

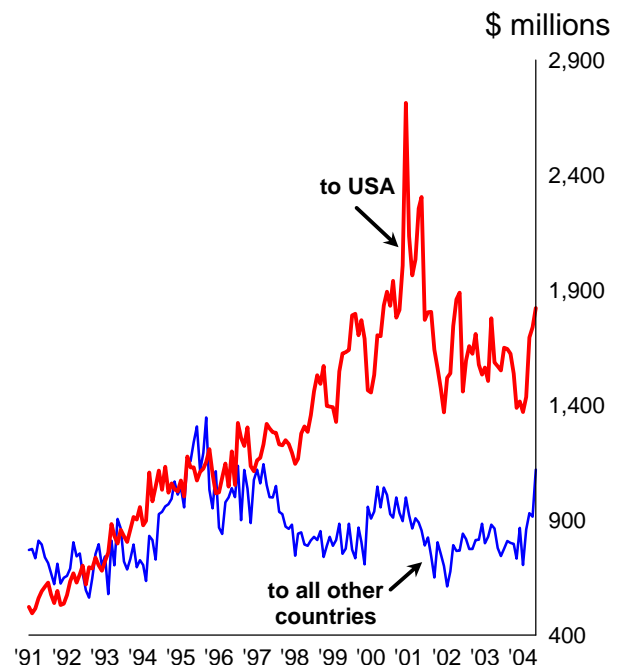
Exports ♦ May 2004

- There was a sharp increase in the value of total BC origin exports in May. Compared to the same month a year earlier, exports grew 25.2%, which pushed the year-to-date figures 3.6% higher than exports in the first five months of 2003. The substantial increase was widespread through most countries of destination, from the US to Asia to Europe.
- Despite the 27.2% duties assessed on imports of Canadian softwood lumber into the United States, BC exports of softwood lumber to the US have climbed 29.0% year-to-date compared to the January to May period in 2003. Higher prices are part of the reason for the increase, but quantities are up as well.
- Strong exports in May have helped propel year-to-date figures for pulp and paper exports over the value recorded in 2003 (+1.3%). Increased demand from Asia drove much of the increase in pulp exports, while the European Union was responsible for most of the jump in newsprint shipments.
- Price inflation for metals has helped drive up exports of metallic mineral products 27.9% year-to-date. International shipments of copper (+43.0%), aluminum (+40.3%), and zinc (+12.2%) have all increased substantially, while exports of molybdenum have more than doubled (+122.4%).
- A significant increase in demand for coal in Europe resulted in a 52.8% rise

in coal exports in May compared to the same month a year earlier. However, coal shipments are still down 1.6% year-to-date.

- Aided by a strong month of May, exports to Asian destinations such as China (+54.5%), Hong Kong (+45.8%), and South Korea (+13.3%) are way up in the first five months of 2004 compared to the same period in 2003.
- BC origin exports to Mexico have soared in 2004, more than doubling (+118.0%) year-to-date. Exports to Central America and the Caribbean (+38.7%) have also experienced a large increase, as have shipments to South America (+23.9%).

BC origin exports soared in May



SEASONALLY ADJUSTED EXPORTS

Seasonal adjustment supplies a means of making month-to-month comparisons by removing the regular periodic seasonal fluctuations that occur. Variations from normal seasonal patterns are revealed in the seasonally adjusted data series.

- Exports adjusted for seasonal variation jumped 12.4% in May, as shipments to destinations outside the United States soared (+25.0%), while exports to the US also experienced robust growth (+5.5%).
- Growth in exports of forest products (+14.5%) and energy products (+20.9%) were the main reasons for the large jump. Coal was the main contributor to increased energy shipments, particularly to European destinations.

