Matthew Blank, Chairman and CEO of U.S. broadcaster, Showtime, "Cents and Sensibility", by Susan Karlin, *Emmy Magazine*, Issue 6, December 2004, p. 70.
[9] "Why we shoot…" by Robin Roberts, *Emmy Magazine*, Issue 6, December 2004, p.60.
[10] In the 1980s, the Capital Cost Allowance, a tax shelter program allowed U.S. companies to establish limited partnerships with Canadian companies and receive financial advantage equal to 6-8 percent of the production budget.
[11] Canada Revenue Agency (CRA), May 2004.

4.2 A World-Class Infrastructure

Canada has hosted all types of production, but recently, a number of success stories from the category known as A-list films[12], have located here. Box office hits *I, Robot, The Day After* and Oscar-award winner *Chicago*, were all filmed, at least in part, here in Canada. Clearly, the technical capacity to produce high-quality productions here has been established. In Canada's key production centres—Vancouver, Toronto and Montreal—a critical mass of talented creators, skilled technicians and crew, has evolved over the decades,[13] and led to the development of facilities and services that make these locations more attractive to foreign location productions.

In Vancouver, for example, there are at least ten state-of-the-art production facilities featuring a full range of sound stages and technical support.[14] In Toronto, there are over a dozen post-production and visual effects facilities.[15] In Montreal, there are at least 30 companies offering digital special effects services.[16]

Canada's production volume is still fairly low compared to the domestic U.S. production market. The motion picture industry in Southern California alone contributed $30B to the U.S. economy in 2002.[17] In such a high-volume environment, competition for services and access to facilities can become fierce. The availability of Canadian production and post-production facilities and resources therefore is also an important selling point. It has even been reported that city permits and location availability, make working in some Canadian locations such as Vancouver, easier than certain U.S. locations, including Los Angeles.[18]

4.3 Soft Variables

There are less tangible factors, which influence the decision-makers of major production studios. These are more difficult to track and virtually impossible to predict. For instance, factors such as the quality and availability of crews, past experience, star preference, proximity to home or home time zones, or even the weather, are sometimes taken into account, and generally in a highly subjective manner. What may become the determining factor for one executive, may not even be taken into consideration by another. Still, taking an accommodating approach to foreign location production needs, as well as offering professional and friendly service, does seem to have worked to Canada's advantage.[19]

An advantageous exchange rate, cost efficiencies and fiscal incentives, translates into tremendous value-added for many cost-conscious production budgets. While economics may be the bottom line for most productions, the importance of a developed, state-of-the-art infrastructure cannot be overlooked.

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[12] An "A-list" film refers to those productions, which feature the most visible, sought-after and often expensive actors, or, to a lesser extent, directors currently working in the film industry.
[13] *International Film and Television Production in Canada*, by Neil Craig and Associates, 2004, p. 2.
[14] *Reel West*, 2004.
[15] *Focus Toronto*, 2003.
[16] *Qui Fait Quoi*, 2004.
[17] *International Film and Television Production in Canada*, by Neil Craig and Associate, 2004, p. 2.
[18] "Why we shoot…" by Robin Roberts, *Emmy Magazine*, Issue 6, December 2004, p. 60.
[19] Ibid.,p. 60.

5. THE DECLINE OF FOREIGN LOCATION PRODUCTION IN CANADA

5.1 Volume vs. Activity

Before considering the trends apparent in film and television production, it is first important to understand the distinction between production volume and production activity. *Production volume* is a significant indicator, because it signals the total amount of money spent by the foreign service sector in Canada. *Production activity*, or the number of projects, is equally if not more significant, but less exact as a measure of the service production sector’s contribution to the Canadian infrastructure, largely due to the range in size of productions shot here.

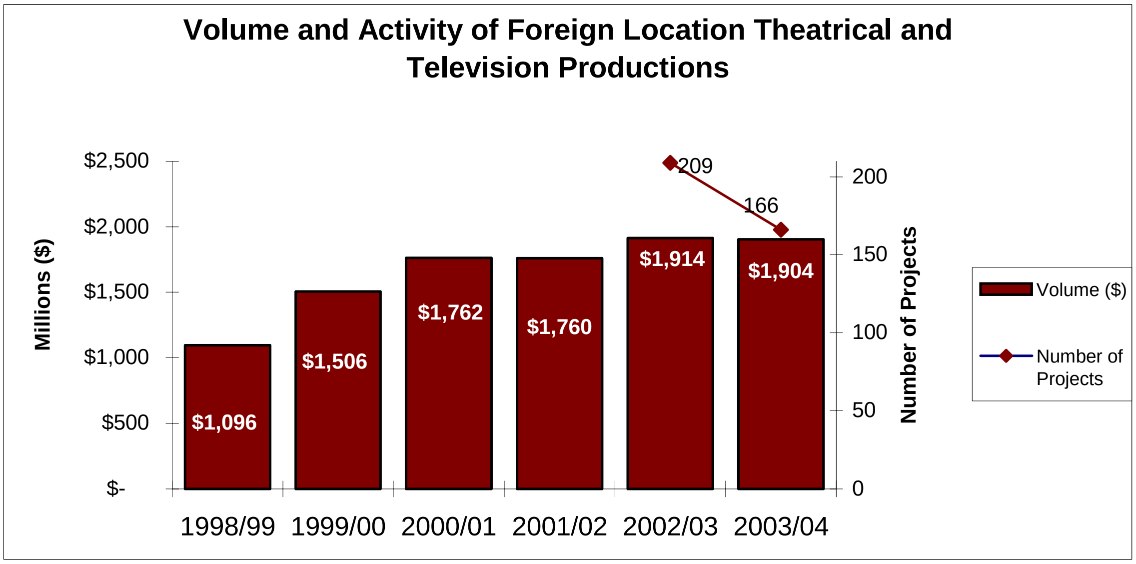
In general terms, the greater the activity, or numbers of projects, the greater the contribution to the maintenance of the production infrastructure. This is because individual projects, big budget or small, require a certain number of days in production during which the industry labour, services and facilities are engaged in at least a minimal way. Conversely, one cannot conclude that the greater the volume, or money spent in Canada, the greater the contribution to the infrastructure. For example, two projects may be in production for 30 days each. One may represent $50M spent in Canada and another just $10M, but studios are in use for a similar period, crews are hired for a similar period, etc. In effect, on many levels, the overall contribution to the infrastructure is similar for each project.

