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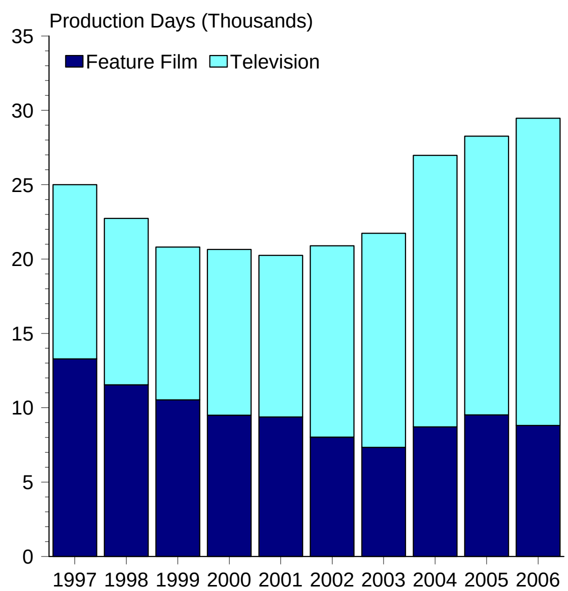
## Hollywood Cries “Blame Canada” Again

Canada’s film and television industry is under attack from Hollywood once again. The Film and Television Action Committee (FTAC), a coalition of actors and technical workers, has filed a petition with the United States Trade Representative alleging that Canadian tax incentives for film and television production amount to an unfair trade practise. FTAC claims that, as a result of film and television incentives from various countries, the American economy has lost 47,000 jobs per year since 2000, with most of those going to Canada.

The job loss figure is derived from a report by the Center for Entertainment Industry Data and Research (CEIDR), which bases the number on the decline in the amount spent in the United States on production of movies for theatrical release.[1] The report doesn’t go into enough detail on the specifics of methodology and data sources to allow for a proper critique, but basing employment figures on expenditure data is rather dubious, particularly in an industry where the ratio of wages to overall expenditures will vary significantly depending on the budget of the film (i.e., large budget films will have a far greater proportion of expenditures on special effects and post-production work, while for smaller budget movies, more of the costs will be taken up by wages). The job loss figure also doesn’t account for the fact that a significant amount of the production in the United States, particularly in California, has shifted toward television.

A sharp increase in TV production in Los Angeles has more than offset a decline in feature films




Source: FilmL.A. Inc.

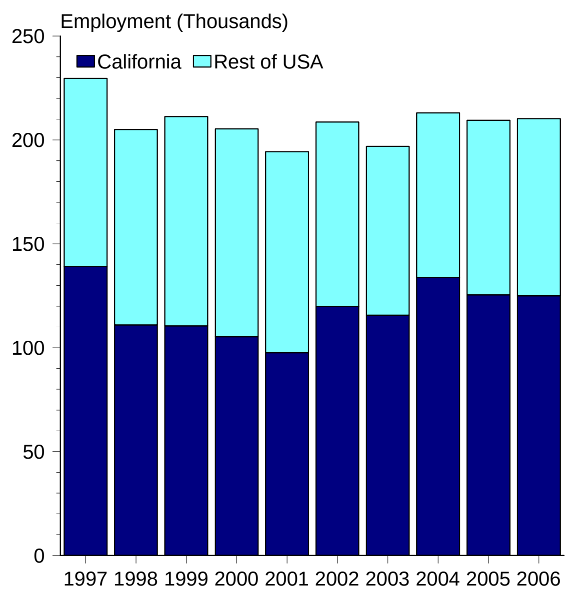
According to FilmL.A. Inc., a Los Angeles-based non-profit organization that offers assistance to filmmakers, the drop in production of feature films in Los Angeles has been more than offset by a corresponding increase in television production. The number of days spent on feature film production in the city dropped from 13,284 in 1997 to 8,813 in

[1] The Center for Entertainment Industry Data and Research, “The Global Success of Production Tax Incentives and the Migration of Feature Film Production from the U.S. to the World: Year 2005 Production Report,” 2006.

2006, while days spent on television production climbed from 11,713 to 20,652.[2]

Based on data from the US Bureau of Labour Statistics, employment in film and television production dropped between 1997 and 1998, but has been relatively stable since that time.[3] The claims of massive job losses in the industry appear to be unfounded. It is possible that the shift from higher budget feature film productions to lower budget television projects has resulted in a decline in jobs in specific sectors, particularly those indirect jobs outside the industry, but it is likely the number of these jobs is nowhere near as significant as that claimed by FTAC.

