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# The Economic Impact of Non-CTF Certified Canadian Film and Television Production

Canadian Film and Television Production Association  
(CFTPA)

August 2002

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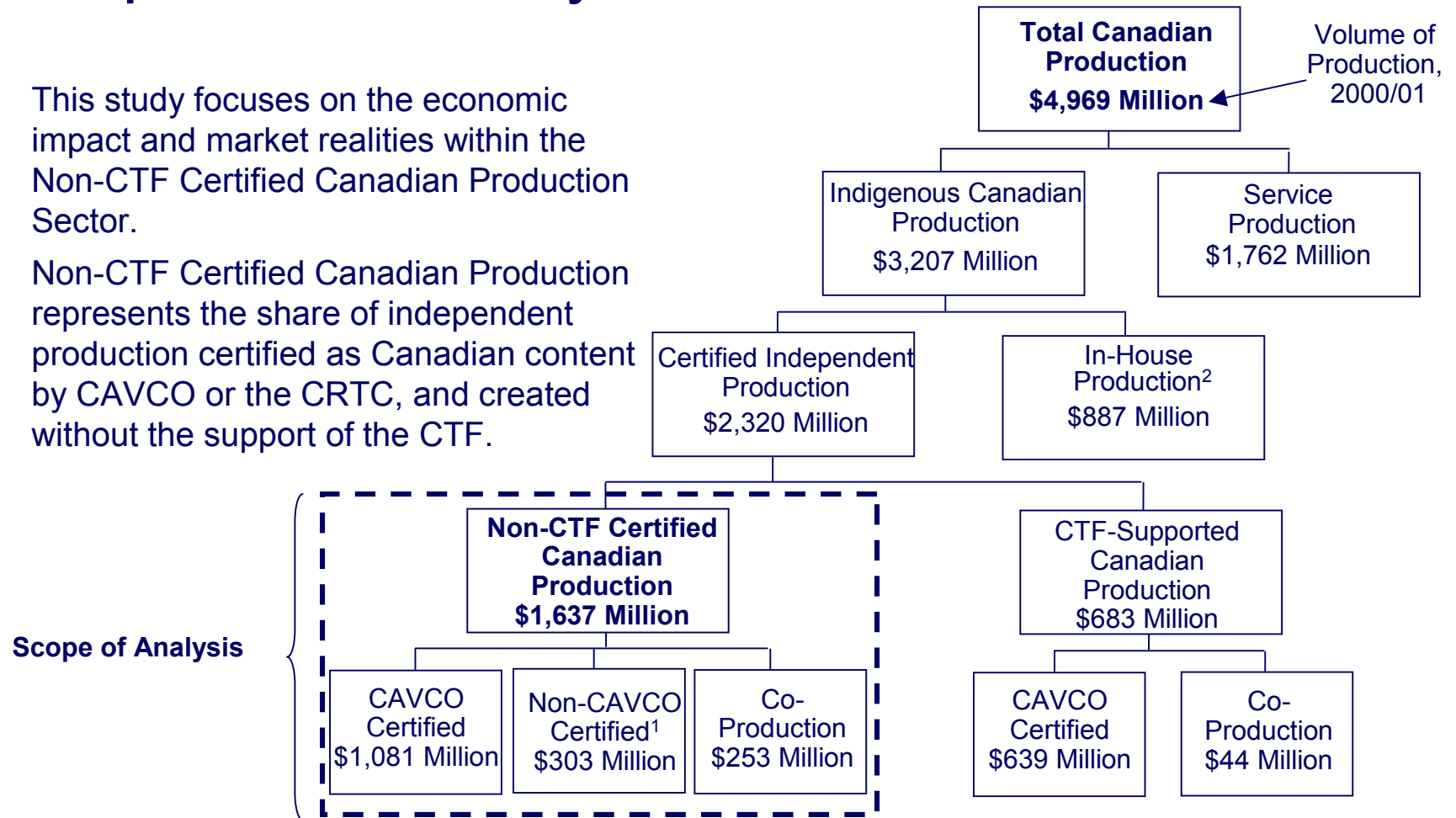
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# Background

- In March 2002, the CFTPA commissioned PwC Consulting (PwC) to prepare a study of the economic impact of Canadian film and television production that is certified as Canadian content but is made without support from the Canadian Television Fund (CTF) (“Non-CTF Certified Canadian Production”).
- To complete this study, PwC:
  - Consulted with producers to gain insights on the film and television production industry in Canada.
  - Conducted a literature review of documentation related to the Canadian production industry, including industry reports and government studies.
  - Conducted analysis of industry data available from the Canadian Audio-Visual Certification Office (CAVCO), Telefilm Canada, and Statistics Canada.
- The primary objective of this study is to describe and assess the economic contribution that Non-CTF Certified Canadian Production brings to the Canadian production industry and the Canadian economy.
- This study is a companion study to a study prepared by PwC in August 2001 titled *Assessment of the Economic Impact of the Canadian Television Fund*. An update to the August 2001 study will be released at the end of August 2002.

# Scope of the Analysis

- This study focuses on the economic impact and market realities within the Non-CTF Certified Canadian Production Sector.
- Non-CTF Certified Canadian Production represents the share of independent production certified as Canadian content by CAVCO or the CRTC, and created without the support of the CTF.

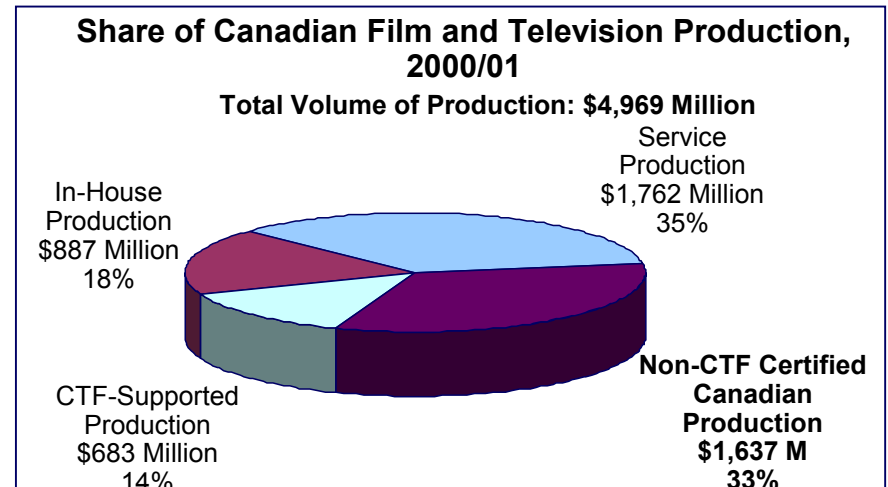


(1) Non-CAVCO Certified Production is indigenous production that is certified as Canadian content by the CRTC rather than CAVCO.  
 (2) In-House Production refers to television programs produced by television broadcasters primarily with internal production resources (i.e., news, sports).

Source: PwC estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.  
 Note: All amounts in Canadian dollars

# Introduction

- Non-CTF Certified Canadian Production includes film and television programs that do not receive funding from Canada's largest production fund, the CTF. Non-CTF Certified Canadian Production includes a wide variety of films and television programs ranging from major motion pictures, to made-for-television movies, to cooking shows, to low-budget productions. Several recognized Canadian productions, including *Rolie Polie Olie*, *The Worst Witch*, and *Nuremberg* have been produced without CTF funding.
- Film and television production which is funded by the CTF is most critical in terms of contribution to the social and cultural fabric of Canada. The primary goal of the CTF is to support the production of films and television programs made in Canada, which speak to Canadians about Canadian themes.
- Non-CTF Certified Canadian Production represents the economic and cultural foundation of the Canadian production industry.
- In 2000/01, Non-CTF Certified Canadian Production accounted for over \$1.6 billion (all amounts in Canadian dollars) worth of production in Canada, or 33% of the \$5.0 billion of total film and television production in that year.



Source: PwC estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

# Economic Impact of Non-CTF Certified Canadian Production

- Non-CTF Certified Canadian Production accounted for 71% of the \$2.3 billion<sup>1</sup> in independently produced Canadian film and television content in 2000/01. Non-CTF Certified Canadian Production has increased its share of Canadian Content Production from 58% in 1996/97.
- Non-CTF Certified Canadian Production generated an estimated 44,000 full-time jobs in 2000/01. About 17,000 of these jobs were directly in the production industry. Another 27,000 jobs were in other industries.
- In 2000/01, Non-CTF Certified Canadian Production had an export value of \$381 million, and accounted for 86% of the export value of Canadian content production. Non-CTF Certified Canadian Production is the export engine for Canadian Content Production.
- The contribution of Non-CTF Certified Canadian Production varies by region. In Ontario, Non-CTF Certified Canadian Production makes up 77% of total Canadian Content Production (the highest share among the regions). In other regions of Canada, Non-CTF Certified Canadian Production comprised the following percentage of Canadian Content Production: B.C. (including territories), 74%; Quebec, 68%; Prairie Provinces, 51%; and the Atlantic Provinces, 49%.

(1) Non-CTF Certified Canadian Production (\$1,637 million) and CTF- Supported Production (\$683 million)

# Market Realities in the Canadian Production Industry

- Non-CTF Certified Canadian Production is one of the four pillars of the Canadian film and television production industry. Non-CTF Certified Canadian Production, along with CTF Production, Service Production, and In-House Television Production form the production industry's building blocks; each contributes directly to the industry's development.
- Non-CTF Certified Canadian Production, and the CAVCO certification system that defines it, provides an essential minimum standard for Canadian creative and technical elements, while encouraging Canadian producer ownership and corporate development. By fostering the development of the Canadian production sector, Non-CTF Certified Canadian Production contributes directly to Canada's cultural goal of having a vibrant domestic production sector. Canadian content certification rules require the total of all cost for services provided in respect of producing the production payable to Canadians in respect of services to or by Canadians. The rules also require that a minimum of 75% of post-production expenditures be made in Canada. Canadian producers often surpass the minimum thresholds set out by the CAVCO system.
- Non-CTF Certified Canadian Production also contributes indirectly to the creation of distinctly Canadian production because it provides the economic basis for the development of a production infrastructure (studios, equipment, skilled production personnel) that can be used to produce all types of production in Canada. *continued ...*

# Market Realities in the Canadian Production Industry (cont'd)

- Producers are the builders in the production process. They bring together all of the elements of the production process including the financial capital, creative elements, performing talent, production facilities, and distribution channels. In most cases, producers assume all the financial liabilities and responsibilities associated with financing a production. In many ways, producers are the cornerstone of the industry.
- Producers are also a major employer of Canadian creative talent. They bring together Canadian actors, writers and directors to create feature films and television programs.
- Canadian producers have established themselves in market niches where they can make programs that can compete in world markets. For example, many Canadian producers create television programs and movies for the numerous cable television channels in the U.S.
- International treaty co-production is also an important part of the Canadian production industry. It allows Canadian producers to access larger production budgets and to gain exposure in foreign markets other than the U.S.

*continued ...*

# Market Realities in the Canadian Production Industry (cont'd)

- Canadian production companies use numerous different financing sources, ranging from distribution licences, to broadcaster licence fees, and to production development funds. Producers are responsible for organizing most of the production financing for Non-CTF Certified Canadian Productions.
- The business realities of production and the economic difficulties in creating high quality content have led many Canadian producers to pre-sell their productions in foreign markets and utilize foreign sources of financing.
- Foreign financing is considerably higher for productions with 7 or fewer CAVCO points. Foreign presales tend to be higher for productions with fewer CAVCO points because producers often commit to using international talent in order to access foreign financing.
- The federal and provincial governments in Canada also make a significant investment in the Canadian production industry through a variety of support mechanisms, including Canadian content regulations, tax credits, development financing, marketing assistance, and skills and training development.

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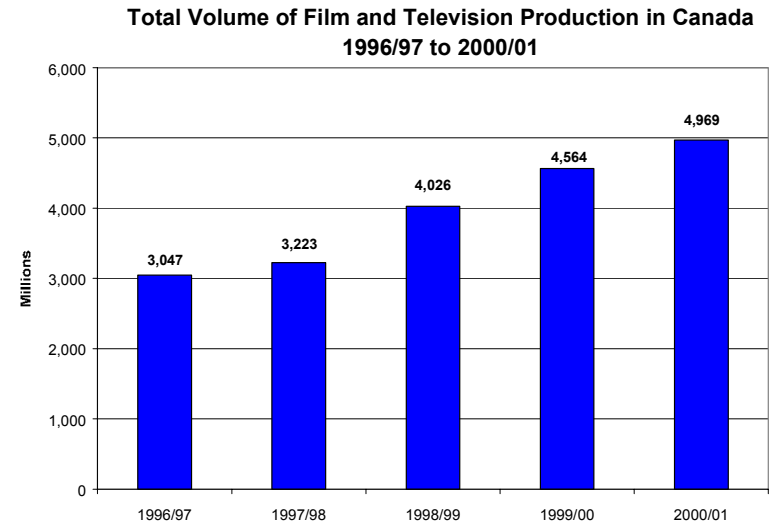
# Outline of the report

- The product of PwC's research and analysis is presented in this report and organized in the following manner:
  - In Section 1 we define the key segments in the Canadian production industry and provide basic production data for these segments.
  - Section 2 focuses on the economic contribution of the Non-CTF Certified Canadian Production Sector. In this section, we examine the production spending, job creation and export value attributed to Non-CTF Certified Canadian Production.
  - In Section 3 we outline many of the market forces and business realities of the film and television production industry in Canada, particularly for Non-CTF Certified Canadian Production. In this section, we also provide an analysis of production financing in Canada.
  - In Section 4 we summarize the key conclusions from our research and analysis.

## Introduction

# The total volume of film and television production in Canada

- In 2000/01, the total volume of film and television production in Canada reached almost \$5.0 billion (all amounts in Canadian dollars).
- The film and television production industry in Canada has experienced strong growth over the last four years. Since 1996/97, film and television production in Canada has increased by an annual average rate of 13%, from \$3.0 billion to just under \$5.0 billion in 2000/01.



Source: PwC estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

# Sectors of the Canadian film and television production industry

- The Canadian film and television production industry can be divided into four key sectors. These four sectors are:
  - In-House Television Production
  - CTF-Supported Production
  - Non-CTF Certified Canadian Production
  - Service Production
- This report focuses on Non-CTF Certified Canadian Production. Non-CTF Certified Canadian Production includes feature films and television programs certified by CAVCO or the CRTC, which do not receive funding support from the Canadian Television Fund (CTF).

