



CFTPA

*Representing television, film
and interactive production in Canada*

ACPFT

*Porte-parole de l'industrie de la production
cinématographique, télévisuelle et interactive au Canada*

CANADIAN FILM AND TELEVISION PRODUCTION ASSOCIATION

SUBMISSION TO THE STANDING COMMITTEE ON FINANCE

WITH RESPECT TO THE

2009 PRE-BUDGET CONSULTATIONS

August 14, 2009

Executive summary

The Canadian film, television and interactive media production industry has become a success story and an excellent example of good public policy. It has matured to a level where new strategies are needed to increase its corporate viability and strengthen its cultural and economic contribution.

A balance of government policy and creative entrepreneurship can ensure that projects and independent production companies are properly capitalized. Diversified, stable and strong funding programs are fundamental to the industry's domestic and international success. Film, television and interactive media production is a capital-intensive industry, with significant profit potential in the long-term exploitation of intellectual property and distribution. The government is in a privileged position to help increase the industry's competitiveness and foster a climate of sustainable growth, diverse expression and innovation.

To this end, the Canadian Film and Television Production Association's three main federal spending priorities would involve the:

- 1) Strengthened support and design of the *Canadian Film or Video Production Tax Credit* and the *Film or Video Production Services Tax Credit*
- 2) Strengthened support and longer term renewal of the Canadian Television Fund (to become the Canada Media Fund in April 2010)
- 3) Reestablishment or creation of key international funding and market initiatives

Introduction

The Canadian Film and Television Production Association (CFTPA) wishes to thank the Chair and Members of the Standing Committee on Finance for the opportunity to participate in the 2009 pre-budget consultations.

We are a national trade association that represents nearly 400 television, feature film and interactive media production companies across Canada. Our member companies are significant employers of Canadian creative talent and assume the financial and creative risk of developing original content for Canadian and international audiences.

Due to an effective combination of creative talent, entrepreneurial skill and enlightened government policy, the independent production sector has become a significant growth sector in the domestic economy and a solid provider of export dollars. Between 1996 and 2003, total production activity has steadily increased, reaching more than \$5 billion, but has more or less stabilized at that level in the last 5 years. Approximately half of total production activity is

generated by independent producers. Our industry helped sustain over 131,600 employment opportunities last year alone: most of these jobs are highly skilled technical and creative positions.¹

The production sector is primarily comprised of small and medium sized enterprises in all regions of the country. While the sector has flourished, the growth in production output has not been matched by increased corporate strength. As such, it is crucial to sustain federal programs that support the production of Canadian films, television programs and interactive works while ensuring that production companies remain healthy and strong.

We fully endorse the Standing Committee on Finance's previous determinations with regard to Canada's arts and cultural sector. The Committee acknowledged the various ways in which the sector contributes to global economic competitiveness and recognized the need to provide the sector with increased, predictable, stable and long-term federal funding:

The Committee believes that Canada's arts and cultural sector contributes to our productivity, to our national prosperity and to our competitiveness in a number of important ways. The sector itself contributes to our Gross Domestic Product, and a vibrant arts and cultural sector fosters a sense of community and enhances our social and economic well-being as a nation. (...)

The Committee feels that there is a need for increased federal support of the arts and cultural sector — broadly defined to include(...) television, movies,(...) — and believes that support should be predictable, stable and long term. Moreover, in our view, the arts and cultural sector requires infrastructure and other investments. Given the breadth of undertakings in the sector, we also feel that there is a need for ongoing dialogue among all sector participants.²

The demand for Canadian content has increased exponentially with the multiplication of screen choices available to audiences. The independent production sector is quickly adopting ever more sophisticated technology to keep pace with new media applications, digital broadcasting, and other industry demands. Government support for film and television production continues to play a critical role in the industry's growth, and a long-term public financing commitment is an indispensable part of the funding mix.

¹ Profile 2009: An Economic Report on the Canadian Film and Television Production Industry, CFTPA

² Canada: Competing to Win, Report of the Standing Committee on Finance, December 2006

Recommendations

In light of the above, we are pleased to submit our recommendations for increasing the competitiveness of the Canadian film, television and interactive media industry and fostering a climate of sustainable growth, diverse expression and innovation.

1) Strengthened support and design of the Canadian Film or Video Production Tax Credit (CPTC) and the Film or Video Production Services Tax Credit (PSTC)

The CPTC and the PSTC have proven to be effective forms of support for producers and efficient uses of government funds when considering the return on tax revenues. We gratefully acknowledge the federal government's long-standing commitment to these credits which, through the years, have been a critical component in the growth of the industry.

As the Committee may be aware, the aim of the CPTC is to support the production of high level Canadian creative and technical content that is produced by Canadian-owned and controlled companies. The PSTC on the other hand is primarily designed to encourage the use of Canadian labour on productions that are made by foreign production companies in Canada. Both types of production now need greater stimulus.

