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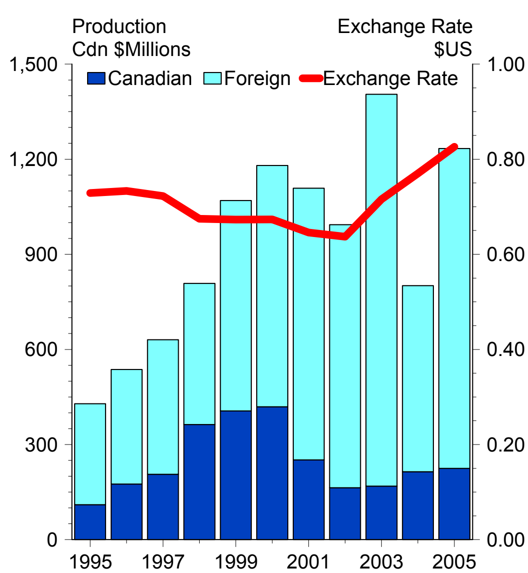
Roll the Credits for BC's Film and TV Sector

Film and television production in BC rebounded in 2005 and production levels so far in 2006 indicate that this year will be another good one for the sector in BC. This production boom is occurring despite the continuing rise in the value of the Canadian dollar, which is eroding some of Canada's competitive advantage in terms of costs.

Film and television production in BC increased in 2005 despite appreciation of the Canadian dollar



Source: BC Film Commission

It is possible that the sector has yet to suffer ill effects from the soaring dollar because most of the productions currently underway were locked into contracts many months ago and the studios ensured certainty in their budgets by buying forward Canadian currency at rates available at that time. Another likely factor is that there has been a return to popularity of dramatic television series after several years of taking a backseat to reality-based programming. BC has long been a popular location for television series and movies-of-the-week and is benefiting from the resurgence of dramatic television. However, perhaps the largest reason for the ability of the BC industry to remain competitive in the face of an appreciating dollar is the availability of significant tax credits for film and television productions operating in the province.

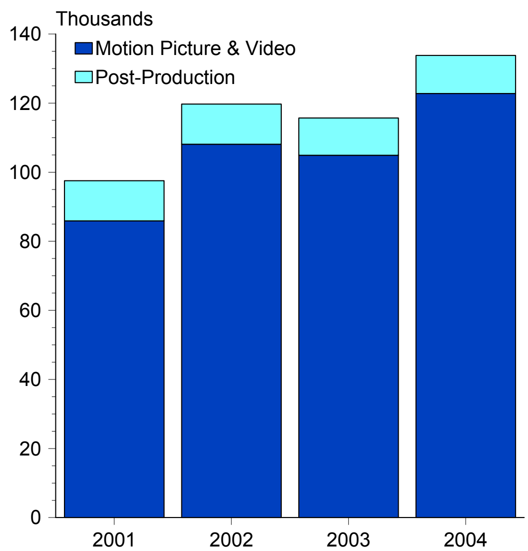
Filmmakers have access to tax credits from both the federal and provincial governments that can greatly reduce their labour costs. These credits often play a deciding role in whether or not a film or television production will be shot in the province. For example, in 2005, when both Ontario and Quebec increased the level of credit available to film and television productions, a number of high-profile film productions threatened to leave BC to take advantage of the lower cost atmosphere in Ontario. The BC government responded by raising its own tax credit levels from 11% to 18% for foreign productions and 20% to 30% for domestic productions. The higher rates once again made BC competitive not only with its Canadian rivals, but also with potential locations in the United States.

The raising of provincial tax credits has renewed complaints in the United States, particularly in California, about the effects of so-called "runaway" production. There are those in Hollywood that claim that, by offering unfair subsidies, Canada has attracted productions that would have otherwise been shot in California. Ironically, some of these same groups are behind efforts to get the California state government to offer similar tax credits.

The truth of the matter is that BC and other Canadian provinces are not the only regions offering incentives to filmmakers. Several states in the US offer comparable benefits to film productions and some of these states have been able to lure production away from the traditional film centre of Hollywood. In fact, the term "runaway" production was first coined to refer to productions that eschewed Hollywood for South Carolina. More recently, Louisiana has started offering some lucrative incentives and production in that state has grown 25 fold in just five years, although hurricane damage has affected production this year.[1] Other countries, such as Australia and New Zealand, as well as some Eastern European countries, such as Romania, have also climbed on board with subsidies and tax credits to attract film productions.

Despite the predictions of doom and gloom coming from Hollywood, the effects of runaway production have been less than devastating for California's film industry. According to the US Bureau of Labor Statistics, employment in the film and television industry in California climbed 37% from 2001 to 2004.[2] This is well in excess of the 9.6% growth in film and television employment in the United States as a whole over the same period. While it is true that film and television projects filmed outside of California have grown significantly in recent years, so too have the number of projects filmed within the state. According to FilmL.A. Inc., an industry development organization, the number of production days for both features and television increased in both 2004 and 2005 and while the production days for feature films in 2005 were about 4% below the 1994 to 2004 average, the number of production days for television was 66% higher than the average over that period.[3]

Film and television employment in California increased 37% between 2001 and 2004



Source: US Bureau of Labor Statistics

Hollywood's protests about foreign locations standing in for American cities is somewhat hypocritical considering that the back lots of major Hollywood studios have historically stood in not only for other American cities such as New York and Atlanta, but also other cities around the world such as Paris and London. The idea that Hollywood is the natural location for all film and television production and that movies and television shot elsewhere are somehow stolen doesn't hold up, particularly in the current global environment where services are increasingly mobile.