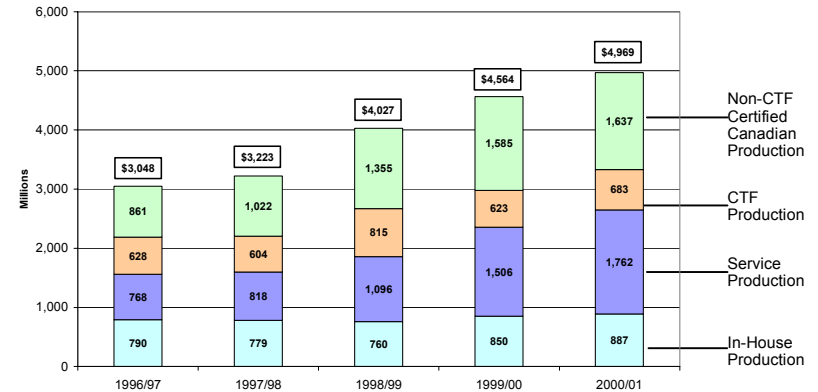
<u>Sector</u>	<u>Definition</u>
<b>In-House Television Production</b>	<ul style="list-style-type: none"><li>• In-House Television Production refers to television programs (e.g., news, sports, talk shows) produced by television broadcasters primarily with internal production resources.</li></ul>
<b>CTF-Supported Production</b>	<ul style="list-style-type: none"><li>• CTF-Supported Production includes film and television programs that are high in Canadian content in terms of both the contribution of Canadians to production and the degree to which the production speaks to Canadians and reflects Canada's culture.</li></ul>
<b>Non-CTF Certified Canadian Production</b>	<ul style="list-style-type: none"><li>• Non-CTF Certified Canadian Production refers to production that is certified as Canadian content by CAVCO or the CRTC and is produced by Canadians for both Canadian and international markets, but with a greater emphasis on international markets than CTF-Supported Production.</li></ul>
<b>Service Production</b>	<ul style="list-style-type: none"><li>• The Service Production sector is mostly comprised of Canadian companies that rent production facilities, equipment, and technical expertise primarily to U.S. producers who film productions in Canada. The foreign producer often retains the copyright to the program. This sector also includes Canadian owned productions that do not qualify for Canadian content certification.</li></ul>

## Introduction

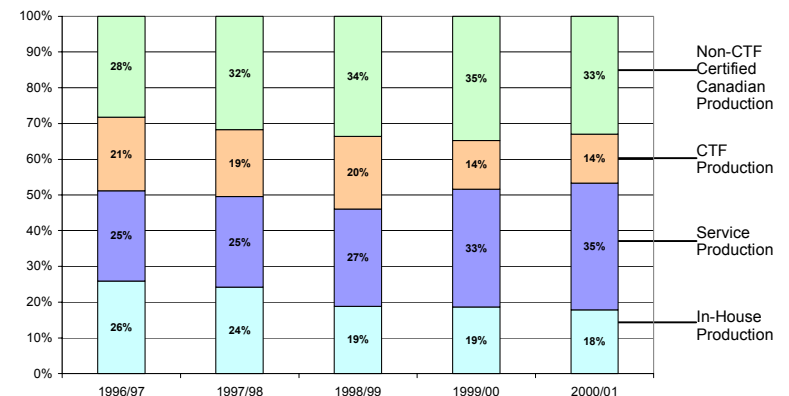
# Non-CTF Certified Canadian Production has grown over the past several years, while CTF Production has remained stable

- Between 1996/97 and 2000/01, Non-CTF Certified Canadian Production increased from \$861 million to \$1,637 million. During that same period, CTF-Supported Production remained stable. The limited amount of available CTF funding has meant that it can only support between \$600 and \$700 million of production in most years.
- Non-CTF Certified Canadian Production has also increased as a share of total Canadian production. Between 1996/97 and 1999/00, Non-CTF Certified Canadian Production as a percentage of total Canadian production increased from 28% to 35%.

Canadian Film and Television Production, by Sector, 1996/97 to 2000/01



Percentage Distribution of Film and Television Production, by Sector, 1996/97 to 2000/01



Source: PwC estimates based on data from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

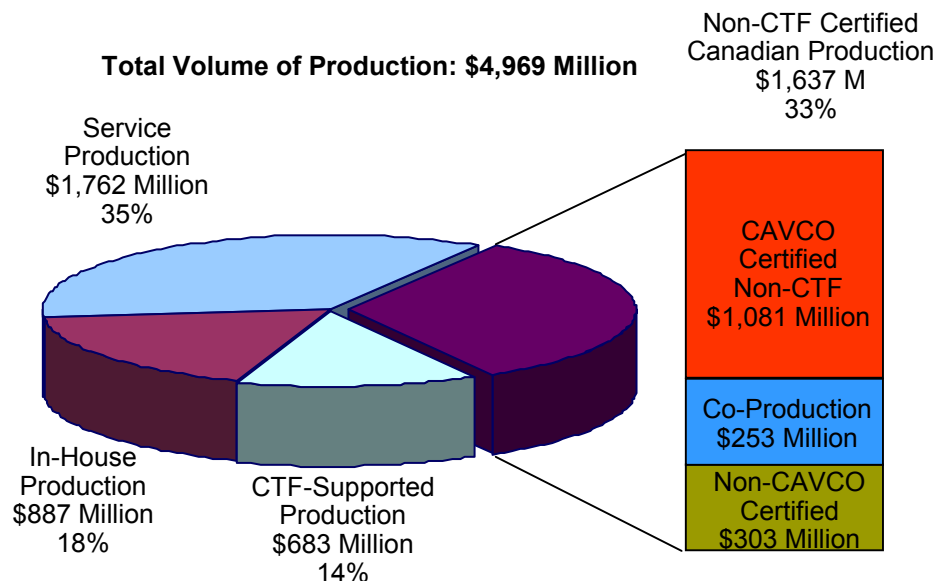
Notes: Some totals may not add due to rounding

## Introduction

# Segments of the Non-CTF Certified Canadian Production Sector

- Non-CTF Certified Canadian Production includes:
  - All CAVCO-certified production that did not receive funding from the CTF (\$1,081 million);
  - The Canadian budgets of Treaty Co-Productions that did not receive CTF funding (\$253 million); and,
  - Non-CAVCO Certified Production (\$303 million).
- Non-CTF Certified Canadian Production includes film and television programs produced under Canada's international treaty co-production system without support from the CTF, and other Canadian certified productions. The majority of CAVCO-certified Non-CTF Certified Canadian Productions receive between 6/10 and 9/10 CAVCO points. However, many productions also receive 10/10 CAVCO points.

## Share of Canadian Film and Television Production, 2000/01



Source: PwC estimates based on data from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

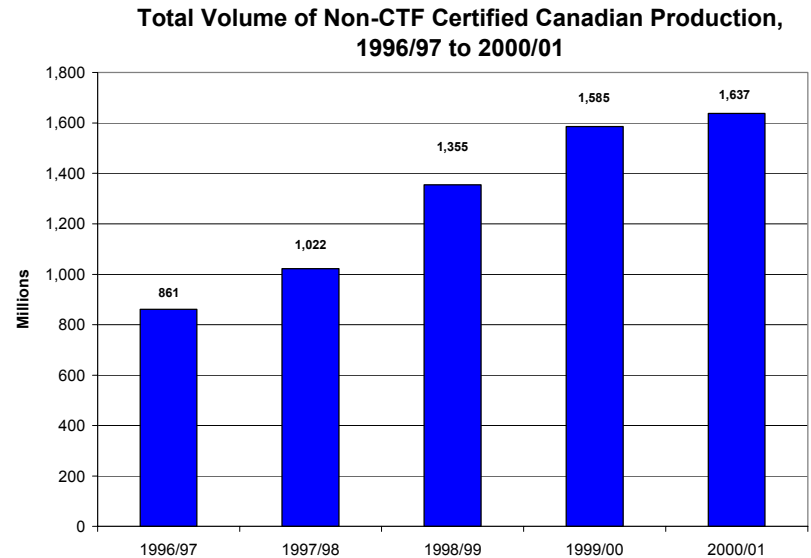
Notes: Co-Production refers to the Canadian portion of budgets for Treaty Co-Productions. It excludes the budgets of any Treaty Co-Productions that received CTF Support. Non-CAVCO production is indigenous production that is certified as Canadian content by the CRTC rather than CAVCO.

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# Non-CTF Certified Canadian Production was worth \$1.6 billion in 2000/01

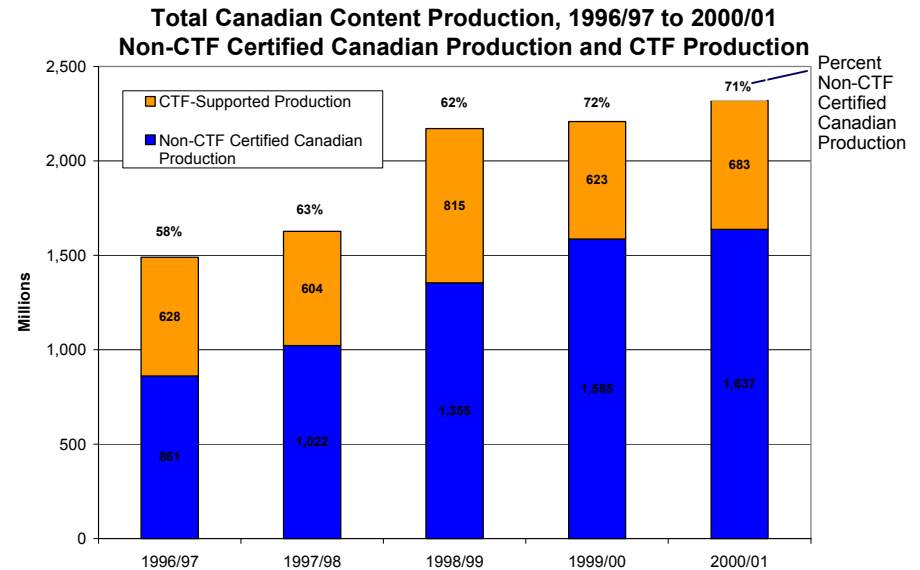
- In 2000/01, Canadian producers spent \$1.6 billion on the production of film and television programs in Canada without any support from the CTF (Non-CTF Certified Canadian Production).
- Over the last four years, the amount of Non-CTF Certified Canadian Production has almost doubled from \$861 in 1996/97 to \$1,637 million in 2000/01.



Source: PwC estimates based on data collected from CAVCO, CRTC, and Telefilm.

# Non-CTF Certified Canadian Production represents over 70% of total Canadian Content Production

- In 2000/01, Non-CTF Certified Canadian Production of \$1.6 billion accounted for 71% of the \$2.3 billion of total Canadian Content Production.
- The share of Canadian Content Production that is Non-CTF Certified Canadian Production has been increasing in recent years. The share of Canadian Content Production that takes place without CTF support has increased from about 60% of Canadian Content Production in 1996/97 to 71% in 2000/01.

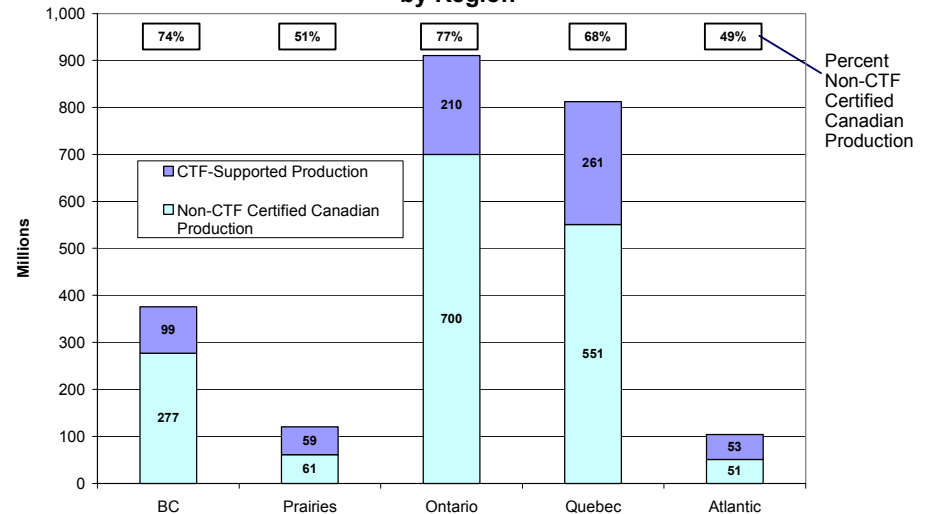


Source: PwC estimates based on data collected from CAVCO, CRTC, and Telefilm.

# The contribution of Non-CTF Certified Canadian Production varies by region

- The vast majority of Non-CTF Certified Canadian Production is made in Ontario and Quebec. Ontario and Quebec accounted for \$1,251 million, or 76%, of Non-CTF Certified Canadian Production in 2000/01.
- Non-CTF Certified Canadian Production comprises the following share of total Canadian Content Production in each region of Canada:
  - British Columbia 74%
  - Prairies Provinces 51%
  - Ontario 77%
  - Quebec 68%
  - Atlantic Canada 49%

Canadian Content Production, 2000/01, by Region



Source: wC estimates based on data collected from CAVCO, CRTC, Telefilm, and CTF.

Notes: Canadian Content Production includes all independently produced film and television production certified as Canadian content by CAVCO or the CRTC.

## Economic Impact of Non-CTF Certified Canadian Production

# Non-CTF Certified Canadian Production generated an estimated 44,000 full-time jobs in 2000/01

### Direct Jobs

- In 2000/01, Non-CTF Certified Canadian Production generated an estimated 17,000 full-time equivalent jobs across Canada in the film and television production industry.

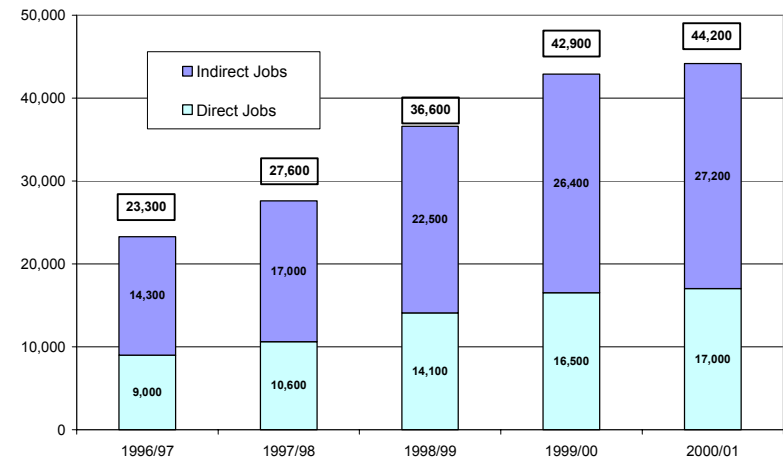
### Indirect Jobs

- Non-CTF Certified Canadian Production generated an estimated 27,200 full-time equivalent jobs in other industries.

