CFTPA
Representing television, film
and interactive production in Canada

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

THE CANADIAN FILM AND TELEVISION PRODUCTION ASSOCIATION

Submission to

THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

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2005 PRE-BUDGET CONSULTATIONS

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EXECUTIVE SUMMARY

Over the past 10 years the Canadian television and film production industry has become one of the major success stories of government policy. However, while there has been growth overall, the situation is not as positive for the Canadian independent production sector, the segment of the industry that creates the majority of Canadian content. Moreover, little progress has been made in terms of fostering a healthier corporate capacity in this sector.

In the current federal policy system producers are caught in a catch-22: i) to attract greater investment, they need a stronger corporate capacity, and ii) to have a stronger corporate capacity they need access to greater investment. Independent producers are now looking to the federal government for help to break this chronic and inefficient cycle.

A new national strategy now needs to be pursued, one that i) focuses more on **increasing productivity;** ii) ensures **better synergy** between independent producers, the broadcasting system and other markets; iii) promotes a **fairer balance** between those who produce content and those who have direct access to audiences; and, iv) makes sure **each element in the system makes a significant contribution** to building social and cultural cohesion in Canada and to promoting diversity.

Canadian producers are well-positioned to deliver on the increased demand, but they need a revitalized environment if their businesses are to have sustainable growth into the future. As such, we are proposing a three-point strategy, the overall aim being to put independent producers on a path towards a more production future:

- Introduce new federal policy initiatives that aim to encourage sustainable corporate capacity
- Improve the efficiency of existing support measures to facilitate the flow of financing to projects and to help build stronger independent production companies
- Review cultural agencies and streamline their practices so they are focussed on the goal

To give substance to this new strategy, we offer the following:

(1) We recommend that beginning in 2006/07 the federal support allocated to the Canadian Television Fund and the Canada Feature Film Fund be increased by $20 million and $10.5 million, respectively, so that the value of these programs "catch up" to today's cost of producing;

(2) We recommend that each year thereafter the annual sums allocated to the Canadian Television Fund, the Canada Feature Film Fund and the Canada New Media Fund be increased by an amount equal to the annual rate of inflation to allow these sectors to keep pace with the economy;

(3) We recommend that the Government of Canada invest an additional $75 million per year to the Canadian Television Fund, an additional $65 million per year to the Canada Feature Film Fund and an additional $15 million per year to the Canada New Media Fund;

(4) We recommend that the Government of Canada commit to these resource levels, indexed to the rate of inflation, for a minimum of five years;

(5) We recommend that the Government of Canada increase the rate of the Canadian Film or Video Production Tax Credit to 30%;

(6) We recommend that the Government of Canada develop and implement a new fiscal incentive to help attract private sector financing to large-budget Canadian feature films and Canadian dramatic television series;

(7) We recommend that the Government of Canada review all existing support programs with a view to increasing flexibility in the eligibility criteria;

(8) We recommend that both the provincial and federal tax credit programs be kept outside the financing structure of a feature film or television production so that they may be put to use by producers to help build their corporate capacity;

(9) We also recommended that if federal or provincial tax credits are included in the financial structure of a project, at the producer's discretion, they be allowed to be fully recouped by the producer ahead of any public funding organization;

(10) We recommended that the Government of Canada expedite access to the financing allocated under the tax credit program, thus increasing its efficiency;

(11) We recommend that the CBC be adequately funded by the government so that it may carry out its mandate without having to rely on any additional funding provided via the CTF.

Introduction

The Canadian Film and Television Production Association (CFTPA) wishes to thank the Chair and Members of the House of Commons Standing Committee on Finance for the opportunity to share its views in the context of the 2005 Pre-Budget Consultations about the taxation, program spending and other policy changes that are needed to enhance Canada's productivity performance, particularly in the Canadian independent film, television and new media production sectors. We are pleased to submit this brief in advance of our appearance.

We value the occasion to participate in these proceedings on behalf of virtually all English-language feature film, television and new media producers across Canada which we, as a national trade organization, represent. We are also grateful for the Committee's ongoing efforts to consult with our industry on how best to increase the productivity of the Canadian independent production sector and to foster an environment where there exists better synergy for long-term sustainable growth.

We are encouraged by the October 2004 *Speech from the Throne.* More specifically, we support the government's economic and sustainability strategy, and appreciate the recognition that our quality of life, job opportunities and capacity to support our social goals rely on a globally competitive economy.