Essentially, an accurate assessment of the production sector’s health requires a considered look at both volume and activity. More importantly, production volume should never be taken on its own.

5.1.1 Film and Television Production Trends[20]

Throughout the 1990s Canada enjoyed record growth in foreign location production. However, in 2003-04, the volume of foreign location production in Canada declined by 1 percent overall, over the previous year. Activity declined by nearly 21 percent (see Figure 4).

Figure 4



Source: Economic Report on the Canadian Film and Television Production Industry (Profile 2005)

A proper analysis for this downward trend is impossible until comparable statistics for 2004-05 become available. As it stands, two of three major production centres collect data on a fiscal calendar year basis and, at the time of writing, only Ontario had released its 2004 statistics for production activity and volume.

Compared with 2003, a notoriously bad year for foreign location production in Ontario, overall foreign production volume in the province increased 31 percent to $486.3M in 2004, mainly due to several very large budget feature film productions. Meanwhile, overall activity was down in Ontario compared with 2003. Looking at both Ontario activity and volume compared with 2002, we are able to establish that a decline in production has taken hold in this province.[21]

Unofficial estimates from B.C. and Quebec also suggest an industry in decline in 2004.

The Montreal Film Commission reports volume to be down by approximately 50 percent over last year.[22]

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[20] This section refers to aggregate television and theatrical production activity and volume. A breakdown and analysis of trends in television and film production is attached in Annex D.

[21] Compared with 2002, foreign location production volume and activity in Ontario are both down. Total volume in Ontario was $574M in 2002, and a total of 60 productions were reported. In 2004, only 38 productions were reported. Despite a slight upturn in terms of volume in 2004, foreign location production in Ontario since 2002 has been in an overall decline.

[22] February 2005 interview with Daniel Bissonnette, Montreal Film Commissioner.

Despite increasing production budgets in some categories, overall volume fell by 1 percent in 2003-04. In addition, activity has been in decline since 2002-2003 and in 2003-04, declined by almost 21 percent. We therefore conclude that the foreign location production industry in Canada is in decline.

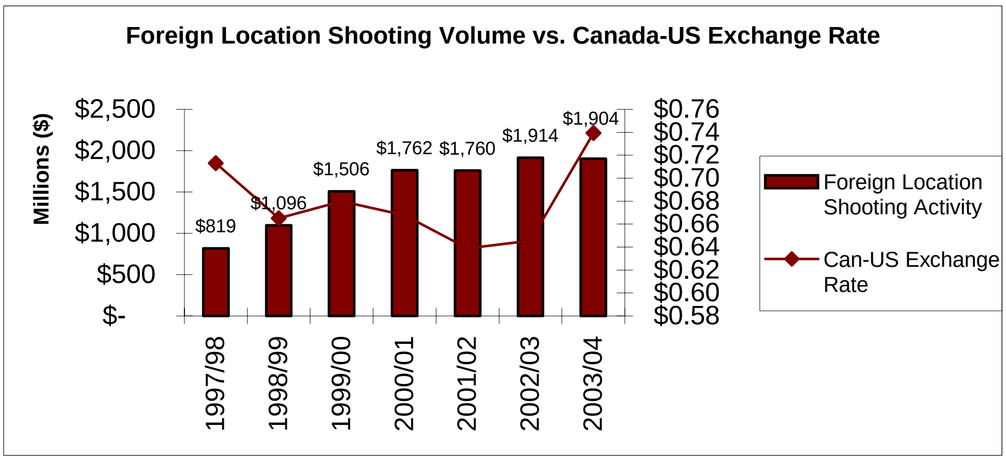
5.2 FACTORS AFFECTING THE DECLINE

5.2.1 Canada-U.S. Exchange Rate

There are a multitude of factors influencing the downward trend in Canada, but likely one of the most important, from a purely economic standpoint, is the sharp rise in the Canada-U.S. exchange rate since 2003 (From 0.67 to 0.83 +). This single indicator should not be viewed independently of other factors.

Figure 5 below shows how, despite an apparent link between production volume and the exchange rate over a period of years, production volume in 2003-04 is near its highest while the exchange rate is also at its highest. Clearly then, factors other than the exchange rate have in the past played a role in bringing foreign location productions to Canada.

Figure 5



Source: CAVCO and Bank of Canada Rate Statistics data

A feature investigation into the impact of currency fluctuations on international film location production published in *Screen International*, supports this assertion. Currency fluctuations may be managed somewhat by "...hedging–buying amounts of a certain currency in advance of need...But when fluctuations are combined with other factors...they can become significant problems."[23]

Ultimately, Canada's exchange rate remains among the most competitive of global production centres. Despite its recently increased value, the Canadian dollar still offers approximately double the value of the Euro and more than one-third better value than the British pound sterling.[24]

[23] Moritz Borman, CEO of Intermedia, paraphrased in "A fistful of dollars… doesn't go far these days", by John Hazelton, *Screen International*, Number 1486, January 28, 2005, p. 26.
[24] Ibid, p. 26.