### Job Creation

- Since 1996/97, the increase in Non-CTF Certified Canadian Production has created an estimated 21,000 full-time jobs across the Canadian economy.
- CAVCO certification requires that 75% of a production's expenditures be made in Canada. Producers of CAVCO-certified productions typically exceed this rate.

Non-CTF Certified Canadian Production's Contribution to Canadian Employment (Direct and Indirect Jobs), 1996/97 to 2000/01

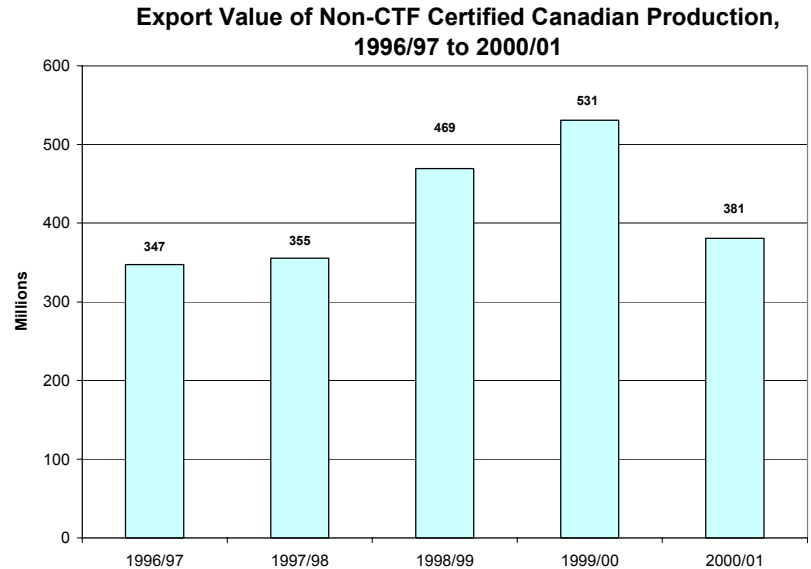


Source: PwC estimates based on data collected from CAVCO, CRTC, Telefilm, CTF, and Statistics Canada.

- The Non-CTF Certified Canadian Production that is made in accordance with the CAVCO system makes a significant contribution to the employment of Canadian creative and technical talent.

# Non-CTF Certified Canadian Production had an export value of \$381 million in 2000/01

- The export value of production is comprised of:
  - Foreign presales and distribution advances for all CAVCO certified productions; and,
  - Estimates of presales and distribution advances for non-CAVCO certified productions.
- In 2000/01, the export value of Non-CTF Certified Canadian Production was \$381 million.
- The export value data actually underestimate the total export value of Canadian production. The data only include foreign presale financing available at the time of production and do not include foreign revenues from post-production sales.



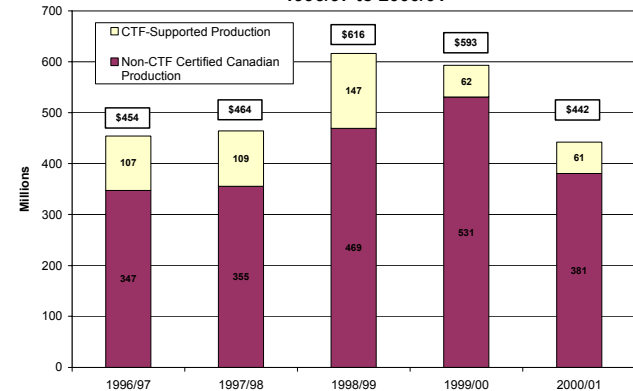
Source: PwC estimates based on data collected from CAVCO, CRTC, Telefilm, and CTF.

Note: Export value does not include the contribution of foreign producers to Treaty Co-Productions. However, it does include advances from foreign distribution sales organized by Canadian producers.

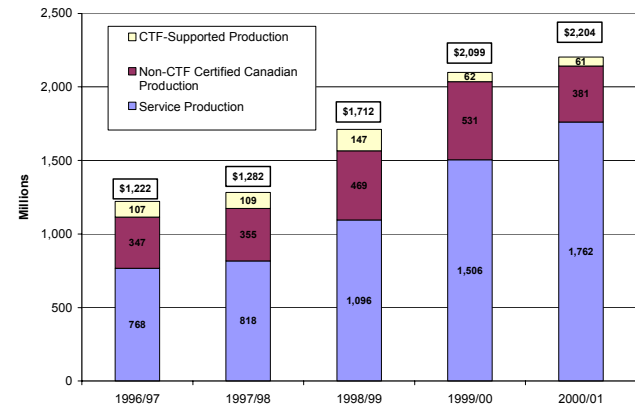
# Non-CTF Certified Canadian Production is the export engine for Canadian Content Production

- In 2000/01, Non-CTF Certified Canadian Production accounted for 86% of the \$442 million in export value of Canadian content production.
- Non-CTF Certified Canadian Production contributed \$381 million to the Canadian production industry's export value of \$2.2 billion in 2000/01.

Export Value of Canadian Content Production, 1996/97 to 2000/01



Export Value of Production in Canada, 1996/97 to 2000/01



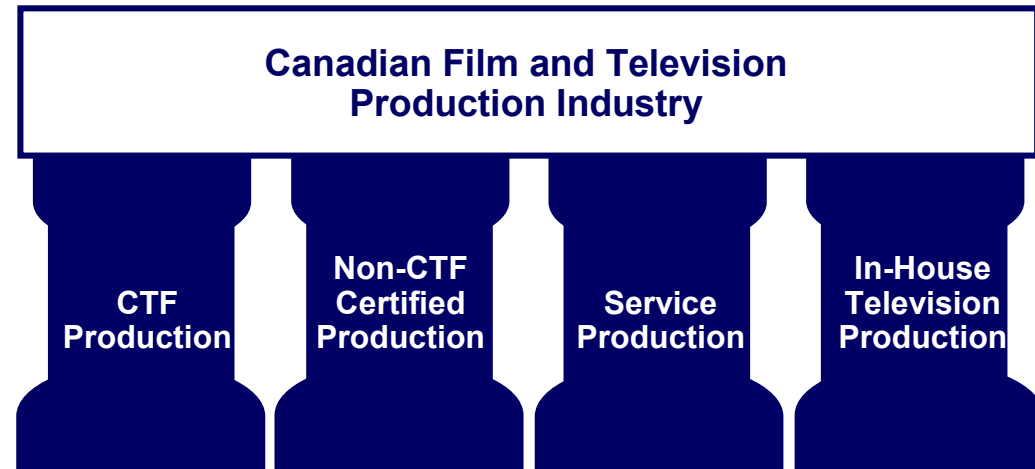
Source: PwC estimates based on data collected from CAVCO, CRTC, Telefilm, and CTF.

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# The pillars of the Canadian production industry

- CTF Production, Non-CTF Certified Canadian Production, Service Production and In-House Television Production form the four pillars of Canada's film and television production industry. Each of these four sectors makes an essential contribution.
- The CTF ensures that Canadian producers can make television programs and feature films that are distinctly Canadian.
- Service Production contributes to building the capacity and infrastructure for film and television production in Canada. It allows Canadian creative and technical talent to work on world-class productions.



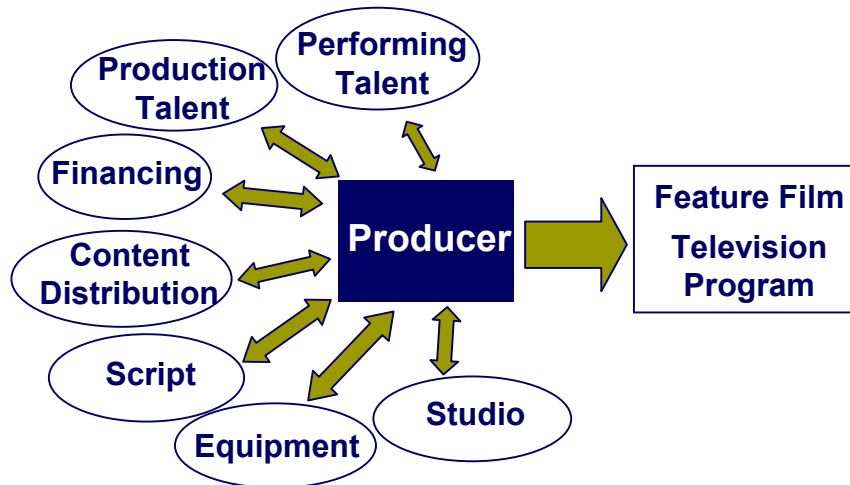
- In-House Television Production represents Canadian television broadcasters' direct contribution to the domestic production industry.
- Non-CTF Certified Canadian Production gives Canadian producers the flexibility to finance films and television programs that appeal to audiences both inside and outside Canada.

# The business realities of broadcasting in Canada lead many producers to seek foreign financing for Non-CTF Certified Canadian Production

- Due to the size of Canadian television audiences from which to reap a return, Canadian broadcasters can only cover a portion of the budgets of Canadian produced television programs. For English-language Non-CTF Certified Canadian Productions, a broadcaster licence fee is typically equal to 5% to 10% of the total production budget.
- With the tremendous growth in the number of CRTC-licensed broadcasters (conventional, specialty, analog, and digital), and the limitation of CTF funding, Canadian broadcasters need Non-CTF Certified Canadian Production to meet their conditions of licence.
- Despite this limitation, high-quality content must be produced in order to remain competitive in both Canadian and international markets:
  - English-language broadcasters need to compete with US content that flows freely across the border.
  - French-language broadcasters must deal with the fact that their audience demands very domestic oriented content which has very limited international appeal and consequent sales potential.
- In order to fill the gap between a Canadian broadcaster's licence fee and the total budget of the production, Canadian producers seek financing from foreign sources, namely U.S. broadcasters and distributors. Canadian producers have to find almost two-thirds of their financing from outside of Canada.
- To obtain foreign financing, Canadian producers must produce content that can be marketed internationally. Non-CTF Certified Canadian Production typically has a higher degree of international marketability and therefore a higher export value.

# Producers are the cornerstone of the industry – the builders in the industry

- Producers build film and television programs by organizing and coordinating all the elements necessary to bring a feature film or television program from an idea to a final production.



## What is a Producer?

- The producer is the person who is responsible for acquiring and developing the script, supervising production arrangements, hiring key talent, arranging financing, and controlling the exploitation of the completed production. The producer is the central decision-maker and point of control for an entire production.
- The producer's company holds the copyright in the production, controls licensing of all distribution, broadcast and ancillary rights, and contracts with all key creative and technical talent.

# Producers provide the entrepreneurial spirit that transforms ideas and stories into films and television programs

- Producers assume all of the risk that is associated with developing, financing and actually creating a feature film or television program.
- Producers take on all of the financial risk related to a film or television program.
  - Producers are not only responsible for the economic success of the production, but are also responsible for ensuring that the production has the cash flow to keep it running. It is the producer who must make sure that all of the technical and creative talent is paid on time.
- Many vertically-integrated production companies also take on the role of distributor for the movies and programs that they produce. Producers such as Nelvana, imX, and Alliance Atlantis create as well as distribute programs in Canadian and international markets.

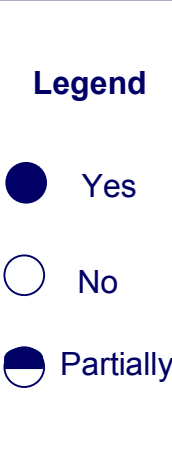
## Market Realities in the Canadian Production Industry

# Key sectors of the Canadian production industry

<u>Category</u>	<u>Description</u>	<u>Examples</u>
<b>In-House Television Production</b>	<ul style="list-style-type: none"> <li>In-House Television Production refers to television programs produced by television broadcasters primarily with internal production resources.</li> </ul>	<ul style="list-style-type: none"> <li>News</li> <li>Sports</li> <li><i>Hockey Night in Canada</i></li> </ul>
<b>CTF-Supported Production</b>	<ul style="list-style-type: none"> <li>CTF-Supported Production is high in Canadian content in terms of both the contribution of Canadians to production and the degree to which the television program or feature film speaks to Canadians and reflects the diverse realities of Canada's culture.</li> </ul>	<ul style="list-style-type: none"> <li><i>Cold Squad</i></li> <li><i>Degrassi</i></li> <li><i>Emma</i></li> </ul>
<b>Non-CTF Certified Canadian Production<sup>1</sup></b>	<ul style="list-style-type: none"> <li>Non-CTF Certified Canadian Production refers to production that is certified as Canadian content by CAVCO or the CRTC and is produced by Canadians for both Canadian and international markets, but with a greater emphasis on international markets than CTF-Supported Production.</li> </ul>	<ul style="list-style-type: none"> <li><i>The Hounds of Baskervilles</i></li> <li><i>Rolie Polie Olie</i></li> <li><i>La Femme Nikita</i></li> <li><i>Outer Limits</i></li> </ul>
<b>Treaty Co-Production (With CTF Support)</b>	<ul style="list-style-type: none"> <li>Treaty Co-Productions are certified Canadian productions for which the costs and elements of production are shared between a Canadian and foreign producer in a treaty setting administered by Telefilm.</li> </ul>	<ul style="list-style-type: none"> <li><i>Bob &amp; Margaret</i></li> <li><i>The Red Violin</i></li> <li><i>The Worst Witch</i></li> <li><i>Une voix en or</i></li> </ul>
<b>Non-CTF Treaty Co-Production</b>	<ul style="list-style-type: none"> <li>Some Treaty Co-Productions do receive support from the CTF. Non-CTF Treaty Co-Production refers to Treaty Co-Productions that are made without support from the CTF.</li> </ul>	
<b>Service Production</b>	<ul style="list-style-type: none"> <li>The Service Production sector is mostly comprised of Canadian companies that rent production facilities, equipment, and technical expertise primarily to U.S. producers who film productions in Canada. The foreign producer often retains the copyright to the program. This sector also includes Canadian owned productions that do not qualify for Canadian content certification.</li> </ul>	<ul style="list-style-type: none"> <li><i>The Shipping News</i></li> <li><i>Finding Forrester</i></li> <li><i>The Score</i></li> <li><i>Life with Judy Garland: Me and My Shadows</i></li> </ul>

(1) Includes Canadian productions certified by CAVCO or recognized as Canadian content by the CRTC