The Committee should note that any provincial tax credit or comparable fiscal incentive enhancement is undermined by federal income tax rules which reduce the value of a production by the amount of provincial assistance received. This "grind" negates any tax gains for production companies by denying production companies the full value of the federal tax credit. This effectively means that even though provincial funding agencies may have recognized and responded to the need to enhance their support, production companies find themselves in the same financing conundrum because of existing federal tax measures.

The enhancement of the CPTC tax rate from 25% to 35% and of the PSTC rate from 16% to 26% would encourage the production of harder to finance Canadian content productions of all genres and keep Canada on a level playing field with other jurisdictions competing for foreign production activity- all the while maintaining the incentive gap between the two tax credit programs. Given the unrelenting downward financing trends in international markets, it is imperative to revisit these tax rates and eliminate the "grind" effect created by various federal tax measures on the federal tax credits. It would also be appropriate to consider other enhancement measures such as broadening the labour base upon which tax credits are calculated or moving from a labour base to a production cost base.

In addition, producers are increasingly pressured by market forces and their project financiers to create and deliver content for non-traditional platforms, such as the Internet and mobile phones. As highlighted in a recent summative evaluation of the CPTC commissioned by the Department of Canadian Heritage, "producers are expected to use alternative platforms to deliver their

productions, thus supplementing or potentially bypassing conventional broadcasting and distribution channels.”³ The need to review the design of the CPTC, and by extension the PSTC, to include new media productions is clear. In the report, the Department itself recognizes the timeliness of addressing various program-related design issues such as broadening the tax credit given that the CPTC’s design has fundamentally not been modified since its inception in 1995.⁴ The time is now to develop and move forward on a digital media strategy for Canada – a strategy that would include federal tax support for new media productions.

2) *Strengthened support and longer term renewal of the Canadian Television Fund (CTF)/Canada Media Fund (CMF)*

The CTF, to become the CMF in April 2010, is the single most important initiative supporting distinctively Canadian television production.

Since 1995, the Fund has contributed to the creation of more than 27,000 hours of Canadian television. This unique public-private fund has provided more than \$2.7 billion of financing, triggering the production of more than \$9 billion of Canadian television programs seen by Canadians and others around the world, and cultivating thousands of jobs in the Canadian television industry.⁵ Without the CTF, independent production levels would decline by as much as 40%, corresponding to the loss of over 15,000 direct and indirect jobs.

The CTF, slated to sunset in 2011, plays a key part in helping to create and maintain a critical mass of quality programming to meet Canadian and international audience demand. Increased support for, and longer term renewal of, this public-private partnership capable of leveraging other funding to productions is therefore of utmost importance for our industry.

3) *Reestablishment or creation of key international funding and market initiatives*

The government’s decision last year to withdraw support for a number of key industry initiatives, including Trade Routes – a trade development program specifically designed to help Canadian organizations in the arts and cultural sector prepare to export and sell in international markets - directly translated into the loss of jobs, the loss of Canada’s visibility abroad, the diminishing of Canada’s international reputation, the loss of business opportunities for Canadian producers, the loss of tourism and immigration opportunities, and ultimately, the loss of business and investment revenues for the Canadian economy.

³ *Summative Evaluation of the Canadian Film or Video Production Tax Credit (CPTC)*, Office of the Chief Audit and Evaluation Executive, Evaluation Services Directorate, September 2008, p.79.

⁴ *Ibid*, p.80

⁵ *Annual Report 2007-2008*, Canadian Television Fund

International co-production is an important cultural and economic contributor to the Canadian film and television industry. It is a mechanism through which Canadian and foreign producers are able to combine their creative, technical and financial resources in order to create high quality productions that reach audiences at home and around the world. Just a few years ago, Canada was one of the leading co-production partners in the global market. However, it began to lose its competitive edge with the proliferation of foreign fiscal incentives and more flexible treaty rules and administrative processes for intra-European production. This has translated into a steady downward trend in co-production activity with Canada since 2000; in fact, co-production activity in 2008 was equal to about a third of the production volume recorded in 2000.⁶

The government can be instrumental in curbing the slide and rebuilding Canada's reputation as the "go to" place for co-production by reinstating or creating key international trade and promotion programs such as Trade Routes so that Canadian voices and productions may be heard and seen around the world. As well, a new funding initiative dedicated solely to international feature film and television co-productions would further help develop, finance, promote and market the Canadian film industry to the world.

We believe that the government, by implementing the above recommendations, can help position our industry for even greater growth and competitiveness. The film, television and interactive media production industry is an important part of the Canadian economy. Support for our sector is a good investment in the future of the economic and cultural life of our country.

We look forward to discussing the strategies outlined in this document with you during the consultation process and beyond.

Sincerely,

[ORIGINAL SIGNED]

Norm Bolen
President and CEO
Canadian Film and Television Production Association

⁶ *Profile 2009: An Economic Report on the Canadian Film and Television Production Industry*, CFTPA