Seasonally Adjusted BC exports increased substantially in May



BC Exports, Seasonally Adjusted

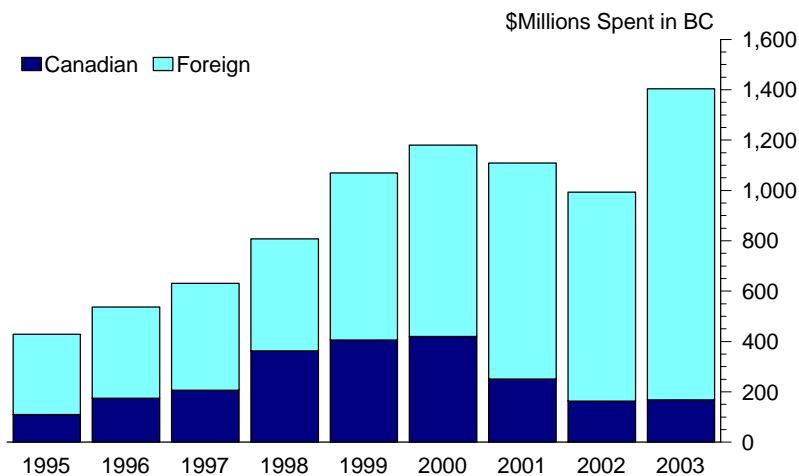
Month	Agriculture & Fish	Energy	Forest Products	Machinery & Equip, Auto	Industrial, Consumer	Total	Exports to USA
May 2002	191	287	1,279	345	423	2,525	1,770
Jun	191	303	1,054	332	440	2,320	1,472
Jul	192	293	1,094	344	435	2,358	1,527
Aug	207	262	1,129	355	430	2,383	1,585
Sep	193	313	1,075	373	441	2,395	1,619
Oct	207	366	1,100	350	464	2,486	1,666
Nov	200	404	1,101	349	444	2,498	1,672
Dec	217	365	1,131	360	431	2,504	1,657
Jan 2003	213	400	1,113	348	459	2,533	1,664
Feb	210	394	1,077	342	461	2,484	1,631
Mar	199	556	1,023	333	437	2,547	1,727
Apr	187	360	957	329	442	2,274	1,441
May	173	394	967	327	392	2,253	1,491
Jun	181	472	966	323	391	2,332	1,583
Jul	204	414	981	324	446	2,370	1,593
Aug	186	425	1,030	312	459	2,412	1,586
Sep	182	383	1,067	312	448	2,393	1,592
Oct	163	374	1,048	306	429	2,320	1,524
Nov	163	304	1,028	291	416	2,202	1,461
Dec	198	362	1,007	307	478	2,353	1,511
Jan 2004	168	324	1,012	304	438	2,246	1,474
Feb	182	319	1,044	328	513	2,386	1,491
Mar	174	344	1,142	311	474	2,445	1,587
Apr	176	328	1,163	318	520	2,506	1,618
May	179	396	1,331	341	569	2,816	1,707

Hollywood North Thrives in 2003

According to industry estimates, approximately \$1.4 billion was spent on film and television production in British Columbia in 2003.¹ Foreign producers were responsible for over \$1.2 billion of this amount, or about 88%, which represents a service export for British Columbia. These figures include all the expenditures associated with production, including salaries of local actors and crew, make-up artists, caterers, construction workers and so on. Despite concerns that the rapid appreciation of the Canadian dollar would cause substantial damage to the industry, spending in British Columbia on both Canadian (+3%) and foreign (+49%) film and television productions increased in 2003.

Film and television production in Canada by foreign filmmakers represents a service export

Location shooting in BC by foreign producers of film and television has grown tremendously



Source: BC Film Commission

Spending on film and television production in BC by foreign filmmakers increased 49% in 2003

Spending on foreign-produced feature films almost doubled from 2002 to 2003, which was the main reason for the significant growth in overall film and television spending in BC. While feature film-production flourished, both domestic (-36%) and foreign (-42%) production of TV movies, pilots and mini-series fell dramatically. Part of the explanation for this drop is likely the major networks' trend toward more reality-based programming, which is far less expensive to produce and often brings higher ratings than movies of the week, or mini-series.² However, this trend does not seem to