We also applaud the commitment to provide smarter government through a transparent and predictable regulatory system that accomplishes public policy objectives efficiently while eliminating unintended impact. We would highlight, however, that this should not be limited only to the modernization of the *Competition Act*. Other legislative frameworks, such as the *Broadcasting Act*, are also in need of updating.

And lastly, we are inspired by the recognition that the quality of cultural life is what makes Canadian cities and communities vibrant and creative. In this regard we fully support the government's commitment to "foster cultural institutions and policies that aspire to excellence, reflect a diverse and multicultural society, respond to the new challenges of globalization and the digital economy, and promote diversity of views and cultural expression at home and abroad."

English-language producers are eager to work collaboratively with Members of Parliament and federal officials in the pursuit of these commitments and objectives.

1. Overview of the Canadian Television and Film Production Industry

Over the past 10 years the Canadian television and film production sector has become one of the major success stories of government policy. With a view to illustrating some of these successes, we ask the Committee to consider the following:

- Between 1994/95 and 2003/04, the total annual value of domestic film and television production activity increased by 112%, from $2.3 billion to $4.9 billion;
- The following table breaks down annual production activity by province between 1997/98 and 2003/04:

Total Volume of Film and Television Production by Province ($ millions)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Share
Ontario	1229.5	1550.5	1748.9	1849.9	1905.3	1947.7	1758.3	35.7%
BC (Including Territories)	589.5	855.6	1085.9	1177.6	1183.3	1146.2	1542.4	31.3%
Quebec	962.5	1188.2	1294.6	1246.1	1218.2	1405.7	1205.6	24.5%
Nova Scotia	63.8	124.8	133.0	117.7	130.1	134.2	135.3	2.7%
Manitoba	35.6	70.8	44.2	71.0	74.3	85.5	108.6	2.2%
Alberta	104.7	131.5	239.8	179.9	149.7	200.9	98.5	2.0%
Saskatchewan	35.4	49.0	37.4	42.6	32.0	80.6	42.3	0.9%

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Share
New Brunswick	11.2	21.3	14.7	25.5	16.6	15.6	17.2	0.3%
Newfoundland	4.2	9.4	7.5	12.6	14.2	5.5	8.5	0.2%
P.E.I.	1.1	2.0	7.9	6.4	7.6	6.3	5.3	0.1%
Total	**3037.0**	**4003.7**	**4614.2**	**4728.3**	**4731.8**	**5028.0**	**4921.8**	**100%**

- As the above table demonstrates, while a large majority of the production activity occurs in Ontario, BC and Quebec, considerable production sums are also expended each year in Nova Scotia, Manitoba, Saskatchewan and Alberta. Further, albeit on a smaller scale, the activity in a couple of the other Maritime provinces has seen some growth since the late 1990s;
- Real GDP in the motion picture, and video production, distribution and post-production industries grew by an average annual rate of 7.7% between 1998 and 2003. By comparison, the Canadian economy grew by an average annual rate of 3.6% over the same time frame;
- Much of the national growth in the film and television production industry over the last ten years has occurred in the foreign location shooting and broadcaster in-house sectors. The total annual value of foreign location shooting increased by more than 250% between 1994/95 and 2003/04, from $539 million to $1.9 billion. Broadcasters' in-house activity also increased significantly over the same period, from $649 million in 1994/95 to just over $1 billion in 2003/04;
- In the last five years, foreign location shooting activity increased significantly in BC and Manitoba while it has been flat in Ontario and Quebec;
- In terms of the film and television production industry's contribution to Canadian employment, we have seen an increase of almost 60,000 direct and indirect full-time equivalent jobs (or an increase of about 79%), from 75,100 in 1994/95 to 134,700 in 2003/04.

2. The Challenges of the Canadian Independent Television, Film and New Media Production Sectors

Canadian independent producers are vital to ensuring cultural diversity in the film, television and new media sectors. They play a key role in helping to build a more cohesive and creative Canada in an ever growing media world of choice.

While there has been a considerable improvement over the years in both our overall annual output of film and TV content and the number of jobs created, the situation is not as positive for the Canadian independent production sector, the segment of the industry that creates the majority of Canadian content. While this sector is responsible for some 40% of the total annual production volume, it is the only sector that has experienced a decline in the last number of years. The volume of Canadian content that is made by independent Canadian producers has decline by 12.4% between 1999/00 and 2003/04. Further, preliminary data suggest the downward trend has been accelerating since 2003/04.