# Characteristics of the key sectors of the Canadian production industry

<u>Category</u>	<u>Canadian Producer</u>	<u>Copyright Held in Canada</u>	<u>Canadian Controlled Production Company</u>	<u>CAVCO Points<sup>1</sup></u>	<b>Legend</b> 
<b>In-House Television Production</b>	●	●	●	Not Applicable	
<b>CTF-Supported Production</b>	●	●	●	10/10	
<b>Non-CTF Certified Canadian Production</b>	●	●	●	6/10 to 10/10	
<b>Treaty Co-Production (With CTF Support)</b>	◐	◐	●	Not Applicable	
<b>Non-CTF Treaty Co-Production</b>	The Canadian producer holds the copyright for Canada. The Canadian and foreign producer share the copyright for third countries. Treaty Co-Production rules require that the Canadian producer hold a minimum 20% copyright interest.				
<b>Service Production</b>	○	◐	○	Not Applicable	

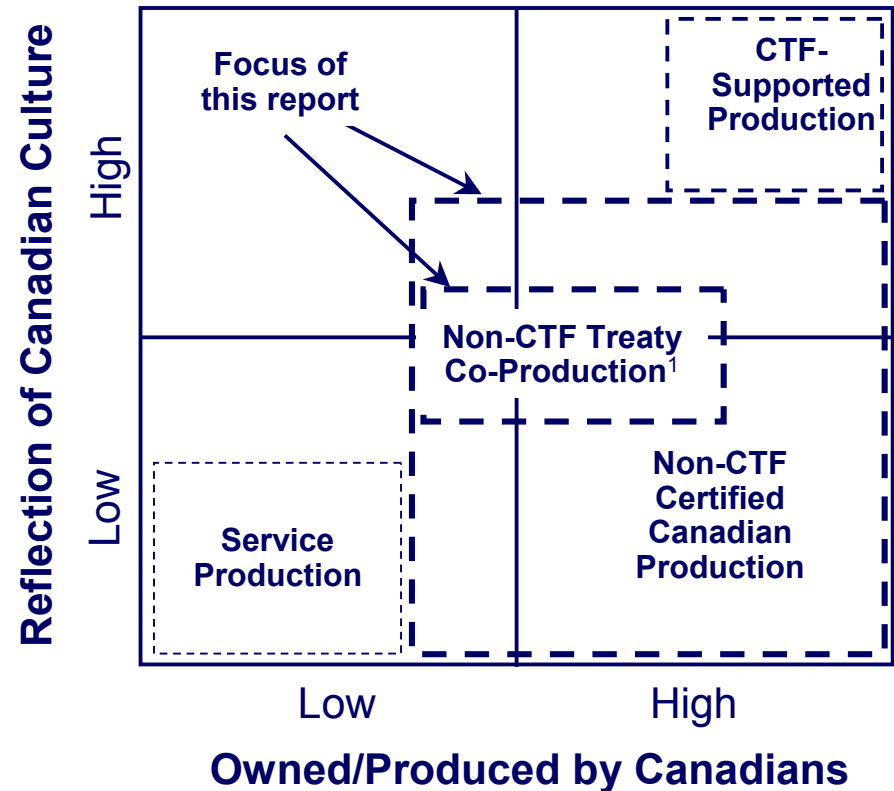
(1) See Appendix A for discussion of CAVCO points system

# The cultural and economic contribution of Non-CTF Certified Canadian Production

- The key sectors of the independent Canadian production industry can be classified in terms of the degree to which each segment produces films and television programs that reflect Canadian culture. The degree to which Non-CTF Certified Canadian Productions reflect Canadian culture can range from low to somewhat high. CTF-Supported Productions, however, provide the highest degree of Canadian content.
- The key segments of the independent production industry can also be classified in terms of the degree to which a production's copyright is held by a Canadian. The copyright for a Non-CTF Certified Canadian Production is typically held by a Canadian. Non-CTF-Certified Canadian Production also includes Treaty Co-Production in which the copyright is usually shared between a Canadian and foreign producer, however.

(1) Excluding Treaty Co-Production that receives support from the CTF.

## Film and TV Production in Canada



# Non-CTF Certified Canadian Productions

- Many notable Canadian feature films and television programs are produced without the on-going financial support of the CTF.
- A large share of Non-CTF Certified Canadian Productions are aired on Canadian networks and U.S. cable television networks.

## Non-CTF Certified Canadian Productions<sup>1</sup>

*Tales from the  
Cryptkeeper*

*Nuremberg*

*Designer Guys*

*Rolie Polie Olie*

*Viking Saga*

*The Worst Witch*

*Black Light*

*La Femme Nikita*

*Little Bear*

*F/X: The Series*

*Outer Limits*

*Hounds of  
Baskervilles*

*Museum Mysteries*

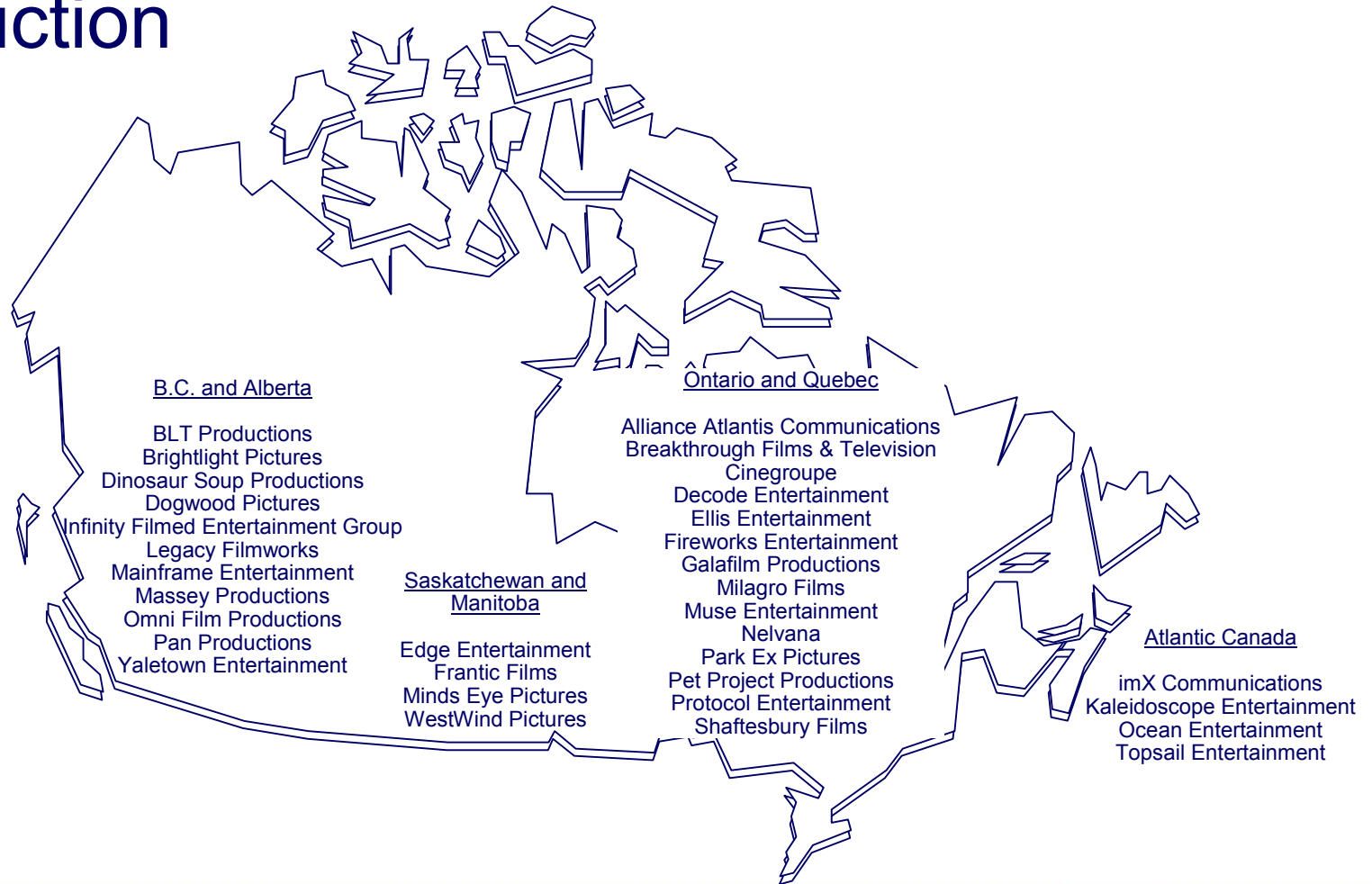
*The Guilty*

*Relic Hunter*

*Neverending  
Stories*

(1) Not an exhaustive list – sample titles only

# Production companies from across Canada are involved in Non-CTF Certified Canadian Production



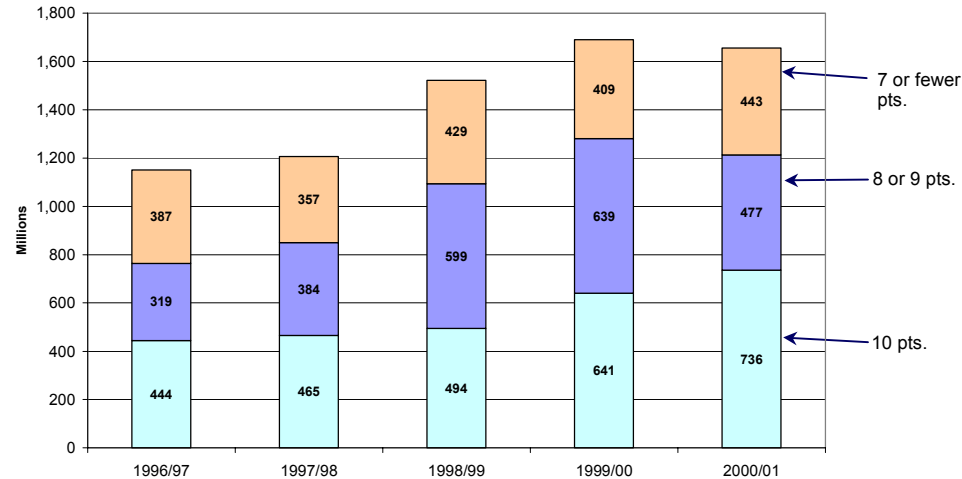
# Many Non-CTF Certified Canadian Productions are pre-sold to U.S. networks

- The production of primetime American sitcoms and drama television series is largely done in Los Angeles and New York.
- Given that U.S. studios dominate the schedules of the major American broadcast networks (ABC, CBS, NBC), Canadian producers have established themselves in production niches such as science fiction, television movies, and children's programming in which they can effectively compete with American producers for places in U.S. television schedules.
- Canadian-produced dramas, television movies, and children's programs can be found throughout the schedules of major U.S. cable-television networks including Showtime, Disney and ABC Family as well as U.S. syndication.
- Many of the Canadian productions that are pre-sold to U.S. cable networks are Non-CTF Certified Canadian Productions. Non-CTF Certified Canadian Productions can be more easily marketed in the U.S. compared to distinctly Canadian CTF-Supported Production.
- Producing films and television programs for both Canadian and international audiences is an important part of Canadian producers' corporate strategy. Canadian production companies must maintain a strategy in which they make programs across a range of production categories including CTF, Non-CTF Certified Canadian, and Treaty Co-Production, so that they can maintain a certain degree of corporate stability in order to diversify risk and stabilize cash flows.

# CAVCO-Certified Production

- CAVCO uses a point system to measure the level of Canadian content in a film or television production (See Appendix A for a full discussion of the CAVCO point system).
- Canadian productions can obtain a maximum of 10 points, and must receive a minimum of 6 points in order to qualify as Canadian content.
- Productions with a higher number of CAVCO points are considered to have a higher level of Canadian content or creative contribution.

CAVCO-Certified Production, by Points, 1996/97 to 2000/01



Source: PwC estimates based on data collected from CAVCO

Notes: Excludes CAVCO-certified Treaty Co-Production; Treaty Co-Production does not receive a point score. Also excludes Canadian content production certified by the CRTC.

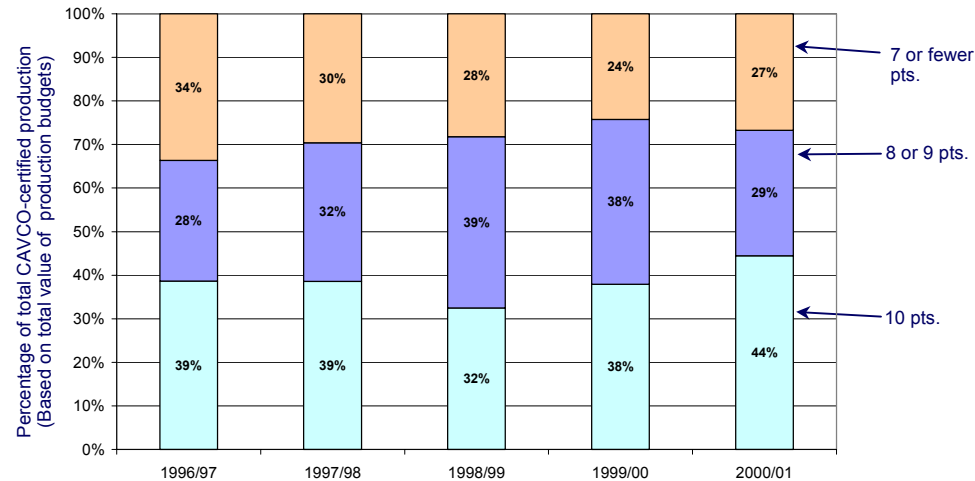
Note that some productions that receive fewer than 10 CAVCO points have equivalent Canadian content to 10-point productions because they have attained the maximum number of points. For example, some productions may receive 8 out of 8 points because the scale or type of production does not include certain creative positions as outlined by CAVCO.

The 6-point category includes productions that may have received fewer than 6 points.

# The distribution of Canadian Content Production by CAVCO points has been relatively stable

- During the 1996/97 to 2000/01 period, the distribution of CAVCO-certified production by points remained relatively stable.
- Productions with 10 CAVCO points accounted for about 40% of total CAVCO-certified production during the 1996/97 to 2000/01 period.
- Productions with 8 or 9 CAVCO points accounted for about 28% to 39% throughout the five-year period.
- Productions with 7 or fewer points accounted for between 24% and 34% during the five-year period.

Percentage Distribution of CAVCO-Certified Production, by Points, 1996/97 to 2000/01



Source: PwC estimates based on data collected from CAVCO

Notes: Some totals may not add due to rounding.