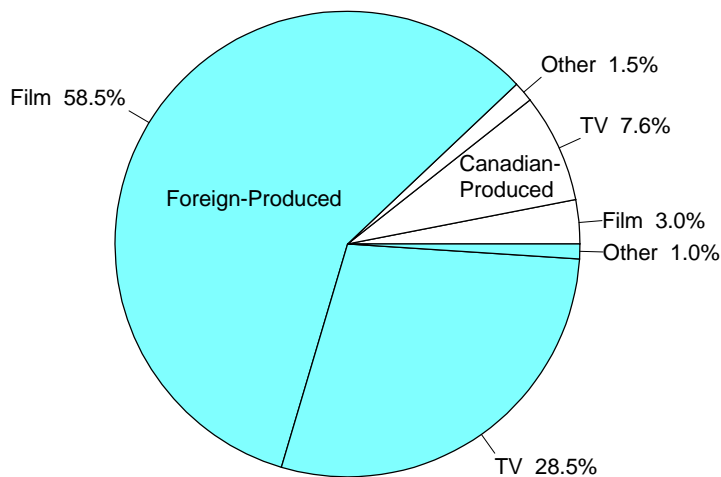
¹ Source: BC Film Commission, *Breakdown of 2003 Productions Shot in British Columbia*, BC Film Commission website: www.bcfilmcommission.com

²In fact, according to an annual report published by the Canadian Film and Television Production Association, *Profile 2004: An Economic Report on the Canadian Film and Television Production Industry*, the reality show *Survivor* was by far the top-rated show in Canada between September 2002 and August 2003.

be affecting television series production in British Columbia, as spending on both domestic (+75%) and foreign (+27%) television series increased significantly in 2003.

Although the \$169 million spent in BC on Canadian productions in 2003 is an improvement over 2002, it is a far cry from the peak of \$419 million in domestic film and television spending in 2000. While Canadian productions filmed in BC have slipped in recent years, foreign filmmakers have boosted their spending in the province significantly, increasing their share of total film and television spending from 64% in 2000 to 88% in 2003. Well over half of the \$1.4 billion spent in BC on the industry was derived from foreign-produced feature films.

Breakdown of Film and TV Production in BC, 2003



Source: BC Film Commission

Other is animation and documentaries

Approximately 88% of all spending on film and television production in BC in 2003 was from foreign sources

Most of the foreign location production in BC is by American film companies and the rapid growth in the number of American films shot in BC and the rest of Canada has sparked intense debate in the United States where they have coined the phrase “runaway production” to describe film and television projects lost to locations outside the country.³ A couple of years ago some people in the industry were suggesting that incentives offered to the film industry by the Canadian federal and provincial governments amounted to unfair trade practises and an attempt was made to launch a complaint under NAFTA. So far that effort has been fruitless, but the issue has resurfaced several times, including fairly recently when a member of the United States Congress sent a letter of protest over Universal Studio’s decision to shoot the

³ For more background on this issue, see the article “Is ‘Runaway’ Film Production in Canada Harming the U.S. Industry?” in the December 2001 issue of *Exports*.

film *Cinderella Man* in Toronto instead of an American location. Ironically, the decision was made for logistical rather than financial reasons, because the story takes place in Madison Square Garden circa 1935 and Toronto's Maple Leaf Gardens is a similar structure built in that era that is still standing (unlike the old Madison Square Garden, which has since been replaced).

It is true that both the Canadian and most provincial governments, including British Columbia, do offer incentives to the film industry, mostly in the form of tax credits. There are also other countries, such as Australia, South Africa and Hungary, just to name a few, that try to lure the American film industry by offering inducements. However, the film industry also has access to a variety of incentives in the United States itself. In fact, as many as 40 states offer incentives ranging from sales and use tax exemptions to more complicated schemes involving a combination of tax credits and exemptions, plus some rebates. There has also been a push to introduce a federal tax incentive measure in the United States. Often the same people arguing that Canada's incentives are illegal are also lobbying for similar measures in the United States. This contradiction has many in the American film industry opposed to any kind of trade action against Canada, fearing that it may interfere with the availability of domestic incentives.