This decline is attributable in large part to a sharp drop in the level of foreign financing since the late 1990s, dropping by 60% between 1999/00 and 2003/04. Simply put, it has been getting increasingly difficult to find the necessary financing to produce Canadian content and the situation is getting worse.

Independent producers face this reality at a time when the demand for Canadian content has increased exponentially with the multiplication of screen choices available to audiences – over the last decade scores of new television services have been licensed and megaplex cinemas have sprouted everywhere. An independent study commissioned by the Department of Canadian Heritage concluded that "in aggregate, the estimated total volume of required evening-hour Canadian programming increased by more than 150% in volume between 1996-97 and 2001-02, growing at an annual average rate of roughly 21%."[1] And, debt-laden entertainment conglomerates are now leaning harder on independent producers to think small budget, not big.

[1] *Study of the Demand for Canadian Programming within the Canadian Broadcasting Industry*, August 25, 2003, Wall Communications Inc., Page 35

Moreover, over the years little progress has been made in terms of fostering a healthier corporate capacity in the Canadian independent television and film production sector. On the whole, independent Canadian production companies are still financially very fragile, often working from one project to another, hoping to survive long enough to make it to the next. Living hand-to-mouth is not an optimal recipe for building a sustainable environment in the long run.

The CFTPA soon will be releasing an independent study we commissioned from Nordicity Group that examines Canadian broadcaster financial performance and programming expenditures. This study also compares broadcasters' financial performance to independent producers and all other companies, and shows the precarious financial state of independent producers. The profit margin (measured in terms of earnings before taxes) of film and television producers has dropped considerably since the late 1999s. Between 1999 and 2002, their margin dropped from 6.7% to a low of 1.6%. This is **less than half** the average margin of all industries combined and **one-third** that of all broadcasters.

The difficulties faced by Canada's new media sector are in some ways much more basic. As a much younger industry, it does not currently benefit from a federal policy infrastructure that is as well developed as it is for other sectors like television and film. Further, the same research and evaluation tools to better examine in detail the specific challenges of this sector are only now being developed. Early in 2006, we expect to have completed a first-ever nation wide economic profile of the interactive media sector. With this document, we will be in a much better position to analyse certain difficulties, and develop appropriate initiatives to help further Canada's cultural policy objectives in this area.

3. Towards a More Productive Future for the Canadian Independent Production Sector

For more than 30 years the federal policy approach to encouraging the creation of an independent Canadian film and television production sector is one that has been focussed on stimulating the supply of Canadian content. As we demonstrated previously this strategy has proven to be successful in stimulating a degree of supply.

The current supply-side policy strategy in the film and television production sector is very much based on the provision of project-by-project assistance. While this was entirely appropriate for developing a young industry, it has done very little to develop more financially solid companies, allowing them to move forward on a sounder, more self-sustaining footing.

Independent producers now need the federal government to place greater policy attention on helping to improve the overall productivity of the sector. While Canadian independent producers are better positioned today than they were ten years ago, they need a revitalized environment if their businesses are to have any ongoing sustainable growth into the future.

A new national strategy, one that is anchored on building sustainable corporate capacity, now needs to be pursued. A strategy that:

- Focuses more on **increasing the productivity** of the Canadian independent television, feature film and new media production industries;
- Ensures **better synergy** between independent producers, the broadcasting system and other markets;
- Promotes a **fairer balance** between those who produce content and those who operate in a highly regulated sector and have direct access to audiences;
- Makes sure **each element in the system makes a significant contribution** to building social and cultural cohesion in Canada and to promoting diversity;

By promoting a stronger, more productive independent production sector we would:

- More effectively contribute to the building of dynamic and creative communities in Canada and enhance the cultural life of Canadian and international audiences;
- Ensure the availability of a broad diversity of distinctively Canadian views amidst the ever rising flood of cultural content from around the world in all media;
- Be more competitive nationally and internationally in the provision of quality television, feature film and new media content desired by audiences;
- Begin moving towards a more self-sustaining environment where the industries are increasingly focussed on growth, able to undertake higher risk development and technological innovation in the creation of content that connects with audiences both at home and abroad, and to assume the associated financial risks;
- Attract much needed private sector investment to this capital-intensive industry.

4. Investments in Entrepreneurial Capital

Investments in entrepreneurial capital in the independent film and television production sector are crucial to enhancing the sector's overall productivity.