5.2.2 U.S. Production Industry

In 1998, a U.S.-based campaign against so-called "runaway production" began to have an effect on the U.S. political scene.

A series of reports—including the *Monitor Report on U.S. Runaway Film and Television* (1999)—caused the U.S. government to evaluate the economic impact that competition from Canada and other countries was having on its film and television industry, valued at around $34B. This policy review has resulted in a series of legislative initiatives at both the federal and state level in the United States, as well as industry-based promotional strategies designed to bring production back to the United States.

At the federal level, U.S. President George W. Bush committed support to the U.S. film industry in 2004 by signing into law the *American Jobs Creation Act*. This legislation targets productions valued at up to $20M.

As of January 2005, over 40 U.S. states had instituted some kind of fiscal incentive for productions choosing to work in their regions. These incentives ranged from sales and/or hotel tax exemptions, to income and/or other tax rebates, to direct production cost rebates—and some states offer a combination of all three (See Annex E - Global Competitive Measures).

At the time of writing, *Daily Variety* reported that California Governor Arnold Schwarzennegger, was considering an initiative to keep filming in California. This is said to include a tax incentive program for the industry in his revised budget, expected to take effect July 1, 2005. The plan will be promoted and administered by stars such as actor/directors Danny DeVito and Clint Eastwood.

This collection of U.S. initiatives seems to have been having the desired affect. It was recently reported "...that more movies, television shows, music videos and commercials were shot in public spaces across Los Angeles County in 2004 than ever before."[25] The latest figures report a 19 percent increase in production days for feature films shooting in Hollywood alone.[26]

Not all U.S. film and television industry decision-makers are opposed to Canadian tax credits or incentives offered by other countries. Most notably, U.S. studios and independent producers are happy to go where they will be afforded the most competitive rates for what is everywhere acknowledged to be a high-risk industry. However, it is also true that the U.S. industry, as a whole, supports homegrown incentives.

5.2.3 Competing Incentives

In addition to what's happening in the U.S., Canada faces solid international competition for service production. From the U.K., France and Iceland, to Eastern Europe and South Africa, to Australia and New Zealand, film industries around the world are either copying the Canadian tax credit model, or developing their own incentives to attract foreign production (see Annex E).

[25] "Arnold to the rescue", *Daily Variety*, February 22, 2005.
[26] Los Angeles Entertainment Industry Development Corporation statistics, January 25, 2005.

Closer to home, the higher fiscal incentives offered by certain Canadian provinces, have contributed to the impact of the decline being experienced by Canada's major centres of production, although this is not reflected in reports of Canada's overall activity and volume.

5.2.4 External Variables

External factors can affect the global production community to varying degrees. Events like 9/11 are entirely unpredictable, and yet, likely had a major impact on the level of production worldwide. The SARS outbreak, while it could have implicated any production centre in any number of countries, ultimately affected production levels in Toronto most of all, and to a lesser extent, Canada as a whole.

As with any industry, shifts in business models may sometimes affect levels of production. In the film and television industry, the success of the reality television phenomenon worldwide is a good example of how this can occur. Reality television is a low-cost form of entertainment. The widespread creation and scheduling of reality programming around the world had a profound impact on the production of other genres of film and video in Canada and abroad.

Reality programs:
a) have supplanted MOW production;
b) have replaced MOWs in broadcasters' programming schedules; and
c) have taken over global airwaves, thereby reducing the international sales potential of North American drama, including series drama produced in Canada.

External variables, cannot be predicted, nor easily altered.

The key factors affecting the overall decline in foreign location production in Canada include the Canada/United States (U.S.) exchange rate; the U.S. production industry response to so-called "runaway production"; new incentives in the U.S. and other countries around the world, as well as shifts in business models to less expensive forms of production such as reality TV.

5.3 IMPACT

5.3.1 Regional Impact

Service production has migrated to a limited extent from the three-major Canadian production centres to towards smaller, regional centres offering more attractive fiscal incentives. Cities such as Halifax and Winnipeg have seen a marked increase in volumes of service production since the late 90s, with five-year respective growth averages of 24 percent and 25 percent. Activity has also increased.[27]

[27] *Profile 2005: An Economic Report on the Canadian Film and Television Production Industry*, Foreign Location Production by Province, p. 27.

Elsewhere across the country, Canadian content production remains the backbone of production activity. Canadian content production constitutes close to 100 percent of all, albeit limited, activity in Alberta, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Saskatchewan. The level of production in the territories is almost negligible but it is expected that incentive programs offered by the Yukon, for instance, will contribute towards the further development of this industry in the North.

Taken together, this analysis highlights how the one percent overall decline in foreign location production volume, is mainly an issue for the key production centres of Canada.

5.3.2 Impact on the Canadian Film and Television Industry

As discussed in Section 5.1, production activity has a great bearing on the collective financial health of labour, services and facilities supporting the Canadian film and television industry. That being said, some lines of work and business are affected more directly by changes in foreign services production. Those trades, which are largely fuelled by Canadian content production, are less affected. Others~~-~~which move freely between the two~~-~~more so.