Employment in the film and television industry in the US has remained stable over the last decade




Source: US Bureau of Labour Statistics

[2] Data extracted from FilmL.A. Inc. website: www.eidc.com

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

The job loss calculation from the CEIDR report seems to be based on the idea that the US market share of feature film production should remain intact. The report states that the US share of production dollars from theatrical releases dropped from 71% in 1998 to 47% in 2005. At the same time, according to the report, worldwide expenditures on theatrical production climbed 30% from $5.6 billion in 1998 to $7.2 billion in 2005; however, production dollars spent in the US dropped 14% over the same period.

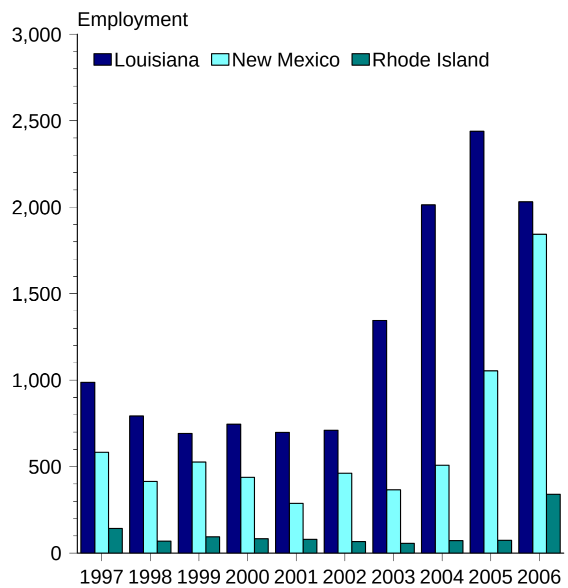
It is likely that the sudden upsurge in incentives offered around the globe is indeed responsible for taking away production that would otherwise have been filmed in the United States, but it is highly unlikely that even in absence of these incentives, the US would have attracted the same share of production as it did in 1998. Some of the increase in production was likely due to the fact that the industry has expanded such that there are more locations and more people available to shoot more movies. Without these new resources, many of these films may not even have been contemplated. In some cases, the movies may have been local productions that would never have been shot in the United States in the first place. It is also possible that a significant number of the films were produced only because the potential cost savings of shooting outside the United States made the film financially viable. Without these savings, they may never have been made.

Nevertheless, while the effects of so-called "runaway production" on the industry in the US may be overstated by FTAC, the question still remains as to whether the incentives offered in Canada and elsewhere do represent an unfair trade practise.

Generally, the argument for offering subsidies is that a new industry needs assistance in order to compete with other jurisdictions where there is already an infrastructure in place. However, once that industry has been established, it should be allowed to sink or swim on its own. The problem with this theory when it is applied to the motion picture industry is that there have been many players entering the industry all around the same time and all of them are offering incentives to entice filmmakers. The nature of the movie industry is that it is very mobile and producers have the ability to shop around for the best deal. For example, in 2005, a number of high-profile productions threatened to leave British Columbia to take advantage of higher subsidies offered in Ontario and Quebec. The provincial government had to either accept the consequent loss of revenue and employment or boost their own incentives to the industry. Not too surprisingly, the government chose the latter course of action and the productions remained in BC.

British Columbia does not just compete with other Canadian provinces for film production, but also with budding film sectors around the world in places as disparate as New Zealand, Hungary and South Africa. While Canada is the primary target of FTAC's challenge, these other countries are also on their radar. However, FTAC will have a difficult time arguing that incentives in these countries are unfairly harming the US industry, since most American states also offer incentives of one kind or another, including some that are as lucrative, or perhaps even more so, than those offered in Canada. One of the first states to jump on the incentive bandwagon was Louisiana, which started offering tax credits to the film industry in 2003 and subsequently saw film production in the state skyrocket. New Mexico offers a 25% tax rebate (not a credit, as their film office's web site is quick to point out) on all production expenditures in state. As a result, employment in the film industry in New Mexico more than tripled between 2004 and 2006. Rhode Island approved a 25% tax credit in 2005 and employment more than quadrupled in 2006.