As Committee Members likely know, the production of feature films, television programs and interactive media are costly creative endeavours. Further, the Canadian market alone is too small to recover the cost of production. As such producers must depend on international sales and public sources of financing to complete a project's production budget and bring it to fruition. As already noted, foreign sources of financing have decreased considerably in the last five years and the challenge for producers to raise financing has become much more difficult.

Without public and private sector investments the independent production sector would quickly erode. Over little time our ability to maintain a distinctive Canadian voice in film, television and interactive media would evaporate and the quality of cultural life for Canadian cities and communities would be adversely affected.

In the current federal policy system producers are caught in a catch-22: i) to attract greater investment, they need a stronger corporate capacity, and ii) to have a stronger corporate capacity they need access to greater investment. Independent producers are now looking to the federal government for help to break this chronic and inefficient cycle.

As such, we are proposing a three-point strategy, the overall aim being to put independent producers on a path towards a more production future:

4.1. New federal policy initiatives that aim to encourage sustainable corporate capacity

On a very macro policy level, with a view to helping companies improve their overall financial position it may be necessary for the government to rethink how the level of annual public resources are determined when a program is established to perform over several years.

To use the feature film sector as an example, when the federal government announced the Canadian Feature Film Policy in 2000 it committed to allocating a total fixed sum of $100 million per year for five years. The total budget was set in 2000 dollars and did not take into account annual inflation over the following five year period. Accounting for inflation, the $100 million allocated in 2000 is in reality worth only $89.5 million in 2005. Compounding this situation is the fact that shifting federal spending priorities over time result in cuts to the base allocation of programs. Since the film policy has been introduced, the Canada Feature Film Fund (the Policy's main program) has been reduced by $2 million.

The same challenge exists for the Canadian Television Fund. In 1996 when this program was created, the federal government via the Department of Canadian Heritage committed to allocating $100 million per year. Nine years later in 2005, the federal government's contribution remains at $100 million. Taking inflation into account, the $100 million allocated in 1996 is worth today only $80.3 million.

In short, over time all costs related to the development, production and distribution of television, feature film and new media projects increase and the real value of federal support decreases if you consider inflation and the direct cuts to base funding. Yet, the broad performance indicators set for these sectors by the government remain fixed.

In an environment where public resources are not indexed to the rate of inflation, the sector's ability to "keep up" with the rest of the economy is considerably hindered and, as such, it slides further behind. To have a chance of improving producers' positions and hopefully begin gaining ground, we believe federal support programs need to be indexed to the rate of inflation. As such:

> **(1) We recommend that beginning in 2006/07 the federal support allocated to the Canadian Television Fund and the Canada Feature Film Fund (development and production) be increased by $20 million and $10.5 million, respectively, so that the value of these programs "catch up" to today's cost of producing.**
>
> **(2) We recommend that each year thereafter the annual sums allocated to the Canadian Television Fund, the Canada Feature Film Fund (development and production) and the Canada New Media Fund be increased by an amount equal to the annual rate of inflation to allow these sectors to keep pace with the economy.**

In addition to the above investments, it is necessary to help the television, feature film and new media production sectors better meet the increasing demand for quality Canadian content. It is also important to improve their competitive position and facilitate the transition to new technologies, including high definition television. Significantly increasing the annual allocations to the Canadian Television Fund, the Canada Feature Film Fund (development and production) and the Canada New Media Fund, and increasing the current rate of the Canadian Film or Video Production Tax Credit Program would go a long way towards achieving these objectives.

With the rapidly decreasing costs of HD television sets and increasing consumer awareness, Canadians and international audiences are fast adopting this superior home viewing technology. It is inevitable that in the not-too-distant future HDTV will become the norm not only in Canada but also in the US and Europe. Already every new major US television series and many other foreign TV productions are now being produced in HD. However, the amount of Canadian HD content is not keeping pace. Based on our estimates only between 3% and 6% of our annual output today is being produced in HD.

Canadian content is at serious risk of losing the race to reach and grow audiences in the Canadian HDTV broadcasting universe. Further, we are missing out on significant export opportunities both in terms of selling Canadian content abroad and being able to continue providing quality production services at home.

Based on available data, we know that the additional cost of producing television programming in high definition range between 40% and 180%, depending on the genre.