A report prepared by a consortium led by the CFTPA Ontario Producers' Panel, underlined the province's weakening market share and ensuing downward pressure on employment figures. The report concluded that: "Neglect of the industry in the past five years has resulted in a total production shortfall of almost $700M and employment outflow to other production regions of approximately 16,000 jobs."[28]

The Directors Guild of Canada~~-~~Ontario[29] reports that its membership has experienced a serious decline in employment as a result of the decline in foreign location production: "...the guild estimates that Ontario lost $700M worth of [foreign location] business between 2001 and 2003 because of SARS and a lack of incentives." As a result, "many long-standing members [have been] giving up hope. Some people [are] leaving the business, some members [are] losing their homes."[30]

Three of Canada's technical unions: The International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States, Its Territories and Canada (I.A.T.S.E.) in Toronto and in Vancouver, as well as the Société des Techniciens du Cinéma et de la Vidéo du Québec (STCVQ) in Montréal, report a sharp decline in activity in 2004.[31] In Toronto, the majority of I.A.T.S.E.~~-~~service projects are foreign location productions, so the decline has had a major impact on its membership. In Vancouver, I.A.T.S.E members' earnings were down by 35 percent in 2004.

[28] Submission to the Government of Ontario by Film Ontario and the CFTPA Producers' Panel, with the assistance of Ernst & Young, 2004, p. 22.
[29] The Directors Guild of Canada (DGC) is a national labour organization that represents key creative and logistical personnel in film and television industries. It has over 3,500 Canadian members, drawn from 47 different craft and occupational categories in seven different departments, covering all areas of motion picture, production, editing and design.
[30] Ron Haney, CEO of the DGC Ontario Region, interview with *The Toronto Star*, January 21, 2005.
[31] February 2005 interviews with Brian Baker of the STCVQ, Mimi Wolch of I.A.T.S.E – Toronto and Dusty Kelly of I.A.T.S.E. – Vancouver.

Studio occupancy is being adversely affected by the decline as well, in Toronto and elsewhere.[32] A representative of the Motion Picture Production Industry Association of B.C. confirmed that volumes there were more meager than in previous years.[33] And in Montréal, capacity was under-utilized in 2004.[34]

In terms of impact on individual sectors of employment in the film and television sector, the WGC contends that Canadian screenwriters are almost never used in foreign location productions.

The same can be said of l'Association des réalisateurs et réalisatrices du Québec (ARRQ), l'Union des artistes (UDA), and the Societé des auteurs de radio, télévision et cinéma (SARTeC), whose members have been largely unaffected by the decline. If anything, the Quebec-based creator groups view incentives for foreign location production as mainly assisting the English-language sector.

The Alliance of Canadian Cinema, Television and Radio Artists (ACTRA) prefers to link the Canadian content production sector to better opportunities for its membership. In its 2004 Pre-Budget submission to the House of Commons Standing Committee on Finance, ACTRA noted a decline in Canadian content production meant less headlining opportunities for its members. Such that in Toronto, "...the percentage of Canadian to non-Canadian productions...declined from 80 percent in 1992 to 40 percent in 2002, while foreign-service productions increased inversely during the same period (60 percent foreign/40 percent Canadian). This means fewer and less rewarding acting jobs for Canadians as foreign-service production favor foreign actors for principal roles."

5.3.3 Impact on Canadian Content Development

It is not known to what extent Canadian producers may rely on revenues derived from service production to fund the development of Canadian content productions, but in some cases, as discussed earlier, Canadian producers are engaged in both sectors, and therefore susceptible to the decline.

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[32] In the article," Could the last one out kindly turn out the lights?" *Playback*, December 6, 2004, Ken Ferguson, President of Toronto Film Studios, called for national guidance to improve Canada's competitiveness. He questioned how the dismantling of the production business in Ontario and B.C., in order to start smaller film and television production industries in other provinces can benefit the long-term health of the industry, especially in world markets where foreign governments are investing heavily in large subsidies.
[33] "B.C. Producers Target PST", *Playback*, January 3, 2005.
[34] February 2005 interview with Daniel Bissonnette, Montreal Film Commissioner.

6. RESPONSE TO DATE

Both private industry and the public sector in keenly affected provinces have responded to the production decline in 2004 and early 2005.

6.1 Ontario

In Toronto, the summer of 2004 was apparently the quietest for film and television service production in years. Numerous articles cite stakeholder concerns about service sector work, which it seems, for the variety of reasons summarized earlier, have simply dried up.

In response, Toronto Film Studios fixed its rate at U.S.$0.78 for new projects, while Comweb Group adjusted its own prices so that they correspond to an exchange rate of between U.S.$0.76 and U.S.$0.78.[35]

In addition, the Toronto mayor, David Miller, created the City of Toronto's Film, Television and Commercial Production Industry Committee. This new film board will advise the mayor and city council on ways to make Toronto more film-friendly for domestic and international productions.

A rally of people from labour, service and facility sectors of the film and television production industry in Toronto on December 1, 2004 called for an increase to the Ontario foreign location production tax credit, and for the recently-elected provincial government to honour its election promises to raise tax credits for Canadian content production. On December 21, 2004 the provincial government raised the effective rate of the location tax credit to 18 percent from 11 percent. The Ontario Canadian content production industry tax credit was also increased, from 20 percent to 30 percent. The Ontario Production Services Tax Credit will be subject to an annual review and the Ontario Film and Television Tax Credit will be subject to a performance review before January 1, 2010.

In January 2005, a team of leaders from Ontario's film and production industry traveled to Los Angeles, California to lobby film and television production studio executives on behalf of their stakeholders.