Excludes CAVCO-certified Treaty Co-Production; Treaty Co-Production does not receive a point score. Also excludes Canadian content production certified by the CRTC. Percentages are based on total value of production budgets within each point category. Percentages are not based on the number of productions.

Note that some productions that receive fewer than 10 CAVCO points have equivalent Canadian content to 10-point productions because they have attained the maximum number of points. For example, some productions may receive 8 out of 8 points because the scale or type of production does not include certain positions as outlined by CAVCO.

The 6-point category includes productions that may have received fewer than 6 points.

# Financing of Canadian productions

- Production financing is often referred to as an art in itself, because every deal is essentially unique. While in many respects this is true, Canadian producers do obtain their financing from several key sources.
- Canadian producers use a combination of domestic and foreign financing. On the domestic side, Canadian producers often obtain broadcast licence fees from Canadian broadcasters, and financing from private production funds.
- The key foreign sources of financing include foreign broadcast licence fees and advances from distributors.
- Tax credits granted by federal and provincial governments in Canada are also an important part of production financing.

<u>Financing Source</u>	<u>Description</u>
<b>Canadian broadcast licence fees</b>	<ul style="list-style-type: none"><li>• A Canadian broadcast licence fee is the amount paid by a broadcaster, or specialty and pay-TV service provider to air programming. A licence fee gives broadcasters the right to air a certain program a certain number of times. The licence fee varies depending on the total budget, genre and market, but for Non-CTF Certified Canadian Production, it is typically between 5% and 10% of the total production budget for an English-language production. This rate is considerably higher for French-language productions.</li></ul>
<b>Foreign</b>  (either through direct sales or through a Canadian-based distributor)	<ul style="list-style-type: none"><li>• While all productions have some potential for foreign sales, the foreign financing component is most typically used by Canadian production companies that produce content that is geared towards both Canadian and international markets. Sources of foreign financing include <u>broadcast licence fees</u> from foreign broadcasters and <u>distribution advances</u> from Canadian and/or foreign distributors as arranged by Canadian production companies. In the case of a distribution advance, a distribution company advances a certain percentage of the financing based on anticipated international sales.</li></ul>

*... continued*

# Financing of Canadian productions (cont'd)

<u>Financing Source</u>	<u>Description</u>
<b>Tax credits</b>	<ul style="list-style-type: none"><li>• The federal government and most provincial governments have instituted tax credits that are based on the use of Canadian labour in film and television production. These credits have been implemented for industrial and cultural reasons to encourage Canadian production activity. On a combined basis, the tax credits can be worth between 10% and 23% of Canadian budget expenditures.</li></ul>
<b>Canadian Television Fund (EIP and LFP)</b>	<ul style="list-style-type: none"><li>• The CTF is a public/private partnership that was created to provide funding and create a critical mass of high quality Canadian programming especially in under-represented genres, and particularly in peak viewing times.</li><li>• The Canadian Television Fund (CTF) is comprised of two types of funding: 1) The Equity Investment Program (EIP), and 2) The Licence Fee Program (LFP), which is a licence fee top-up (i.e., a non-recoupable contribution). CTF funding is utilized by producers who want to produce distinctly Canadian stories that could not generally access foreign financing.</li></ul>
<b>Other private sector sources of financing</b>	<ul style="list-style-type: none"><li>• While broadcasters, CTF, and foreign sources are the principal sources of financing production in Canada, other private sources often come into play. For instance, there are a number private production funds that may contribute a portion of the budget. Also, depending on the size of the production company, it may be able to finance a portion of the budget in lieu of future revenues.</li></ul>
<b>Other public sector sources of financing</b>	<ul style="list-style-type: none"><li>• Other sources of public funding are also available from the Canada Council, provincial arts councils and provincial film and TV development agencies.</li></ul>

# English-language Non-CTF Certified Canadian Productions garner almost two-thirds of financing from outside Canada

- In 2000/01, English-language Non-CTF Certified Canadian Productions obtained 65% of their financing from foreign sources in 2000/01. This foreign financing component includes financing from foreign broadcasters and distributors, as well as Canadian distributors that finance production budgets in exchange for the foreign rights to a production.
- The high share of financing from foreign sources reflects the fact that many Canadian producers obtain pre-sales to U.S. cable networks and other foreign broadcasters.
- Non-CTF Certified Canadian Productions generally require a much higher level of producer-organized contribution. For Non-CTF Certified Canadian Productions, producers were responsible for organizing 73% of the total financing. For CTF-Supported Productions, producers organized 40% of the total financing.

**Financing Structure of CAVCO-Certified Film and Television Production, 2000/01 <sup>(1)</sup>**

<b>English Language, All Genres</b>			No CTF Funding	CTF Funded
<u>Producer Organized Contribution</u>				
	Broadcast Licence Fee		8%	26%
	<u>Foreign</u>			
	Distributor <sup>(2)</sup>		22%	9%
	U.S.		31%	1%
	<u>Other Foreign</u>		12%	3%
	<i>Subtotal</i>		65%	14%
	<i>Total Producer Organized Contribution</i>		73%	40%
	Tax Credits		20%	17%
	Other Public		1%	3%
	Other Private		6%	8%
	<u>CTF (EIP &amp; LFP)</u>		0%	32%
	<b>Total</b>		100%	100%

Source: PwC estimates based on data provided by CAVCO

Notes: Some totals may not add due to rounding

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies that finance a percentage of the budget based on anticipated international sales.

# French-language Non-CTF Certified productions are less likely to turn to foreign financing sources

- In contrast to English-language production, foreign financing for French-language production is much less of an option.
  - Consumers outside of Quebec prefer domestic content first, then U.S. content.
- Unlike English-language broadcasters, French-language Canadian broadcasters typically contribute a large portion of the total production budget of Canadian productions. (3 & 4)

**Financing Structure of CAVCO-Certified Film and Television Production, 2000/01 (1)**

French Language, All Genres			No CTF Funding	CTF Funded
<u>Producer Organized Contribution</u>				
	Broadcast Licence Fee		58%	36%
	<u>Foreign</u>			
	Distributor (2)		2%	1%
	U.S.		0%	0%
	<u>Other Foreign</u>		0%	0%
	<i>Subtotal</i>		2%	1%
	<i>Total Producer Organized Contribution</i>		60%	37%
	Tax Credits		23%	23%
	Other Public		7%	4%
	Other Private		10%	3%
	<u>CTF (EIP &amp; LFP)</u>		0%	32%
	<b>Total</b>		100%	100%

Source: PwC estimates based on data provided by CAVCO

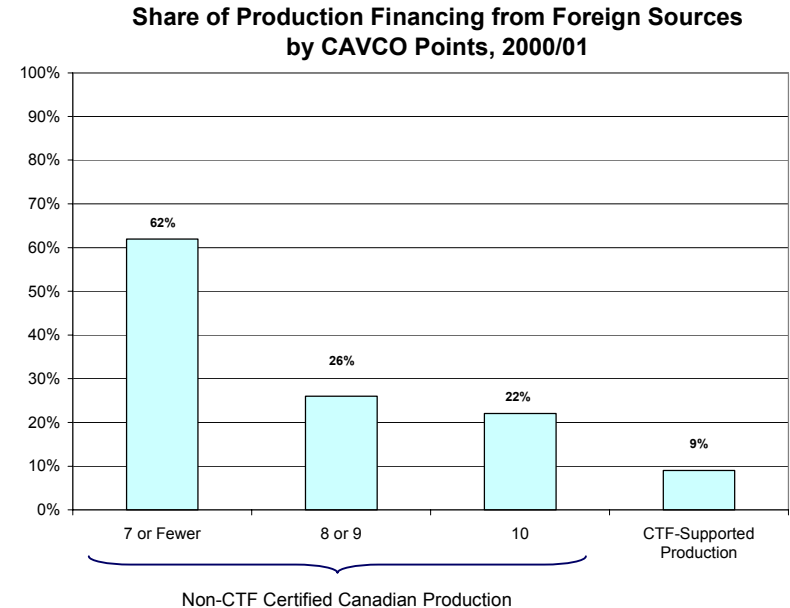
Notes: Some totals may not add due to rounding

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies that finance a percentage of the budget based on anticipated international sales.

- (3) Broadcast licence fees for CTF-funded productions are lower than non-CTF as a share of total financing, but higher in real dollars because CTF funded productions have much larger budgets than Non-CTF Production
- (4) Licence fees tend to be a higher proportion of the budget than English-language productions, but total production budgets tend to be much lower.

# Foreign financing is considerably higher for productions with 7 or fewer CAVCO points

- In general, the share of production financing from foreign sources diminishes quickly as the level of Canadian content increases.
- In 2000/01, foreign sources contributed 62% to the budgets of Non-CTF Certified Canadian Productions with 7 or fewer CAVCO points.
- The foreign contribution drops to 26% for Non-CTF Productions with 8 or 9 CAVCO points.
- Non-CTF Certified Canadian Productions with 10 CAVCO points garnered 22% of their financing from foreign sources. For CTF-Supported Productions, the figure was 9%.
- In general, access to foreign financing is tied to the Canadian producer's commitment to include U.S. writers, directors and/or lead actor in the production.



Source: PwC estimates based on data collected from CAVCO, CRTC, and CTF.

Notes: CTF-Supported Productions include all CTF productions regardless of the number of CAVCO points. CTF productions typically must have 10/10 CAVCO points. Some CTF productions, however, can only attain a maximum number of points fewer than 10. For example, some CTF-supported productions may be 9/9 on the CAVCO scale. Non-CTF Certified Canadian Production excludes Treaty Co-Production.

Foreign financing includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.

# The structure of production financing varies considerably with the number of CAVCO points

- The producer is responsible for organizing much of the financing for Canadian productions.
- In general, producer's are responsible for organizing between 60% and 70% of the financing for a certified Canadian production.

**Financing Structure of Non-CTF Certified CAVCO Production, by Number of CAVCO Points, 2000/01 <sup>(1)</sup>**

	7 or Fewer	8 and 9	10 Points (Non-CTF)
<u>Producer Organized Contribution</u>			
Broadcast Licence Fee	7%	40%	40%
<u>Foreign</u>			
Distributor <sup>(2)</sup>	20%	13%	18%
U.S.	35%	12%	4%
<u>Other Foreign</u>	<u>7%</u>	<u>2%</u>	<u>0%</u>
<i>Subtotal</i>	<i>62%</i>	<i>26%</i>	<i>22%</i>
<i>Total Producer Organized Contribution</i>	<i>69%</i>	<i>66%</i>	<i>62%</i>
Tax Credits	21%	21%	21%
Other Public	0%	3%	10%
Other Private	9%	9%	7%
<u>CTF (EIP &amp; LFP)</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Total	100%	100%	100%

Source: PwC estimates based on data provided by CAVCO

Notes: Some totals may not add due to rounding

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.

# Foreign financing of Canadian productions, 1996/97 to 2000/01

- In general, during the 1996/97 to 2000/01 period, Canadian productions with 7 or fewer CAVCO points garnered a higher share of production financing from foreign sources, including Canadian companies acquiring the foreign distribution rights for Canadian productions.

**Foreign Financing of Canadian Production, by CAVCO Points, 1996/97 to 2000/01** <sup>(1,2)</sup>

Foreign Financing, 1996/97 to 2000/01					
	1996/97	1997/98	1998/99	1999/00	2000/01
7 or Fewer Points	69%	56%	65%	63%	62%
8 or 9 Points	40%	42%	53%	46%	26%
10 Points (No CTF)	46%	54%	41%	50%	22%
With CTF Support	17%	18%	18%	10%	9%

Source: PwC estimates based on data provided by CAVCO

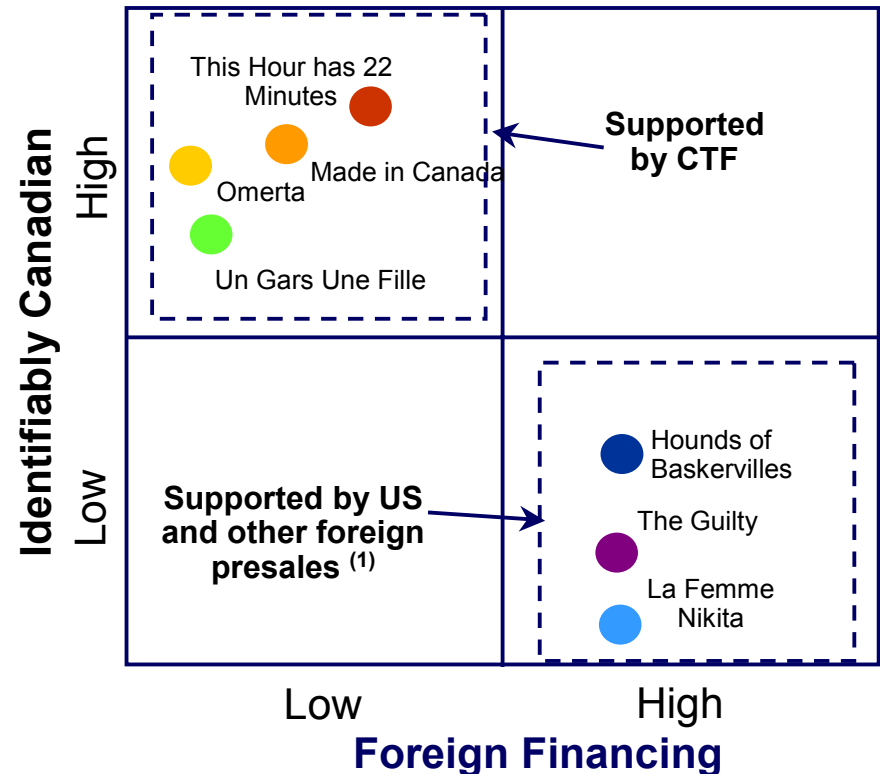
- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.

## Market Realities in the Canadian Production Industry

# The reality for Canadian production: companies producing programs that can compete in our market with the rest of the world at a fraction of the budget

- In order to be attractive to broadcasters, Canadian productions must have high production values. For English-language productions this generally means comparable US production budgets. For French-language broadcasters, it means having very domestic oriented content with reasonably high production budgets.
- Despite this expectation among audiences, producers can only expect to get a 15% presale from broadcasters for Canadian English-language productions, due to the size of Canadian TV audiences from which to reap a return.
- In order to cover the remaining 85% financing gap, Canadian producers must turn to foreign sources or domestic support mechanisms.
- Co-production financing is a critical alternative to the riskier business of selling Canadian productions into the key markets on an after sale basis through traditional distribution channels.