Most states in the US also offer incentives to the film and television industry

While incentives such as tax credits may help attract major film projects, the real driver of where a filmmaker decides to shoot is often the overall cost of the project and this is where many countries have a decided advantage over the United States. Aided by the favourable exchange rate, Canada can offer a lower cost atmosphere, which is particularly attractive for major film studios when the production and marketing costs of a major motion picture are averaging over US\$100 million.⁴ Many traditional locations in the United States, such as Los Angeles, have simply priced themselves out of the market. Hollywood has not only lost business to other countries such as Canada, but also to other states such as North Carolina. The search for cost savings is one of the reasons that, for the last two years running, the Best Picture winner at the Academy Awards has been filmed outside the United States: *The Lord of the Rings: Return of the King* was shot in New Zealand and *Chicago* was filmed in Toronto.

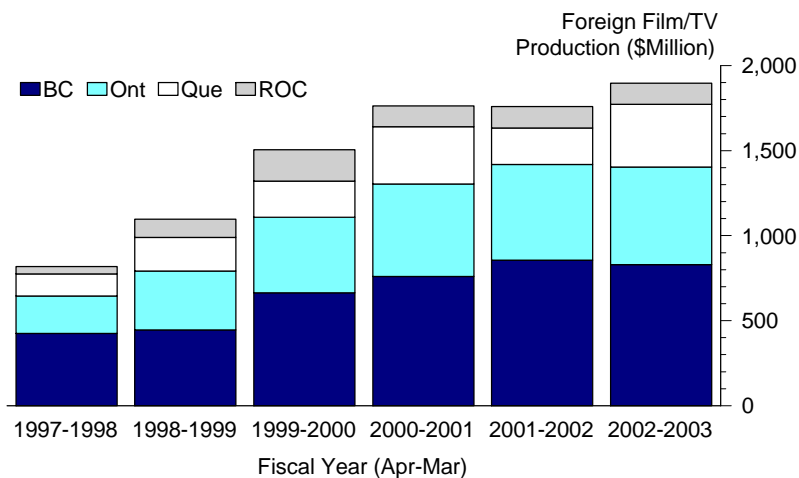
The United States is often a more expensive place to shoot regardless of incentives

The growth in foreign location shooting in Canada in recent years has added fuel to the fire for industry protectionists in the United

⁴ According to an article from the *Associated Press* (David Germain, "Production Costs Surge for Studio Films," March 23, 2004), the top seven studios spent an average of US\$102.8 million on production and marketing of their films in 2003, which represented an increase of 15% from 2002. The average production costs were US\$63.8 million and marketing of the films cost an average of US\$39.0 million.

States. According to a report published by the Canadian Film and Television Production Association (CFTPA),⁵ spending on foreign location film and television production in Canada increased 132% from 1997-1998 to 2002-2003. Quebec saw the most growth with an increase in expenditures of 185%, followed by Ontario at 160%. British Columbia's foreign location production almost doubled, jumping 95%. Over that period, BC's share of Canada's foreign-produced film and television projects ranged from about 40 to 50 per cent.

Between 40 and 50 per cent of foreign location production in Canada is filmed in BC