As such, with a view to better positioning Canadian independent producers to meet the increasing demand for quality programming, to encouraging a more rapid transition to the high definition broadcast universe and other new innovative technologies, and to allow for a more predictable financing environment:

(3) We recommend that the Government of Canada invest an additional $75 million per year to the Canadian Television Fund, an additional $65 million per year to the Canada Feature Film Fund (development and production) and an additional $15 million per year to the Canada New Media Fund.

(4) We recommend that the Government of Canada commit to these resource levels, indexed to the rate of inflation, for a minimum of five years.

(5) We also recommend that the Government of Canada increase the rate of the Canadian Film or Video Production Tax Credit to 30%.

While direct federal assistance is crucial to maintaining a critical mass of quality Canadian content in all media, trying to build a more solid industrial base largely using public resources that are allocated on a project-by-project basis will do little in terms of moving toward a more self-sustaining corporate capacity. We believe that private sector investment is a vital ingredient to increasing productivity in the independent production sector. However, private sector investors have not traditionally been interested given the high-risk nature of the industry.

Financing and creative talent are inextricably linked and this is a reality that producers must contend with every time they develop a feature film or television program and attempt to raise the money to get that project into production. Private investors (and increasingly public investors as well) want assurances that the finished film has a reasonable potential to turn a profit when it is exploited. Investors are always more willing to invest their money in films that have accomplished and recognized writers, directors and actors.

If the Government of Canada expects Canadian produces to raise private capital and create programs that reach larger audiences, particularly in English-Canada, it must equip producers with the proper tools and flexibility in its program regulations to negotiate the best possible mix of cast and crew to satisfy private sector investors.

The Government of Canada can also play a role in this area by introducing new initiatives that encourage private investment, particularly for expensive productions like big-budget feature films and dramatic television series the budgets for which are now extremely difficult to finance.

(6) We recommend that the Government of Canada develop and implement a new fiscal incentive to help attract private sector financing to large-budget Canadian feature films and Canadian dramatic television series.

(7) We recommend that the Government of Canada review all existing support programs with a view to increasing flexibility in the eligibility criteria.

4.2. Improve the efficiency of existing support measures to facilitate the flow of financing to projects and to help build stronger independent production companies

4.2.1. The Canadian Film or Video Production Tax Credit Program

Implemented in 1995, the Canadian Film and Video Production Tax Credit (CPTC) program was "designed to encourage a more stable financing environment and longer-term corporate development for production companies, rather than focus simply on single project financing." In sum, this program was intended to help build corporate infrastructure in the Canadian audio-visual sector. While the tax credit has encouraged growth in the volume of feature films and television programs it has not proven very effective in terms of helping to build stronger corporate capacity.

Unfortunately, because of the difficulty in raising the necessary financing for a project, the limited amount of available direct public assistance relative to the high demand, and the fact broadcasters virtually always insist that the tax credit be included in a project's financial structure, producers are left with no option other than to include both the provincial and federal tax credits in a project's budget if that project is to get made. This situation effectively eliminates a producer's ability to use the tax credit to capitalize his corporate growth and largely relegates his business to operate on a project to project basis.

Further, direct federal funding organizations like Telefilm Canada exacerbate this situation by negotiating a recoupment position for their investment that is in a position ahead of producers. By doing so, Telefilm is placing a higher priority on recouping its investment than it is on fostering and promoting the development of the audio-visual industry in Canada as mandated by its founding legislation and as detailed in its own corporate plan. Because producers rely on Telefilm's assistance to complete their projects and other financing options are scarce, they have no marge de manœuvre in negotiating a better recoupment position for themselves.

Given the nature of the CPTC, a producer actually applies for the federal sums allocated under this program only at the end of his company's fiscal year when he files his corporate tax return. This typically occurs many months after a project has been completed. As already noted, since a producer is usually forced to include the tax credit amount in the financing of a project he must go to a financial institution to secure an interim loan to complete his financial structure. Banks typically lend up to 80% of the tax credit amount. Further, a produce must pay going rate interest charges on the borrowed amount for the period of time between the project's principal photography and the date he receives his check from Revenue Canada following the filling of his corporate tax return. The period of time that the tax credit must be interim financed is typically many months (i.e., 18-24 months).

The interest charges on the interim sums are very considerable if you consider the annual volume of qualifying productions each year. These costs ultimately decrease the net value of the tax credit for producers and make millions for the commercial financial institutions on what might be characterised as very low-risk loans.