## Financing Canadian Productions



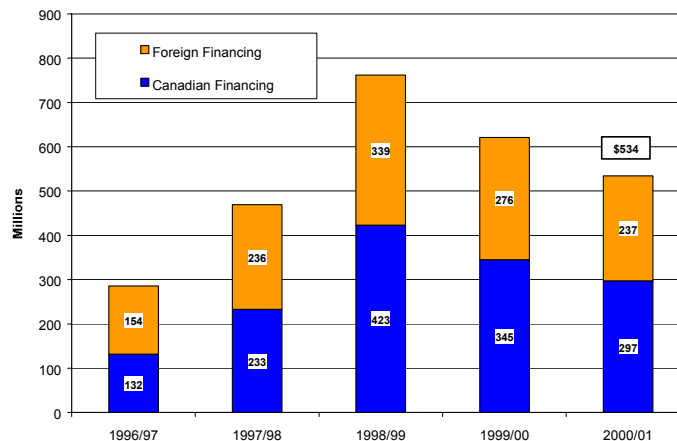
Source: PwC analysis

(1) Not a viable model for French-language production.

# International Treaty Co-Production is an important element in the Canadian production industry

- Canada currently has co-production treaties with 58 countries (other than the U.S.).
- In 2000/01, \$534 million worth of production took place under treaties between Canada and other countries. Of this \$534 million, \$297 million of financing came from Canadian sources (Canadian producers, distributors, government organizations).
- Co-production treaties enable Canadian producers and their foreign counterparts to pool their creative, technical, and financial resources to co-produce films and television programs that enjoy the status of national productions in each of the countries, and can be marketed in third countries.
- In 2000/01, 57% of Canadian Treaty Co-Production was with co-producers from the United Kingdom (U.K.). Recent tax changes in the U.K. threaten this strong co-production activity.

Total Production Budgets of Treaty Co-Productions with Canada



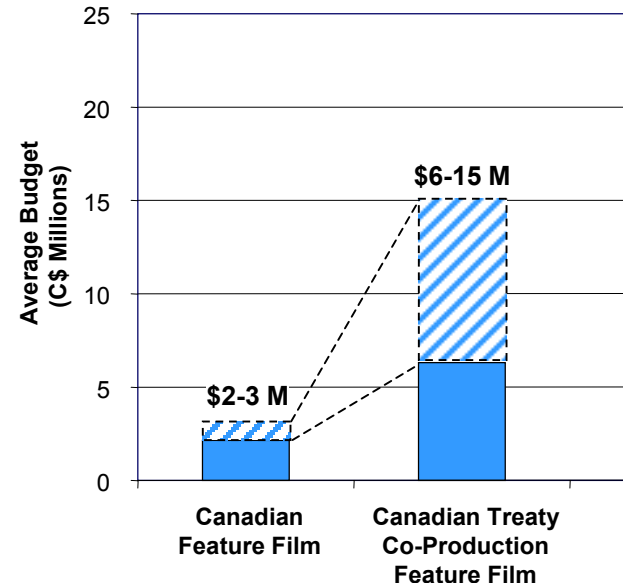
Rank	Country	Co-Production Budgets (Mil C\$)	Share of Total
1	United Kingdom	\$302	57%
2	France	\$141	27%
3	Australia	\$41	8%
4	Germany	\$29	5%
5	Philippines	\$12	2%
6	South Korea	\$5	1%
7	Spain	\$3	<1%
	Other	\$1	<1%
	<b>Total</b>	<b>\$534</b>	<b>100%</b>

Source: Telefilm

# Treaty Co-Production allows Canadian producers to work with larger budgets

- Canadian producers have found that co-production can be a tool for making higher-budget, higher production value projects happen.
- In much the same way that many Non-CTF Certified Canadian Productions access American funds to finance projects that can be sold in the U.S., Treaty Co-Productions allow Canadian producers to share the costs of financing larger budget television programs and feature films, while still maintaining creative control.
- An average budget for a Canadian feature film is in the \$2 million to \$3 million range. The feature film budgets supported by co-production treaties are typically about three to five times this level. These budget levels are more in line with the budgets for feature films produced in other major producing countries other than the U.S.

**Average Production Budgets for Feature Films**



Source: PwC estimates based on data from Telefilm

Notes: Estimates are based on data for co-productions as of 1997/98.

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# Conclusions

- CTF-supported film and television production is most critical to the cultural fabric of Canada, however, Non-CTF Certified Canadian Production forms the economic and cultural foundation of the Canadian production industry. It makes a significant economic contribution to the Canadian production industry and contributes to its ability to fulfill cultural objectives, including allowing Canadian broadcasters to meet CRTC conditions of licence for broadcasting Canadian programming.
- In 2000/01, Non-CTF Certified Canadian Production was worth \$1.6 billion, or 33% of the \$5 billion in total film and television production in Canada in that year.
- Producers of Non-CTF Certified Canadian Production make a significant contribution to the employment of creative and technical talent in the Canadian film and television production industry. In 2000/01, Non-CTF Certified Canadian Production generated an estimated 17,000 full-time jobs in the Canadian film and television production industry. It also generated an additional 27,000 jobs in other Canadian industries.
- Canadian Content Production, which includes all production certified by CAVCO or the CRTC, is comprised largely of Non-CTF Certified Canadian Production. In 2000/01, Non-CTF Certified Canadian Production represented 71% of total Canadian Content Production.

*continued ...*

# Conclusions

- The share of Canadian Content Production that is Non-CTF Certified Canadian Production has been increasing in recent years. The share of Canadian Content Production that takes place without CTF support has increased from about 60% in 1996/97 to 71% in 2000/01.
- Non-CTF Certified Canadian Production had an export value of \$381 million in 2000/01. This represented 86% of the total export value of Canadian Content Production in that year.
- Non-CTF Certified Canadian Production makes a significant contribution to the production of Canadian content in all regions of Canada. In Atlantic Canada and the Prairie Provinces, Non-CTF Certified Canadian Production makes up about half of Canadian Content Production. In other regions of Canada, the share is even higher.
- The cultural contribution of Non-CTF Certified Canadian Production is both direct and indirect. Non-CTF Certified Canadian Production provides an essential minimum standard for Canadian creative and technical elements, and encourages Canadian producer ownership, and the corporate development of Canadian production. By doing so, Non-CTF Certified Canadian Production directly contributes to the creation of Canadian films and television programs by Canadians and the employment of creative and technical talent.

*continued ...*

# Conclusions

- Non-CTF Certified Canadian Production also contributes indirectly to the creation of distinctly Canadian production because it provides the economic basis for the development of a production infrastructure (studios, equipment, skilled production personnel) that can be used to produce all types of production in Canada. Numerous Canadian production companies actively make film and television programs both outside and inside of the CTF's funding system.
- Non-CTF Certified Canadian Production not only forms the largest share of Canadian Content Production, it has also proven to be very marketable outside of Canada. In 2000/01, foreign financial sources supported 65% of the production budget dollars of English-language Non-CTF Certified Canadian Productions. This large share attributable to foreign financing attests to Canadian Producers' ability to pre-sell their productions in foreign markets, particularly to U.S. cable-television networks.
- Treaty Co-Production makes a critical contribution to the development of the Canadian production sector because it often allows Canadian producers to work with larger budgets and gain international exposure for their work.

*continued ...*

# Conclusions

- Producers are the cornerstone of the production industry. Canadian producers and their production companies are the primary employers of creative and technical talent in Canada. Canadian production companies often follow a strategy in which they create a range of productions that includes CTF-Supported Production, Non-CTF Production, and Treaty Co-Production. Following such a strategy affords these companies greater corporate stability.
- The distribution of Canadian Content Production by CAVCO points has been relatively stable with 10-point production accounting for about 40% (in terms of total budget dollars) of CAVCO-certified production during the 1996/97 to 2000/01 period.
- In general, during the 1996/97 to 2000/01 period, Canadian productions with 7 or fewer CAVCO points garnered a higher share of production financing from foreign sources.
- The reality of the Canadian production industry is such that Canadian producers must make films and television programs at a lower cost that can also compete in Canadian and international markets. Because of the relatively small domestic market, Canadian producers have turned to foreign sources for production financing. To access foreign financing, Canadian producers have often committed to using foreign writers, directors and/or performing leads. This has allowed them to make films and television programs that can be enjoyed by audiences both inside and outside Canada.

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# CAVCO Points System

- The Canadian Audio-Visual Certification Office (CAVCO) certifies, as Canadian productions, feature films and television programs from eligible genres. This certification allows the productions to access the Canadian Film or Video Production Tax Credit (CPTC).
- To qualify for the CPTC, a production must be produced and owned by a qualified corporation. In addition, the production must obtain at least six Canadian content points based on the CAVCO points system (see at right).
- A production that meets all of the CAVCO requirements and obtains at least six points is certified as a Canadian film or video production.

## CAVCO Points System for Live Action Productions

### Persons

Director	2 points
Screenwriter	2 points
Highest paid lead performer	1 point
Second highest paid lead performer	1 point
Art director	1 point
Director of photography	1 point
Music composer	1 point
Picture editor	1 point

### Other Mandatory Requirements:

1. Director or screenwriter must be Canadian
2. The highest or second highest paid lead performer must be Canadian

*continued ...*

# CAVCO Points System (cont'd)

- CAVCO utilizes a separate points system for animation productions (see at right). An eligible production must still obtain a minimum of six out of ten points.
- Both live action and animation productions must also meet producer, cost and production requirements:

## **Producer Requirement**

- The producer must be Canadian.

## **Cost Requirements**

- 75% of total production services spending must be paid to Canadians; and,
- 75% of all expenses incurred in the laboratory and post-production work must be incurred in Canada.

## **Production Requirement**

- The production must be completed within two years after the taxation year in which production began; and,
- The production must be shown in Canada by a Canadian distributor or broadcaster within two years of completion.

### CAVCO Points System for Animation Productions

#### Persons

Director	1 point
Scriptwriter and storyboard supervisor	1 point
First of second voice	1 point
Design supervisor (art director)	1 point
Music composer	1 point
Picture editor	1 point

#### Locations

Layout and background	1 point
Key animation	1 point
Assistant animation/In-betweening	1 point

#### Persons and location of function

Camera operator	1 point
-----------------	---------

#### Other Mandatory Requirements:

1. Director or scriptwriter and storyboard supervisor must be Canadian
2. The key animation must be performed in Canada
3. The first or second voice must be Canadian

# Profile of Production Financing in Canada

<u>Financing Source</u>	<u>Non-CTF Certified Canadian Production</u>	<u>CTF-Supported Production</u>
<b>Canadian broadcast license fees</b>	<p><u>LOW to MEDIUM</u></p> <ul style="list-style-type: none"> <li>While broadcast licence fees for Canadian productions are most often obtained, they are typically much less than US or other foreign licence fees.</li> </ul>	<p><u>HIGH</u></p> <ul style="list-style-type: none"> <li>Primary source of financing that triggers CTF funding.</li> </ul>
<b>Foreign</b>	<p><u>HIGH</u></p> <ul style="list-style-type: none"> <li>A significant share of financing is obtained by pre-selling the production to a foreign broadcaster or distributor (Canadian based or foreign based).</li> </ul>	<p><u>LOW</u></p> <ul style="list-style-type: none"> <li>While many CTF funded productions obtain international sales, foreign financing is not very substantial.</li> </ul>
<b>Tax Credits</b>	<p><u>LOW</u></p> <ul style="list-style-type: none"> <li>Federal and/or provincial tax credits are utilized.</li> </ul>	<p><u>LOW</u></p> <ul style="list-style-type: none"> <li>Federal and/or provincial tax credits are utilized.</li> </ul>
<b>Canadian Television Fund (EIP and LFP)</b>	<p><u>NOT APPLICABLE</u></p>	<p><u>HIGH</u></p> <ul style="list-style-type: none"> <li>Critical to many 10/10 Canadian productions.</li> </ul>
<b>Other <u>private</u> and <u>public</u> sources of financing</b>	<p><u>LOW</u></p> <ul style="list-style-type: none"> <li>These are ancillary sources of financing.</li> </ul>	<p><u>LOW</u></p> <ul style="list-style-type: none"> <li>These are ancillary sources of financing.</li> </ul>

# Government Support Programs

- Canadian governments at both the federal and provincial levels have a number of programs or mechanisms which offer direct and indirect support to film and television production in Canada.
- Canadian government support mechanisms range from Canadian content requirements for Canadian broadcasters to direct grants to producers.
- Provincial film and television agencies use a variety of mechanisms, ranging from tax credits to location selection assistance, to promote film and television production.