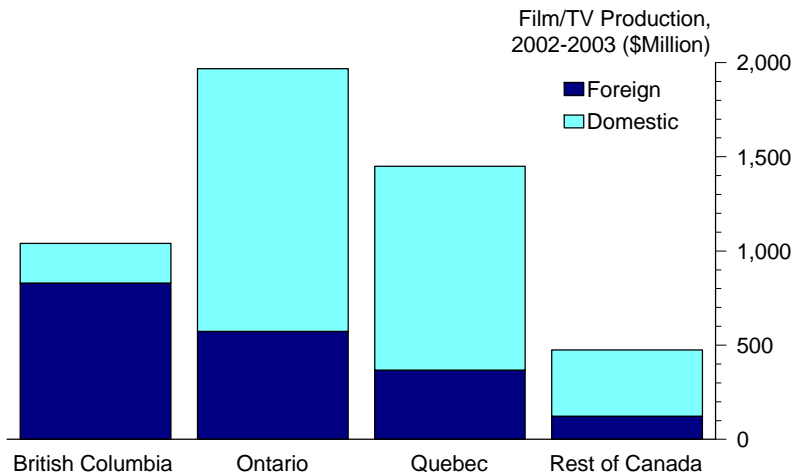
Foreign location production has increased across the country

Source: CFTAP, APFTQ, Department of Canadian Heritage

The British Columbia film and television industry is far more reliant on foreign productions than that of other provinces. In 2002-2003, 80% of film and television production was from foreign sources, compared to only 29% in Ontario and 25% in Quebec. BC's proportion of film production represented by foreign location shooting has grown substantially over the last few years. In 1998-1999, only 51% of all production in BC was from foreign sources, although that was down from 71% a year earlier.

⁵ *Profile 2004: An Economic Report on the Canadian Film and Television Industry* is an annual report published by the Canadian Film and Television Production Association with the collaboration of l'Association des producteurs de films et de télévision du Québec and the Department of Canadian Heritage using facts and figures prepared by the Nordicity Group Ltd. Note that figures quoted from this publication may not be entirely consistent with those from the BC Film Commission due to definitional or methodological differences.

British Columbia is far more reliant on foreign location film and TV production than any other province



Source: CFTAP, APFTQ, Department of Canadian Heritage

BC's film industry is comprised mainly of foreign location production

The demand by some in the US film industry that all American films should be made entirely in the United States ignores the fact that not all financing of these films comes from American sources and also that the industry in the US generates a significant proportion of its revenues from foreign sources through distribution of film and television, and sales of videocassettes and DVDs. In fact, according to the CFTPA report, American films earned 87.5% of total Canadian box office receipts in 2002, or \$843 million. Add in the money Canadian broadcasters pay for American programming and the receipts from sales of videocassettes and DVDs and the total is probably at least \$2.0 billion annually,⁶ which is more than Hollywood spends in Canada, at least according to the CFTPA report.⁷ In other words, Canada imports more film and television services than it exports.⁸

Canada imports more services from Hollywood than it exports

While the film and television industry can be lucrative, it still represents a small part of British Columbia's overall output. In 2003, it comprised around 0.2% of the province's GDP, although this figure does not include some of the indirect and induced im-

⁶ Unfortunately, it is difficult to find consistent figures on film and video distribution, but according to Statistics Canada's Film, Video and Audio-Visual Distribution and Videocassette Wholesaling Survey, in 2002-2003 there was revenue of \$1.2 billion in distribution of non-Canadian film and television. In addition, revenue from sales of videocassettes and DVDs totalled \$1.6 billion, of which over 98% was attributable to foreign content.

⁷ Foreign location production in Canada in 2002-2003 was \$1.9 billion according to the report.

⁸ This is probably true even including exports of Canadian-made film and television, which amounts to about half a billion dollars.

pacts. However, even using production numbers published by either the BC Film Commission or in the CFTPA report, the size of BC's film and television industry is still relatively small compared to other industries in the province. Nevertheless, the industry in British Columbia is significant and it is growing. The one concern for Canadian filmmakers may be that it is growing mostly due to expansion in foreign location production, while domestic production has fallen off.