[1] A June 5, 2006 news release on the Louisiana Office of Film and Television Development website (www.lafilm.org) states that the value of film projects in the state grew from $20 million in 2001 to $500 million in 2005 (Greg Hilburn, "La. film office director: State is becoming a hub" from the *Monroe News Star*).

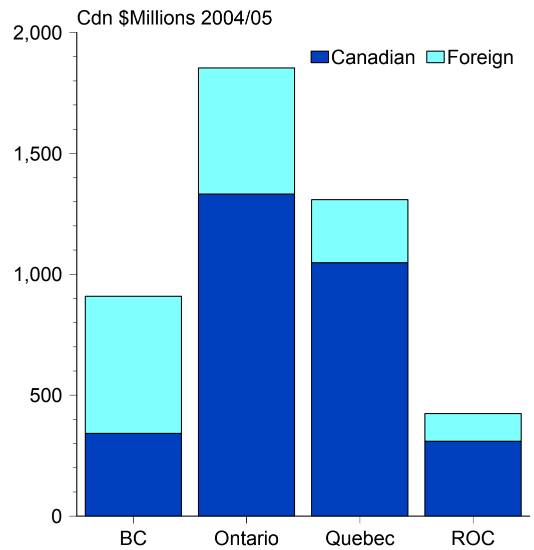
[2] The film and television industry is here defined as being comprised of NAICS industries 51211 Motion Picture and Video Production and 51219 Post-Production and Other Motion Picture and Video Industries.

[3] Data extracted from www.eidc.com.

Considering that a significant percentage of both the financing for and revenues from US films and television programs are derived from foreign sources, it seems reasonable that some of these projects are filmed outside of the United States. Jack Valenti, President and CEO of the Motion Picture Association of America, summed it up best when he testified before the US Senate that, "The U.S. movie industry alone has a surplus balance of trade with every single country in the world. No other American enterprise can make that statement."[4]

Within Canada, British Columbia is the primary location for foreign film and television production. In 2005, almost 82% of the $1.2 billion spent in BC on film and television production was derived from foreign productions.[5] Based on data from an annual report published by the Canadian Film and Television Production Association, other provinces in Canada with a significant film industry have far less dependence on foreign productions compared to BC.[6] From 2000/2001 through 2004/2005, the average value of foreign production as a percent of total production was 70% in BC. By comparison, the five-year average for Quebec was only 22% and for Ontario was 27%. Approximately 37% of all film and television production spending in Canada was from foreign productions.

BC is far more dependent on foreign location projects than the rest of Canada



Source: Canadian Heritage, CFTPA, APFTQ

The dependence on foreign production puts the BC industry in a precarious position given the mobility of the industry and the willingness of the major studios to locate productions wherever costs are lower. If the BC government had not matched the film credits offered by Ontario, it is quite probable that BC would have lost several large film projects. The problem is that another jurisdiction may come along and offer even better incentives to the film industry that could again threaten the BC industry. Should the BC government follow suit and again increase the available tax credits? When does it stop making sense to continuing upping the ante in order to attract Hollywood productions to BC?

According to the InterVISTAS report, "Film and Television Industry Review" commissioned by the BC Ministry of Economic Development, that point has already been reached. However, there have been many criticisms aimed at the methodology used in the report calling into question the conclu-

[4] Quote taken from "Canada-US trade in film production services" on the Canadian Embassy in Washington's web pages: http://www.dfait-maeci.gc.ca/can-am/washington/trade_and_investment/filmfacts-en.asp

[5] Source: BC Film Commission.

[6] *Profile 2006: An Economic Report on the Canadian Film and Television Production 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 the figures quoted from this publication may not be entirely consistent with those from the BC Film Commission due to definitional and methodological differences.

sions, particularly from within the film industry. Even if the report's findings are faulty, there is no arguing that eventually a point will be reached where, if incentives continue to be enhanced, the costs of providing these incentives will outweigh their benefits. For the industry in BC to not only survive, but thrive, it may have to reduce its dependence on foreign location production and move towards more domestic production.

This may be easier said than done, however. Canada's domestic film and television sector faces some serious challenges, ranging from funding issues to finding an audience for its product. According to the *Profile 2006* publication, only 5.4% of Canadian box office revenues were from Canadian films in 2005. For films in English, the figure drops to a dismal 1.1%. Thanks to Canadian content regulations, the numbers are a little better for television, but even there, nine of the top ten programs in Canada in 2004/05 were American and the only Canadian program to crack the top ten was a Canadian clone of an American program: *Canadian Idol*.

Part of the problem for Canadian films is the difficulty in finding venues to showcase them as the major American studios have a virtual monopoly on Canadian theatres. Canadian distributors are also substantially disadvantaged when it comes to funding for marketing and promotion. This combination makes it unlikely that a Canadian film will be able to generate big box office revenues, which leads to a bit of a Catch-22, because if Canadian films can't earn much, there will be less money available to invest in new films and therefore the budgets of Canadian films will remain low, which will affect the quality, which will in turn affect the box office receipts.

There is some funding available for the Canadian film and television industry from government agencies, such as Telefilm Canada, but in recent years some of this funding has been cut. The federal government reduced funding available for domestic television production through the Canadian Television fund by 25% in 2003 and the provincial government trimmed the budget for BC Film in 2004, taking away a source of equity financing for feature film projects.

The film and television sector offers many benefits, including high paying jobs and economic diversification so it is certainly worthwhile to ensure that the industry in BC remains healthy. Industry groups such as the Motion Picture Production Industry Association have suggested that given the fickle nature of servicing foreign productions from major Hollywood studios, the best way to accomplish this goal may be to shift the emphasis toward more domestic production. The industry in BC and the rest of Canada cannot sustain itself if it continues to chase after American productions that will gravitate toward the lowest cost alternative.