## Federal Government Support Mechanisms<sup>1</sup>

- The Canadian broadcasting CRTC content regulations
- Canadian Broadcasting Corporation
- Canadian Television Fund
- Telefilm Canada
- Canadian Film or Video Production Tax Credit
- Film or Video Production Services Tax Credit
- National Film Board

## Provincial Government Support Mechanisms<sup>1</sup>

- Tax credits
- Development funds and financing assistance
- Training and skills development programs
- Marketing programs and assistance
- Location promotion services
- Production guides

(1) Not an exhaustive list

# Federal Government Support Programs

<u>Support Mechanism</u>	<u>Description</u>
<b>CRTC Canadian Content Requirements</b>	<ul style="list-style-type: none"> <li>• CRTC Canadian content regulations ensure that Canadian produced programs are aired.</li> <li>• The broadcasting content regulations require television licensees to allocate 60% of their schedule to Canadian content. During the prime-time viewing time, private television licensees must allocate 50% of the time to Canadian content. For the public broadcasters, the rate is 60%. A special CanCon credit gives broadcasters extra credit for airing Canadian drama productions during the peak viewing period.</li> <li>• Multi-station ownership groups (broadcasters licensed to operate in several provinces with a potential reach of more than 70% of the audience in their language of operation) must air 8 hours per week of “priority Canadian programs” during the peak viewing period (7 p.m. to 11 p.m.).</li> <li>• Canadian content regulations and programming commitments for specialty and pay TV services vary depending on the nature of the service.</li> </ul>
<b>Canadian Broadcasting Corporation</b>	<ul style="list-style-type: none"> <li>• Although the CBC does create Canadian programming in-house, its strategic direction is to acquire independent production, so its capacity to produce in-house has diminished over the years.</li> <li>• Like the Canadian content regulations for private broadcasters, the CBC’s Canadian schedule creates a demand pull for the creation of programming by Canadian producers.</li> </ul>
<b>Canadian Television Fund</b>	<ul style="list-style-type: none"> <li>• The CTF is a public/private partnership that was created to provide funding and create a critical mass of high quality Canadian programming especially in under-represented genres, and particularly in peak viewing times.</li> <li>• The Canadian Television Fund (CTF) is comprised of two types of funding: 1) The Equity Investment Program (EIP), and 2) The Licence Fee Program (LFP), which is a licence fee top-up (i.e., a non-recoupable contribution). CTF funding is utilized by producers who want to produce distinctly Canadian stories that could not generally access foreign financing.</li> </ul> <p style="text-align: right;"><b><i>continued ...</i></b></p>

# Federal Government Support Programs

<u>Support Mechanism</u>	<u>Description</u>
<b>Canadian Film or Video Production Tax Credit</b>	<ul style="list-style-type: none"><li>• The tax credit, established in 1995, was implemented specifically with an industry development role in mind as well as a basic incentive system to encourage a minimum baseline level of Canadian content. The objective of the Canadian Production Tax Credit (CPTC) is to encourage Canadian programming and to develop an active domestic production sector.</li><li>• Production made by a Canadian company and in an eligible genre that meets a minimum of 6 out of 10 CAVCO points<sup>1</sup> qualifies for the tax credit. The tax credit can be up to 12% of the total cost, net of assistance, of an eligible production.</li></ul>
<b>Film or Video Production Services Tax Credit</b>	<ul style="list-style-type: none"><li>• Tax credit equal to 11% of Canadian labour expenditure. It is available to productions that have not claimed the CPTC. Productions may be produced by a Canadian or foreign producer and must meet minimum budget levels and be from a CAVCO eligible genre. The Production Services Tax Credit (PSTC) has no CAVCO points<sup>(1)</sup> requirements.</li><li>• The PSTC is designed to make Canada an attractive place for Canadian and foreign production.</li></ul>
<b>Telefilm Canada</b>	<ul style="list-style-type: none"><li>• Telefilm Canada administers several programs supporting Canadian production, including co-production treaties, the Equity Investment Program (EIP) portion of the CTF, the Canada Feature Film Fund (CFFF), the National Training Program (NTP), and the Emerging Filmmakers Program (Atlantic Region).</li><li>• The CFFF provides funding to Canadian produced feature films, written and directed by Canadians, with a Canadian in the lead role, and at least 8 out of 10 CAVCO points.</li><li>• Telefilm also has programs to assist companies that distribute, export, market, and promote Canadian programs.</li></ul>

(1) See Appendix A for discussion of CAVCO points system

***continued ...***

# Federal Government Support Programs

<u>Support Mechanism</u>	<u>Description</u>
<b>National Film Board</b>	<ul style="list-style-type: none"><li>• In addition to being a producer and distributor of Canadian audio-visual works, the National Film Board (NFB) supports Canadian production through several programs, including the Filmmaker Assistance Program, the Aboriginal Filmmaking Program, the Cultural Diversity Initiative, Aide au cinéma indépendant (Canada), the Cinéastes autochtones and Cinéaste recherché(e) competitions, as well as the Documentaristes résidents program.</li><li>• The NFB also partners with Canadian producers to co-produce documentaries and animation.</li></ul>

# Provincial Government Support Programs

<u>Support Mechanism</u>	<u>Description</u>
<b>Tax Credits</b>	<ul style="list-style-type: none"><li>• Each province, except Alberta and P.E.I., has implemented a tax credit program for film and television production. These tax credit programs typically provide producers with a tax rebate based on a percentage of spending on labour within the province.</li></ul>
<b>Development Funds and Financing Assistance</b>	<ul style="list-style-type: none"><li>• Many provinces have implemented financing programs that provide equity investments or development loans to producers. The provincial agency providing the financing assistance may also seek copyright ownership commensurate with its investment. Financing programs typically require producers to have secured an investment from a broadcaster or distributor.</li></ul>
<b>Training and Skills Development</b>	<ul style="list-style-type: none"><li>• Many provinces are involved in programs that offer emerging artists with the opportunity to participate in training and skills development. Many of the training programs involve the support of programs offered at local academic institutions. Some programs match emerging artists with experienced mentors.</li></ul>
<b>Marketing Assistance</b>	<ul style="list-style-type: none"><li>• Many provincial film commissions have established programs that assist producers in marketing their productions within Canada and elsewhere. Provincial agencies will provide support for producers' travel to film festivals or other marketing events.</li></ul>
<b>Location Promotion</b>	<ul style="list-style-type: none"><li>• All provinces offer some location promotion services. Location promotion services give producers access to a library of location photos. Provincial agencies will also facilitate the process for obtaining permission to use a location.</li></ul>
<b>Production Guides</b>	<ul style="list-style-type: none"><li>• All provinces maintain provincial production guides. A production guide gives producers lists and other information on companies and persons who supply services to support the production process. These services range from post-production services to food catering.</li></ul>

# Provincial Government Support Programs

<u>Province</u>	British Columbia	Alberta	Saskatchewan
<u>Agency</u>	<b>British Columbia Film</b>	<b>Alberta Film Commission</b>	<b>SaskFilm and Video Development Corporation</b>
<u>Tax Credits or Labour Rebates</u>	<ul style="list-style-type: none"> <li>• Film Incentive BC</li> <li>• Production Services Tax Credit</li> </ul>	None	<ul style="list-style-type: none"> <li>• Saskatchewan Film Employment Tax Credit</li> </ul>
<u>Financing</u>	<ul style="list-style-type: none"> <li>• Industry and Skills Assistance Program</li> <li>• Television and Film Financing Program</li> </ul>	<ul style="list-style-type: none"> <li>• Alberta Film Development Program (administered by the Alberta Foundation for the Arts)</li> <li>• TELUS Television Fund</li> <li>• Alberta Cultural Industries Guarantee Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Development Loans Program</li> <li>• Equity Investments</li> <li>• Filmmakers/ Scriptwriter's Program</li> <li>• Special Projects Program</li> <li>• Documentary Fund</li> <li>• Market Travel and Promotion Assistance</li> <li>• Sasktel New Media Fund</li> </ul>
<u>Other Support Programs</u>	<ul style="list-style-type: none"> <li>• Promotional Marketing Program</li> <li>• Fellowships</li> <li>• <i>Signature Shorts</i></li> <li>• <i>Boosting the Box Office</i> Marketing Program</li> <li>• <i>Passport to Markets</i></li> <li>• <i>Partnerships in Training</i></li> <li>• Bursary Fund</li> <li>• Professional Internship Program</li> </ul>	<ul style="list-style-type: none"> <li>• Location Promotion Services</li> <li>• Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>• Location Promotion Services</li> <li>• Production Guide</li> </ul>

Note: The above lists are not exhaustive.

Source: Agency Web sites; *Playbackmag.com*; and CFTPA, *Guide 2002*

***continued ...***

# Provincial Government Support Mechanisms

<u>Province</u>	Manitoba	Ontario	Quebec
<u>Agency</u>	<b>Manitoba Film and Sound Recording Development Corporation</b>	<b>Ontario Media Development Corporation</b>	<b>Société de développement des entreprises culturelles (SODEC)</b>
<u>Tax Credits or Labour Rebates</u>	<ul style="list-style-type: none"> <li>Manitoba Film and Video Production Tax Credit</li> </ul>	<ul style="list-style-type: none"> <li>Ontario Film and Television Tax Credit</li> <li>Ontario Production Services Tax Credit</li> <li>Ontario Computer Animation &amp; Special Effects Tax Credit</li> <li>Ontario Interactive Digital Media Tax Credit</li> </ul>	<ul style="list-style-type: none"> <li>Production Services Tax Credit</li> <li>Film and Television Production Tax Credit</li> <li>Quebec Dubbing Tax Credit</li> </ul>
<u>Financing</u>	<ul style="list-style-type: none"> <li>Market Driven Development Financing Program</li> <li>Low Budget Feature Film Development Financing Program</li> </ul>	<ul style="list-style-type: none"> <li>Al Waxman Calling Card Programs</li> <li>Ontario Arts Council</li> </ul>	<ul style="list-style-type: none"> <li>Financial support for script development, promotion and distribution, film festivals, and young film producers and screen writers</li> <li>FIDEC</li> </ul>
<u>Other Support Programs</u>	<ul style="list-style-type: none"> <li>Film and Video Product Marketing Support</li> <li>Emerging Talent Matching Funds Program</li> <li>Special Loan Program</li> <li>Access to Festivals Program</li> <li>Location Promotion Services</li> <li>Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships in Training Program</li> <li>Industry Fellowships</li> <li>Market Mentorships</li> <li>Producer Internship Program</li> <li>Location Promotion Services</li> <li>Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>Location Promotion (Montreal Film and TV Commission)</li> <li>Production Guide (Montreal Film and TV Commission)</li> </ul>

Note: The above lists are not exhaustive.

Source: Agency Web sites; *Playbackmag.com*; and CFTPA, *Guide 2002*

*continued ...*

# Provincial Government Support Mechanisms

<u>Province</u>	<b>New Brunswick</b>	<b>Nova Scotia</b>	<b>Newfoundland</b>
<u>Agency</u>	<b>New Brunswick Film</b>	<b>Nova Scotia Film Development Corporation (NSFDC)</b>	<b>Newfoundland and Labrador Film Development Corporation</b>
<u>Tax Credits or Labour Rebates</u>	<ul style="list-style-type: none"> <li>• New Brunswick Film Tax Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Nova Scotia Film Industry Tax Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Newfoundland and Labrador Film and Video Tax Credit</li> </ul>
<u>Financing</u>	<ul style="list-style-type: none"> <li>• Equity Investment Program</li> <li>• Development Loan Program</li> <li>• Short Film Venture Program</li> <li>• Workshop Assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Equity Investment Program</li> <li>• Development Loan Program</li> <li>• CBC/NSFDC Bridge Award</li> </ul>	<ul style="list-style-type: none"> <li>• Equity Investment Program</li> <li>• Development Loan Program</li> </ul>
<u>Other Support Programs</u>	<ul style="list-style-type: none"> <li>• Location Scouting Services</li> <li>• Learning and Development Programs</li> <li>• National and International Partnerships</li> <li>• Partnerships in Training</li> <li>• Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>• Location Promotion Services</li> <li>• Film Industry Training Assistance</li> <li>• Learning and Development Programs</li> <li>• Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>• Location Scouting Services</li> <li>• Production Guide</li> </ul>

Note: The above lists are not exhaustive.

Source: Agency Web sites; *Playbackmag.com*; and CFTPA, *Guide 2002*

*continued ...*

# Provincial Government Support Mechanisms

<u>Province</u>	Prince Edward Island	Yukon
<u>Agency</u>	<b>Technology PEI</b>	<b>Yukon Film Commission</b>
<u>Tax Credits or Labour Rebates</u>	<ul style="list-style-type: none"> <li>• Prince Edward Island Film and Television Labour Rebate</li> </ul>	<ul style="list-style-type: none"> <li>• Yukon Film Incentive Labour Rebate</li> <li>• Yukon Film Incentive Travel Rebate</li> <li>• Yukon Film Incentive Training Rebate</li> </ul>
<u>Financing</u>	<ul style="list-style-type: none"> <li>• Short Film Program</li> <li>• Development Loan Program</li> <li>• Equity Investment Program</li> </ul>	
<u>Other Support Programs</u>	<p>Location Services Program</p> <ul style="list-style-type: none"> <li>• Production Guide</li> </ul>	<ul style="list-style-type: none"> <li>• Location Promotion Services</li> <li>• Yukon Call Sheet / Crew List Builder</li> </ul>

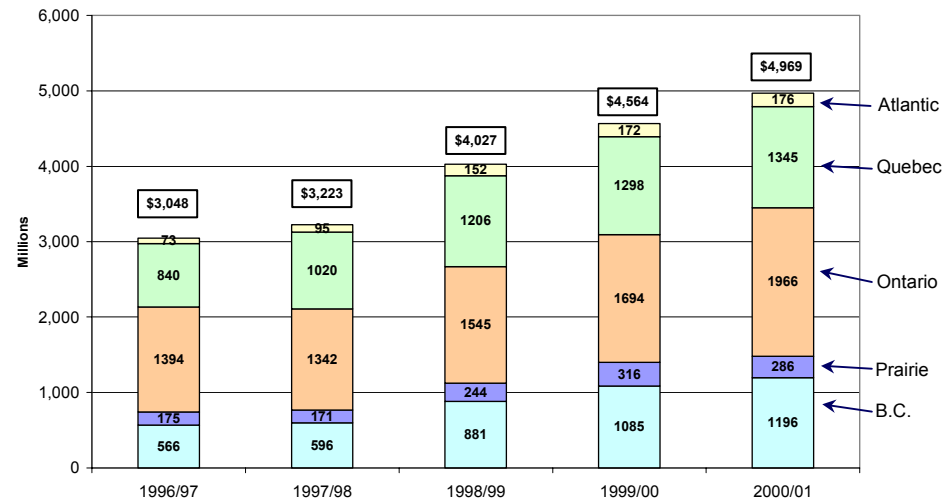
Note: The above lists are not exhaustive.

Source: Agency Web sites; *Playbackmag.com*; and CFTPA, *Guide 2002*

# Total film and television production by region

- In 2000/01, about 40% of film and television production in Canada took place in Ontario.
- Quebec accounted for 27% of production, while British Columbia accounted for 24%.
- Six percent of production took place in the Prairie Provinces, and 4% in the Atlantic Provinces.

**Total Volume of Film and Television Production, by Region, 1996/97 to 2000/01**



Source: PwC estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

Notes:

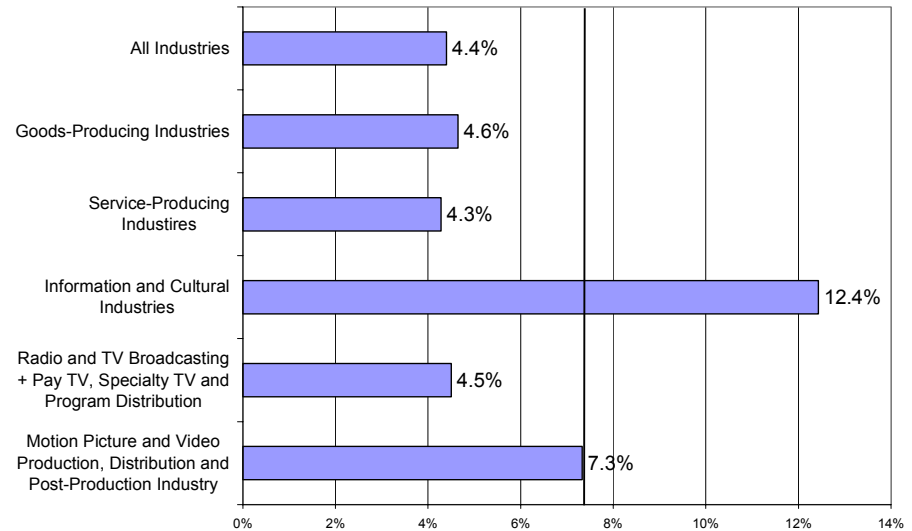
Totals may not add due to rounding

B.C. includes data for territories (Yukon, Northwest Territories, and Nunavut).