According to the CFTPA report, exports of Canadian content production amounted to \$474 million in 2002-2003, but this was down 25% from a year earlier. Domestic television producers took a hit when the federal government reduced its contribution to the Canadian Television Fund by 25% in February 2003. Ironically, the cut came at the same time the government boosted its tax credit for foreign producers filming in Canada to 16% from 11% of all labour expenditures made in Canada. The improved tax credit was an attempt to compensate for the rising Canadian dollar, thus keeping Canada competitive as a filming location, but the concurrent reduction in domestic funding sent out a bad message that the government was more interested in attracting foreign filmmakers than encouraging its own. In British Columbia, domestic filmmakers lost a potential source of financing when the provincial government's feature film production program expired at the end of March 2004.

Due to a virtual stranglehold that American distributors have on Canadian theatres, domestically produced movies have a tough time finding a Canadian audience. This already puts the Canadian film industry at a disadvantage and the burgeoning foreign location filming may come at the expense of locally produced fare. It is possible that film and television service exports, already weighted in favour of foreign location filming may become even more so in the future.

Canadian film is taking a backseat to American culture

**Recent Feature Articles in British Columbia Origin Exports Release
Listed By Statistical Reference Date of Issue**

04-05 <i>Hollywood North Thrives in 2003</i> (released July 2004)	03-02 <i>Rising Log Exports Fuel Controversy</i> (released April 2003)
04-04 <i>Port of Prince Rupert: Down, But Not Out</i> (released June 2004)	03-01 <i>Review and Outlook for BC Exports</i> (released March 2003)
04-03 <i>Expanded European Union Could be Both Good and Bad for BC</i> (released May 2004)	02-12 <i>Team Canada Returns to Europe</i> (released February 2003)
04-02 <i>BC's Animal Agriculture Exports Facing Trade Restrictions</i> (released April 2004)	02-11 <i>Canada Courts the European Union for Freer Trade</i> (released January 2003)
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03-11 <i>The Lows of High Tech Trade</i> (released January 2004)	02-08 <i>Canada's Share of US Softwood Lumber Market Slipping</i> (released October 2002)
03-10 <i>Is Global Free Trade Possible?</i> (released December 2003)	02-07 <i>FTAA: Free Trade for the Western Hemisphere?</i> (released September 2002)
03-09 <i>Relatively Few Small Businesses in BC are Exporters</i> (released November 2003)	02-06 <i>The Changing Face of BC Exports</i> (released August 2002)
03-08 <i>Where's the Beef?</i> (released October 2003)	02-05 <i>Japan's Economic Woes Translate to Reduced Trade for BC</i> (released July 2002)
03-07 <i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)	02-04 <i>Team Canada Promotes Trade With Mexico</i> (released June 2002)
03-06 <i>Natural Gas Heats Up British Columbia's Exports</i> (released August 2003)	02-03 <i>Chile Warms Up to Trade With Canada</i> (released May 2002)
03-05 <i>Value Added Wood Production in BC Lagging Rest of Canada</i> (released July 2003)	02-02 <i>The Threat of American Protectionism</i> (released April 2002)
03-04 <i>Exports and the Rising Dollar</i> (released June 2003)	02-01 <i>Canada Seeks to Increase Trade With India</i> (released March 2002)
03-03 <i>Canada Talks Trade With Turkey</i> (released May 2003)	01-12 <i>Is "Runaway" Film Production in Canada Harming the U.S. Industry?</i> (released February 2002)

NOTES

Countries Included Within World**Regions:**

(1) Western Europe: United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) Eastern Europe: other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) South East Asia: Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) Africa: continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) South America: continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) Central America and Caribbean: from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) Pacific Rim (including Japan): Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) Pacific Rim: as above, but excluding Japan.

(9) Middle East: from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

The **European Union** is the membership as of May 1, 2004: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta,

Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

'Selected Value-added Wood Products' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

Service Offered for Detailed Trade Statistics

For B.C. government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

Dan Schrier

BC STATS

P.O. Box 9410 Stn Prov Govt

Victoria, B.C. V8W 9V1

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This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for British Columbia, Canada, the United States and other countries. Tabulations can include information on commodities, countries, U.S. states, years, months, mode of transport, etc.