6.2 Quebec

In 2002, a group of industry stakeholders began to strategize about ways to attract a greater national share of foreign location production activity to the province. In November 2004, the *Forum métropolitain de l'industrie cinématographique* was held in Montréal to garner support for a multi-faceted plan to make the province an international centre of expertise for the film and television industry. The Forum was financed by the provincial government, and brought together municipal and provincial officials with representatives from all of the industry's affected stakeholders (producers, technicians, directors, performers, etc.) to consider ways to improve:

a) the promotion of the region as well as hospitality services for those foreign companies who might consider shooting in Quebec;
b) financing made available to service productions;

[35] *Playback*, November 22, 2004.

c) production, co-production, technical and creative services; and
d) research and development, innovation and training capabilities.

The forum plans to establish a non-profit organization that will implement recommendations in each of these areas. Financial partners in the creation of this organization have yet to be confirmed, but potential investors include the cities of Montréal and Longueuil, the province and Economic Development Canada.

On January 3, 2005, one week after Ontario, the Quebec government increased its tax credit for non-Canadian productions from 11 to 20 percent. Quebec's Canadian content tax credit will remain unchanged at 29.2 percent.

6.3 British Columbia

In B.C., I.A.T.S.E. Local 891 in Vancouver, offered discounted labour rates in late 2004 and early 2005, in hopes of attracting pilots for television series and films for theatrical release.

Meanwhile, B.C. officials were aware of the vulnerability of their film and television industry. In 2003, the province commissioned a study to determine how the film and television industry was structured and to consider labour issues that seemed to be hindering the industry's competitiveness with other jurisdictions. The Tysoe Report[36] was released in March 2004. It makes several recommendations pertaining to collective bargaining, concluding that the industry could become more efficient and competitive if it worked towards resolving its labour grievances.

After several weeks of sustained national press coverage–stimulated by the 1st of December rally in Toronto–the B.C. government matched Ontario's tax credit increases on January 14, 2005. Its service production tax credit rose from a minimum of 11 percent to 18 percent and its Canadian content production tax credit from 20 percent to 30 percent. This credit increase may sunset after a period of five years.

6.4 Nova Scotia

On March 8, 2005, Nova Scotia announced the 10-year renewal of its tax incentive program for film and television, and an increase to its tax credit rate. The Nova Scotia tax credit will increase from 30 percent to 35 percent for service productions shot in Halifax and 40 percent for productions shot outside Halifax. In addition, production companies returning to the province within a two-year period will benefit from an extra bonus of 5 percent on eligible Nova Scotia labour.

[36] Report of the Industrial Inquiry Commissions: British Columbia's Film and Television Inquiry, by Justice David Tysoe, for the Honourable Graham Bruce, Minister of Skills, Development and Labour, March 2004.

6.5 Manitoba

On March 11, 2005, the Manitoba government announced an increase to its tax incentive for location production: pushing its effective rate from 35 to 45 per cent. Further serial productions and producers are now recognized under the frequent filming incentive, retroactive to April 20, 2004, and the rural and Northern incentive is extended to encompass more of Manitoba, retroactive to April 20, 2004. The full-year cost of the measures is expected to be $2.7 million.[37]

6.6 Encouraging Signs

Provincial governments with a stake in foreign location production, have demonstrated a similar response to the downward trend, that is, they have increased effective tax credit incentives. While it is still too early to tell, and the factors that have brought it about are unlikely to change to a substantive degree, some encouraging news from Ontario, B.C. and Quebec, instills hope that the decline in Canada may be stabilized.

Among the more encouraging signs, since increasing the production services tax credit to 18 percent, it is thought that Ontario's foreign location production slate now looks promising for 2005. In addition, the B.C. tax credit increase is being linked to six feature films and five TV projects that may opt to shoot in the province.[38] With the increase in tax credits in Quebec, negotiations are underway to bring as many as 40 foreign location productions to Montréal in 2005.[39] No information with respect to upcoming production in Nova Scotia and Manitoba was available at the time of writing.

[37] 2005 Manitoba Provincial Budget - Summary
[38] *The Province*, February 13, 2005.
[39] February 2005 interview with Daniel Bissionnette, Montreal Film Commissioner.

7. CONCLUSION

Given the overall decline in the volume of foreign location production for the year 2003-04, the Ontario data for 2004 and the unofficial estimates, as well as anecdotal evidence we have at our disposal, it is reasonable to conclude that this important sector of the Canadian film and television industry is in decline.

The decline is felt most keenly in Canada’s major production centres of Vancouver, Toronto and Montréal, but other provinces with an interest in foreign location production may be adversely affected as well if the trend persists.

While not all those people who work in the film and production community are adversely affected by the downturn, a significant proportion of Canada’s film and television labour force, supportive services and facilities do benefit from service production.

Recent changes in provincial tax credits may well have a positive affect on the situation; however, production levels need to be monitored closely for the next year, with cautious optimism.