# GDP growth by industry sector

- The Canadian film and television production industry\* is one of the fastest growing sectors of the Canadian economy.
- From 1997 to 2000, production industry\* Gross Domestic Product (GDP) grew at an average annual rate of 7.3%.
- During this same period the overall Canadian economy grew by 4.4%.

**Average Annual Growth of Real GDP by Industry  
1997 to 2000**



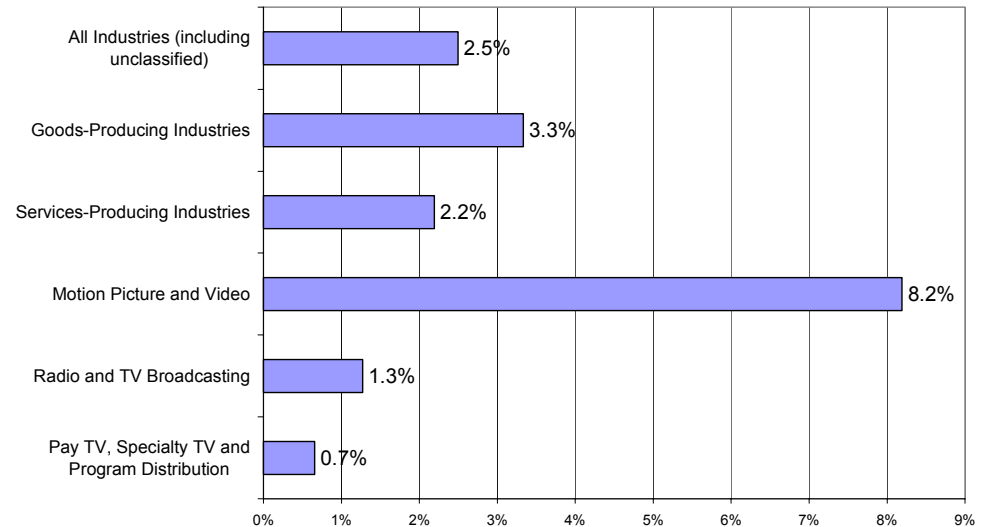
\* SIC 961 - Motion picture, audio and video production and distribution was used as a proxy for film and television production industry.

Source: PwC calculations based on data from Statistics Canada

# Job growth by industry sector

- The Canadian film and television production industry\* is also one of the fastest growing contributors to job creation in the Canadian economy.
- From 1996 to 2000, employment in the motion picture and video industries grew at an average annual rate of 8.2%.
- This growth was six times faster than the radio and television broadcasting industry and over three times faster than all industries combined.

**Average Annual Growth of Full- and Part-Time Jobs in Industry Sectors 1996 to 2000**

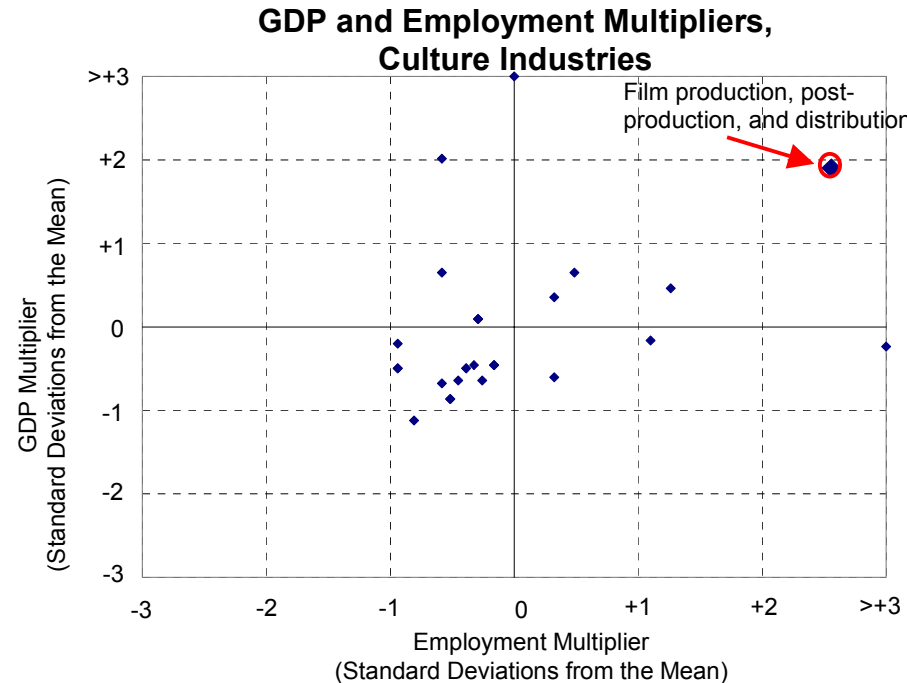


\* NAICS Category – ‘motion picture and video industries’ from the Labour Force Survey was used as a proxy for film and television production industry.

Source: PwC calculations based on data from Statistics Canada

# Performance of the Canadian production industry

- The GDP multiplier for the production industry\* is about 2 standard deviations beyond the mean multiplier across various culture industries.
- The employment multiplier is about 2.5 standard deviations beyond the mean multiplier for culture industries.
- The production industry\* has very high GDP and employment impacts compared to other culture industries.



\* The category film production, post production and distribution was used as a proxy for film and television production industry.

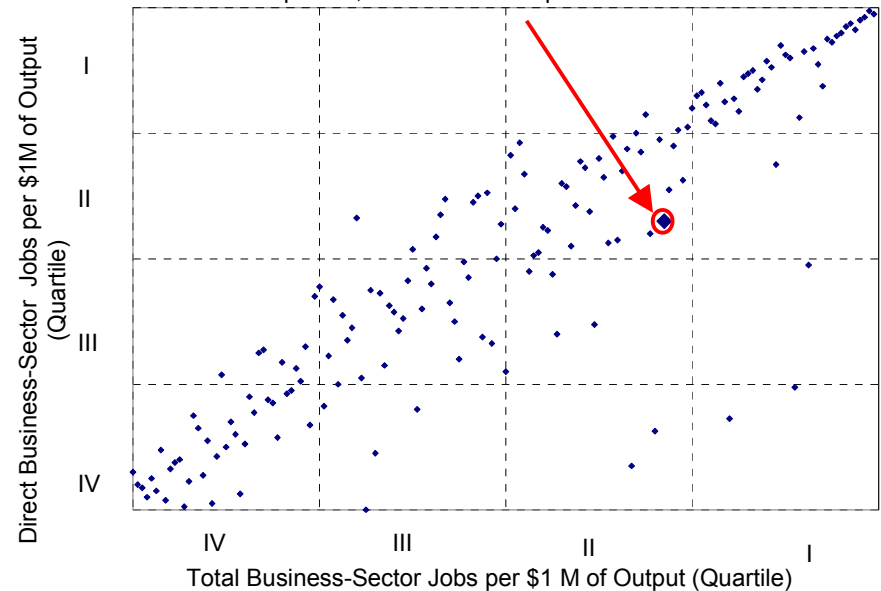
Source: PwC calculations based on data from Statistics Canada, "The Economic Impact of Culture", 2000

# Performance of the Canadian production industry

- The production industry\* is in the second quartile in terms of the number of direct business-sector jobs created per \$1 million of output.
- It is also in the second quartile in terms of the number of total (direct and indirect) jobs created for every \$1 million of output.
- The production industry\* generates above average direct and indirect jobs in comparison with other industries in the economy.

**Direct and Total Business-Sector Jobs per \$1M of Output, Quartiles**

SIC 961 Motion picture, video and audio production and distribution\*



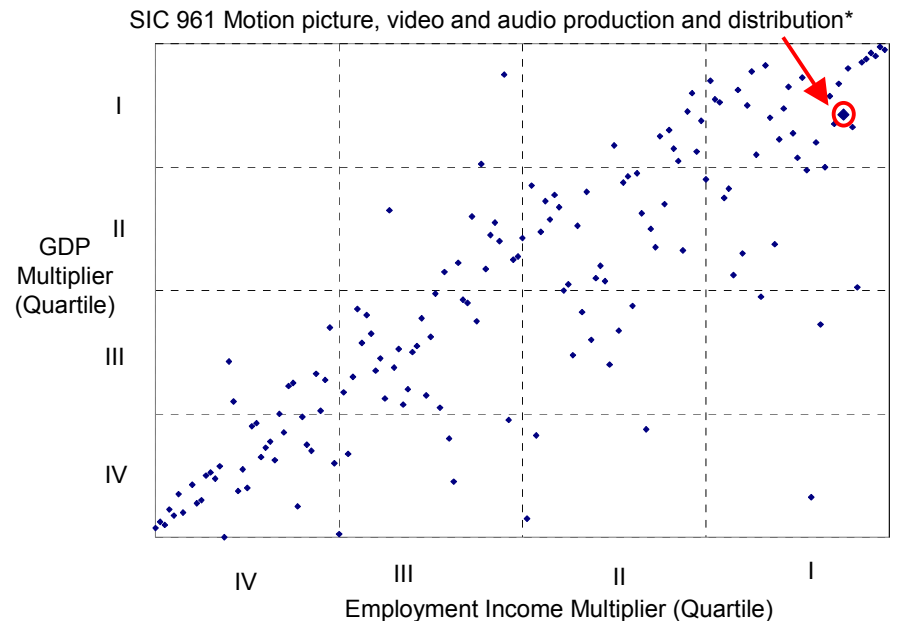
\* SIC 961 - Motion picture, audio and video production and distribution was used as a proxy for the film and television production industry.

Source: PwC calculations based on data from Statistics Canada

# Performance of the Canadian production industry

- According to data from Statistics Canada, the production industry\* is one of twenty-nine industries which is in the top quartile in terms of GDP multiplier and employment income multiplier.
- In comparison to most industries, GDP and employment income in the production industry\* generates high GDP and employment income in other upstream industries.

## GDP Multiplier and Employment Income Multiplier, Quartiles

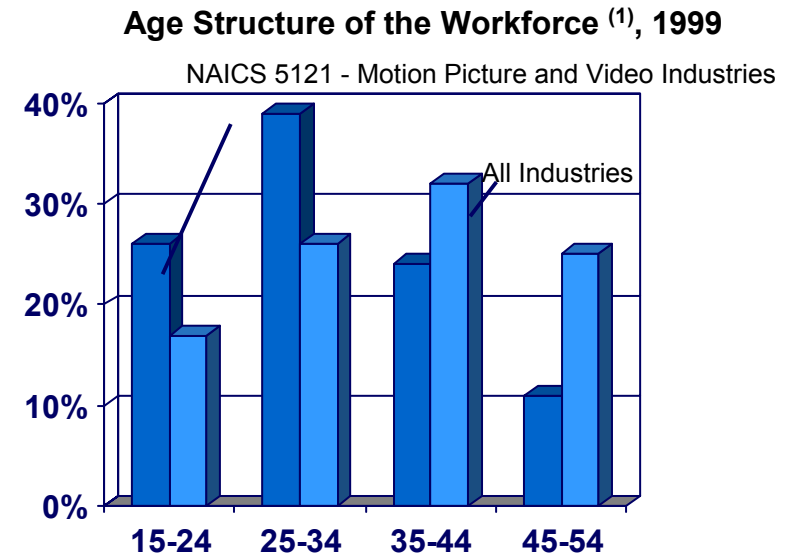


\* SIC 961 - Motion picture, audio and video production and distribution was used as a proxy for the film and television production industry.

Source: PwC calculations based on data from Statistics Canada

# Demographics of the film and TV production industry workforce

- The age structure of the production industry\* takes on a younger composition than the overall Canadian workforce.
- While 17% of the Canadian workforce is between the ages of 15 and 24, 26% of the motion picture and video industry workforce is comprised of persons between the ages of 15 and 24. A similar difference also exists in the 25-34 age bracket.



\* NAICS 5121 - Motion Picture and Video Industries was used as a proxy for the production industry.

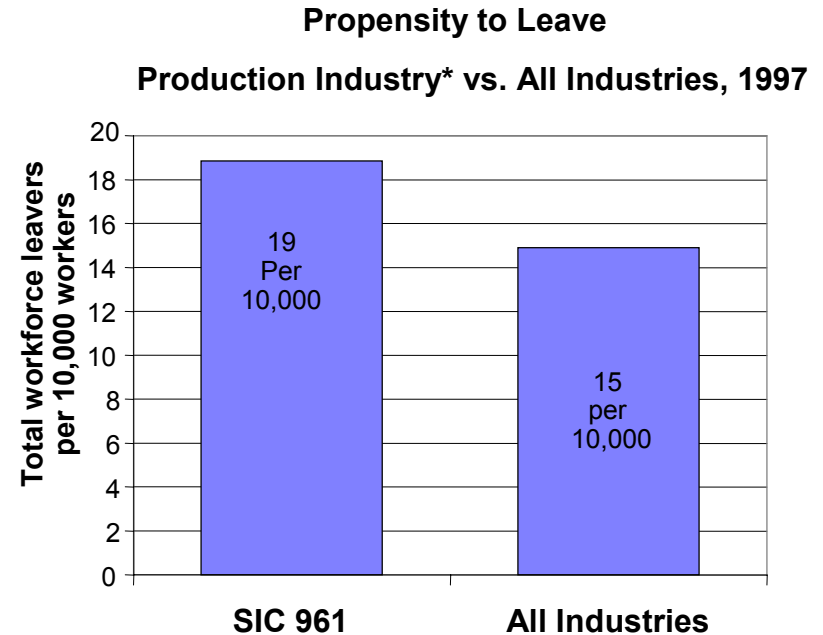
Source: Statistics Canada, Labour Force Survey

Notes:

(1) Due to data limitations, the workforce includes all workers between the ages of 15 and 54 and excludes any workers age 55 and over.

# Propensity for brain drain

- The film and television production industry\* is highly labour based
  - Approximately half of all Canadian production expenditures go toward labour (i.e. talent, crews, management)
- Being a labour-based industry, it is a highly mobile industry.
  - Despite strong growth in the production industry during this decade, workers in the production industry are 27% more likely to leave Canada than the average for all other industries.
- The production industry in Canada is highly susceptible to brain drain.



Source: Statistics Canada, Small Area and Administrative Data Division

\* SIC 961 Motion picture, video and audio production and distribution was used as a proxy for the production industry.

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