States offering lucrative incentives have experienced a significant boost in film activity



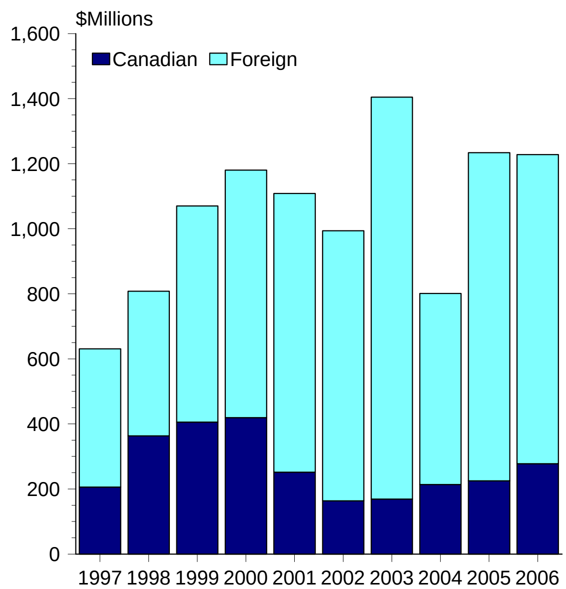

Source: US Bureau of Labour Statistics

These are just a few of the many states that are offering incentives to lure film production away from other jurisdictions, including other states such as California. If Canada and other countries that are offering incentives to the film industry are violating international trade laws by doing so, then so too is the United States.

Another problem with the FTAC complaint is the underlying concept that the United States in general, and California in particular, is the natural location of film production and should continue to produce the bulk of the world's theatrical releases in perpetuity. According to the Motion Picture Association, approximately 63% of the worldwide box office for theatrical releases was garnered in countries outside the United States.[4] Not only is the revenue from films coming mostly from foreign sources, but financing for many motion pictures is often derived from foreign investors as well. With this is mind, it seems a little ridiculous to suggest that California should continue to have a near monopoly on film production. As more countries develop film sectors with skilled work forces, it is likely that film production will continue to branch out.

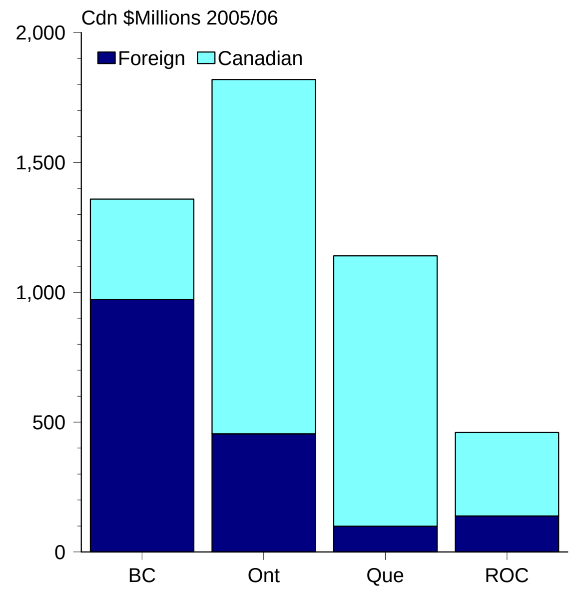
The timing of the FTAC complaint is curious considering that the Canadian dollar is flirting with par with its American counterpart, erasing the exchange rate advantage that was another key component in Canada's ability to attract foreign location productions. The rapid appreciation of the Canadian dollar is of particular concern to the industry in British Columbia, since most of the province's film and television activity is derived from foreign location productions. In 2006, about 77% of film and television expenditures in the province were derived from foreign productions, with most of those being American projects.[5]

The bulk of BC's film and television production is comprised of foreign location productions




Source: BC Film Commission

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




Source: Canadian Heritage, CFTPA, APFTQ (Profile 2007)

Other provinces have nowhere near the same reliance on foreign location production. According to an annual industry report,[6] over the last five years the average proportion of

[4] Data extracted from the Motion Picture Association of America website: www.mpa.org

[5] Data extracted from the BC Film Commission website: www.bcfilmcommission.com

[6] *Profile 2007: 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.

Canadian film and television production expenditures comprised of foreign location shooting was 36%. The five-year average was only 18% in Quebec, where domestic production for the francophone market dominates the industry. In Ontario, just 26% of expenditures were derived from foreign location production, while the five-year average for BC was 72%.

The rising dollar combined with competitive incentives available in other jurisdictions are real threats to the health of BC's film and television industry given the fickle nature of the major film studios and their willingness to shift productions to the lowest cost alternative. At some point, increasing available tax credits in order to retain production in the province will no longer be a viable option as the cost of the incentives will outweigh the benefits. If British Columbia continues to chase after Hollywood productions rather than make efforts to develop more domestic projects, it is highly likely that the industry will not be able to sustain current production levels.

Unfortunately, the domestic industry faces a number of hurdles when it comes to producing Canadian films, including finding financing for the production, getting the funding for marketing and promotion of the finished product and even in finding venues in which to showcase these movies. Perhaps the federal and provincial governments may eventually find that there is a better return in solving these problems than in throwing money at foreign producers. Until that time, the BC industry will have to find a way to survive in the face of mounting competition and the loss of the exchange rate advantage.