ANNEX A - Sources

- *Profile 2005: An Economic Report on the Canadian Film and Television Production Industry* (Profile 2005), which combines data made available by the Canadian Audio-Visual Certification Office (CAVCO), Statistics Canada, Telefilm Canada, the Canadian Radio-television and Telecommunications Commission (CRTC) and the Canada Revenue Agency[40]
- Materials made available at the *Forum métropolitain de l'industrie cinématographique*
- *Monitor Report on U.S. Runaway Film and Television*, 1999
- Report by Neil Craig Associates International Film and Television Production in Canada, 2004
- Association of Provincial Funding Agencies
- Ontario Media Development Corporation
- B.C. Film Commission
- Observatoire de la culture et des communications du Québec
- SODEC
- Nova Scotia Film Development Corporation
- Manitoba Film and Sound
- New Brunswick Film Nouveau-Brunswick
- Newfoundland and Labrador Film Development Corporation
- Saskfilm

[40] There are variances between the 2003-04 data reported by CAVCO and the data used in this report (which was provided by Profile 2005). We have used the data in the Profile, which is commonly used by the industry. CAVCO data is based only on the applications received for 2003-04, up to the moment. Production companies are allowed at any point before or beyond the completion date of post-production, to apply for CAVCO accreditation. Meanwhile, production companies report expenditures to the province in which the project was shot, in the same year as expenditures were incurred. The Profile 2005 is mainly based on provincial figures.

Media

- Playback
- Qui Fait Quoi
- Ciné-TV
- Screen International
- Daily Variety
- Emmy Magazine
- Hollywood Reporter

ANNEX B
Effective Provincial Rates of the Production Services Tax Credit

Province	PSTC	Special Provisions
New Brunswick	40% of eligible NB labour	• Capped at 50% of production costs
Newfoundland	40% of eligible labour	• Capped at 25% of production costs
Nova Scotia	40% of eligible NS labour	• 40% for productions shot outside Halifax • 5% bonus for returning within a 2-year period
Manitoba	45% of eligible MB labour	• Additional 5% if 50% of shooting days are 40 km or more outside of Winnipeg's centre • Additional 5% if third film shot within 2-year period
Saskatchewan	35% of eligible SK labour	• Capped at 50% of production costs • 5% regional bonus
Yukon	35% of eligible YK labour *(this is a rebate not a tax credit)*	• 50% travel rebate • 35% training rebate
Prince Edward Island	35% - 50% of eligible labour *(this is a rebate, not a tax credit)*	• Capped at 15% of production costs
Alberta	N/A	• 20% of production costs (this is a non-recoupable grant, not a tax credit)
Quebec	20% of eligible QC labour	• N/A
Ontario	18% of eligible ON labour	• 3% regional bonus
British Columbia	18% of eligible BC labour	• 6% regional bonus • 15% digital animation or video effects bonus

Source: Canadian Audio-Visual Certification Office (CAVCO)

ANNEX C
Provincial and Territorial Environments

British Columbia

B.C. has traditionally enjoyed the largest share of national foreign location production. Moreover, B.C. is the province most dependent on foreign location production for sustaining its infrastructure and employment base. In 2003, approximately 88 percent of B.C.'s $1.4B volume of production originated predominantly in the U.S.

Thus far, this dependence has not hindered the province. Over a five-year period, growth by volume in this sector has continued apace in B.C. for an average increase of 23 percent. Single year growth for 2003-04, was pegged at 39 percent.

However, all is not well in the B.C. service sector. Since 2000, there has been a decline in activity, i.e., number of projects, in both the theatrical film category and the MOW, mini-series, special, pilot, and documentary categories. From a high of 29 feature films in 2000, B.C. reported only 25 features films in 2003. In the other categories mentioned, activity declined from a high of 38 in 2000, to 25 in 2003. There has been a sharp drop in overall foreign location activity in B.C. since 2000, when 84 projects were shot in the province. In 2002, only 65 foreign location projects were shot in B.C., and in 2003, there were 69.

We have been unable to confirm media reports that foreign location production activity and volume in B.C. has in fact declined in 2004.

Ontario

In 2003-04, Ontario reported $340M in service production volume. The province has experienced a sustained decrease in both service production activity and volume since plateauing at approximately $490M in 2002. In 1999, the volume of foreign location production overtook the Canadian content production sector in Ontario, which historically, was English-speaking Canada's most productive. However, activity in this sector has also struggled in recent times. In other words, Ontario's overall film and television production sector has experienced negative growth for the past three years. The five-year average for Ontario's foreign location production sector is 0 percent, following a single year loss of -38 percent.

In 2004, Ontario reported a 31 percent overall increase in foreign production volume, due mainly to several big budget feature films. In the context of an extremely poor 2003, this increase is only slightly encouraging. More telling perhaps was the overall decline in activity, from 40 productions in 2003, to 38 productions in 2004.

Historically, Ontario has not been as reliant on foreign location production as B.C. In 2003-04, Canadian-certified production still represented more than twice the volume of service production. But as the market share of service production increases in this province, and more skilled labour is developed to respond to the growth that would ordinarily be anticipated, any downturn in activity puts a greater strain on the overall provincial film and television infrastructure.

Quebec

Quebec, with $193M spent in the province, attracted just over half the value of Ontario's foreign location production volume in 2003-04. Between 2001-2003, Quebec's share of this sector hovered at around 10 percent of overall national volume, although as many as 17 percent of foreign feature films shot in Canada were located in Quebec.

Generally, the Canadian content film and television sector in Quebec can be said to be thriving. Foreign location production represented only $193M of its $1.2B strong industry, or 16 percent of total volume.

Alberta

Alberta is the only province, excluding the territories, with no incentive program for film and television production. In recent years, this has presented difficulties for the province, as seen in 2003-04, when no foreign production chose to shoot there. Even in previous years, including 2002-03, when $50M was expended on service production activity, Alberta has not ranked high on the list of provinces with an important foreign location production component.

Manitoba

Manitoba has pursued an aggressive and largely successful competitive strategy on the service production front since introducing its 35 percent labour rebate in the late 1990s. Total volume of production in Manitoba grew by an impressive 27 percent overall in 2003-04, thanks entirely to a rapid rise in service production activity. In 2003-04, this sector grew by 134 percent to reach $79M, while Canadian content production volume declined sharply by 55 percent, to $12M, a level not seen since 1997-98.

In terms of activity, Manitoba's service production sector offers some evidence of sustained growth. In 2001-02, the province was host to 2 U.S. feature films and 5 MOWs. In 2002-03, activity jumped to 7 feature films and 4 MOWs. Then the following year, 4 feature films and 4 MOWs were shot here, as well as 1 U.K. production. Finally, in 2004-05 thus far (as of Nov. 30, 2004), 3 features, 1 mini-series and 3 MOWs have selected Manitoba as a location.

Nova Scotia

Over several decades, Nova Scotia has developed a small but stable Canadian content production sector (now approximately 2000 full-time equivalent jobs), which, in addition to its very generous tax incentive, enabled the province to attract an increasing number of foreign location productions in recent years. Despite several quiet years, foreign location production in Nova Scotia has grown by an average of 23 percent over the last five years. Still, the province represents only a small fraction of Canada's overall service production sector, with $51M in volume reported for 2003-04, a 2 percent decrease over the previous year.

Prince Edward Island, Newfoundland and Labrador and New Brunswick

P.E.I.'s production sector is very small and supports mainly Canadian content activity. Only one foreign production has opted to shoot in P.E.I. in recent years, and the decision to do so was based largely on the appeal of the island's setting, rather than the 30 percent labour incentive it offered up until late 2004. The provincial government on December 9, 2004 announced a new Innovation and Development Tax Credit (IDTC). The IDTC will provide a rebate of corporate income tax based on up to 35 percent of approved labour costs, factored up by 50 percent to cover overhead for the eligible project.

Newfoundland and Labrador as well as New Brunswick, occasionally host foreign location productions but this sector is by no means of great significance to either province. Both provinces offer elevated incentives based on labour, but the majority of production activity taking place in these regions is indigenous in nature.

Saskatchewan

Despite a very generous 35 percent labour rebate incentive, Saskatchewan has been host to only the occasional foreign location production over the years. The province does sustain a small film and television industry and even despite a significant overall 54 percent decline in its 2003-04 production volume, Saskatchewan still claims an average 7 percent increase over the past five years.

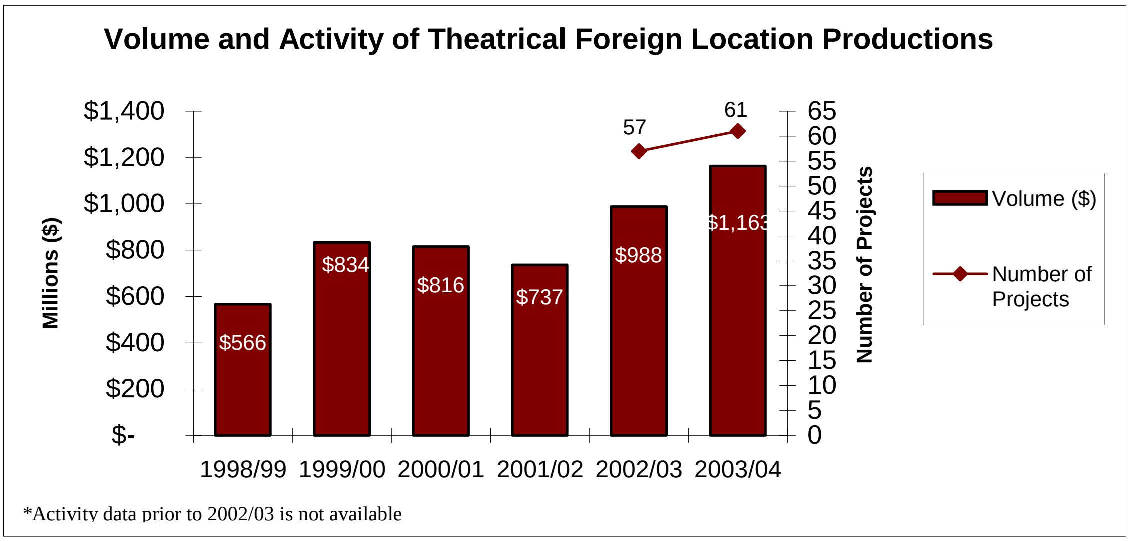
Yukon, Northwest and Nunavut Territories

The territories' production sectors are also very small and support mainly Canadian content activity. The Yukon territory has an established film commission and offers very generous incentive programs, but given its challenging climate and isolated location, the Yukon has provided services largely based on the script/setting relevance of its location.

ANNEX D
Analysis of Television and Theatrical Production Trends

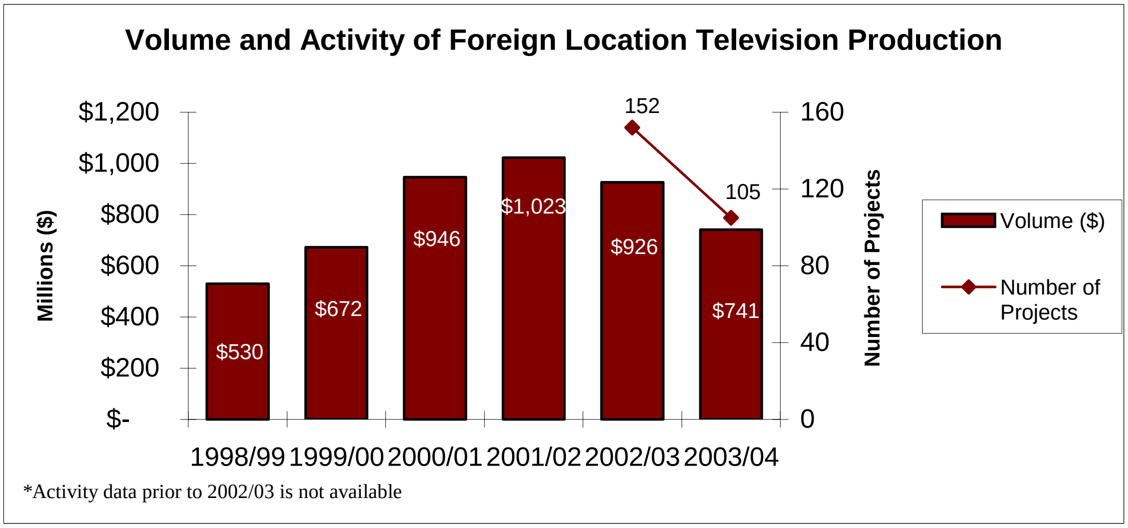
The types of productions shot in Canada vary by category and are defined by the market for which they are intended: television or theatrical. The categories of production that are produced for television include: movies of the week (MOWs), series, pilots and short films, while the theatrical market includes only feature film. Theatrical productions represent the majority of foreign location productions shot in Canada, by both volume and activity.

In 2003-04, foreign theatrical volume increased by 18 percent to $1.16B from the previous year. Likewise, foreign theatrical activity also increased, growing by 7 percent from 2002-03 to 2003-04 (See Figure 4~~-~~activity data prior to 2001-02 is not available).



Source: Profile 2005 and Association of Provincial Funding Agencies (APFA)

Television production volume declined by 20 percent in 2003-04, from the previous year, to a total of $741M (see Figure 5). Likewise, television production activity also decreased by 31 percent between 2002-03 and 2003-04 (television activity data prior to 2002-03 is not available). In addition, the average budget of television productions has decreased, resulting in an overall decline in television production volume.



Source: Profile 2005 and Association of Provincial Funding Agencies (APFA)

ANNEX E
Global Competitive Measures

Some of the richest incentives come from Canada's biggest competition, including New York State, which introduced a 10 percent tax credit in 2004 ($25M annually for the next 4 years) and New York City, which added 5 percent on top of the state credit. These incentives combined convinced producer Mel Brooks to make his next film in New York instead of in Toronto, where it was originally slated to shoot.

President George W. Bush recently committed federal support to the U.S. film industry, signing the American Jobs Creation Act into law in 2004. As a result of this legislation, producers can now take accelerated depreciation of certain expenses when at least 75 percent of the production costs are spent in the U.S., on film and television productions that cost no more than $15-20M.

Some of the more competitive models include: the Australian rebate, based on total cost of production, as opposed to labour; and the U.K. sales and leaseback, now defunct, but which at its peak, attracted enormous inward investment to the U.K. from the U.S. film and television industry.

ANNEX E
International Film Incentives

UNITED STATES OF AMERICA		
State	**Type**	**Amount**
Florida	P.R.5	5%
Hawaii	P.T.C*6 I.T.C*2	4% 100% film investment credit
Illinois	L.T.C**4	25% on 1st $25,000 wages Hotel tax exemption
Louisiana	L.T.C**4 I.T.C**2	10-20% 10-15% investment
Missouri	P.T.C**6	50%
New Jersey	Loan Gty	30% of private loans
New Mexico	P.T.C*6 Loans	15% 100% finance loan
New York	P.T.C6	10% 5% New York City
Rhode Island	P.T.C**6	25%
Oklahoma	P.R.5	15%
Oregon	P.R.5	10%
Pennsylvania	P.T.C**6	20%
South Carolina	L.R3 T.C**8	5% 20% of investment in Prodco
Utah	P.R5	10%
Federal	T.D9	100% Deduction

INTERNATIONAL		
Country	**Type**	**Amount**
Australia	P.T.C*6 CCA1	12.5% 100% Deduction
Belgium	T.S10	150% Deduction of Investment
France	P.T.C*6	20%
Germany	T.D9	100% Deduction of Investment
Hungary	Tax Write-off	20% of costs
Iceland	P.R5	12%
Ireland	CCA1	80% Deduction
Isle of Man	Equity Investment	25% of Budget
Luxembourg	T.D9	30%
Netherlands	T.S10	100% Deduction
New Zealand	Grant	12.5% of Budget
Puerto Rico	I.T.C**2 T.C**8 Infrastructure	40% of resident costs 40% equity cash
South Africa	Tr. Rebate 11 CCA1	15% for Foreign Prod. 25% of S.A. Prod. 100% Deduction
United Kingdom	T.C6 S & L7	20% #

*	Refundable	3	L.R. – Rebate on Eligible Labor or Employment Costs	8	T.C - Tax Credit
**	Non-Refundable	4	L.T.C – Tax Credit Calculated on Labor Costs	9	T.D - Tax Deduction
#	Announced but regulation pending	5	P.R. – Rebate of Portion of a Qualified Production Expenses	10	T.S – Tax Shelter
1	CCiA – Capital Cost Allowance	6	P.T.C – Tax Credit Calculated on Production Expenditures	11	Tr. Rebate – Travel Rebate
2	I.T.C – Investment Tax Credit	7	S & L – Sales and Leaseback		

Source: Borden Ladner Gervais, “2005 International Film Incentives”