By expediting access to public money under the tax credit program there would be greater efficiency in the use of public resources – less money would go to middlemen like the banks and more money would go into production thereby increasingly the quality of our annual output and helping to build stronger corporate capacity. As such:

> **(8) We recommend that both the provincial and federal tax credit programs be kept outside the financing structure of a feature film or television production so that they may be put to use by producers to help build their corporate capacity.**
>
> **(9) We also recommended that if federal or provincial tax credits are included in the financial structure of a project, at the producer's discretion, they be allowed to be fully recouped by the producer ahead of any public funding organization.**
>
> **(10) We recommended that the Government of Canada expedite access to the financing allocated under the tax credit program through a system of advances, thus increasing its efficiency.**

4.2.2. The Canadian Television Fund

The Canadian Television Fund was created in 1996 as a public/private sector initiative. Composed of two funding programs (i.e., the Equity Investment Program and the Licence Fee Program), the CTF is responsible for funding contributed by the Department of Canadian Heritage, the Canadian cable industry, the direct-to-home satellite industry, broadcast distribution undertakings and Telefilm Canada.

The CTF supports the production and broadcast of distinctively and identifiably Canadian broadcast programming, reflecting Canadian culture, stories and themes. Eligible genres include documentary, children's and youth, variety and performing arts, and prime-time dramatic programming.

As the number of Canadian broadcasters has increased over the years so has their demand for Canadian content in order to meet their conditions of licence. There is a clear need for additional Canadian programming hours in all genres and particularly in higher budget categories of drama, children's and documentary. As a direct result, this has put severe demand on the CTF's existing resource levels. With regard to English-language productions, the CTF's EIP would have required an additional minimum amount of $150 million to meet the financing requests from the applications they received in 2005.

There is now an opportunity for the government as part of its CTF renewal initiative to press for additional resources based on system demand and the need to encourage a more aggressive transition to high definition television for the benefit of all Canadians going forward.

The time is also right to redesign the CTF in such a fashion as to create a simpler financing system that more fully finances production and provides more actual benefit to production companies in terms of building corporate capacity.

Briefly stated, we now need a new financing model for television production, one representing a new strategy that seeks to:

- Encourage a critical mass of Canadian programming that can actually meet broadcaster demand;
- Nurture a viable business model for Canadian independent production companies;
- Improve the financial partnership between broadcasters, government and independent producers;
- Better balance the broadcaster, government and producer contributions to the financing of quality Canadian content desired by Canadians and international audiences;
- Develop a predictable orderly market for broadcasters which is also conducive to fully financing production;
- Improve the efficiency of the financing system by reducing administration cost and expediting cash flow to produces when they need it most.

We propose that new models be implemented for the production genres that are eligible under the CTF where the producer contribution is based on a maximum financial risk level of up to 25% of a production budget. In our view, this is the maximum risk threshold a producer can afford to shoulder while being able build up his corporate capacity.

In addition to the above noted principles, the new financing models must be supported by the following changes to the current production and broadcasting system:

1. Canadian content requirements for film and television production need to be simplified and made more flexible;
2. Programming expenditure requirements need to be reintroduced on conventional broadcasters;
3. Broadcasters need to report their development figures to the CFTPA and/or the CTF Board on a quarterly basis;
4. Strong and effective Terms of Trade Agreements need to be incorporated in all broadcast licence conditions, with performance reviewed annually by the CRTC;

4.2.3. The Canada Feature Film Fund

We support the government's policy focus on building audiences. However, the core of a new Canadian feature film policy must recognize the existence of two distinct linguistic markets and must strive to address the specific realities in each market. The film policy must be fluid enough to quickly adapt to market changes over time while being flexible in order to place emphasis where the challenges are the greatest.

The facts are that the level of competition from foreign (mostly USA) films in the English-language theatrical market in Canada is considerably higher than it is in the French-language market. Not only is the annual supply of foreign films superior in English-speaking Canada, but the average performance of those films is also significantly greater. Simply put, the American filmed entertainment industry "foot print" is deeper and wider in English Canada.

Moreover, despite the higher competitive forces they must contend with in their market, English-language film producers have historically received proportionally less direct public assistance per capita and, as a direct result, have produced half the number of feature films per capita compared to French-language producers. Without an adequate annual critical mass of competitive English-language Canadian feature films, it will be extremely difficult to reach larger audiences or build a sustainable Canadian feature film production capacity in English Canada.

With a fully asymmetrical approach Canada's film policy will be more effective in terms of building corporate infrastructure and promoting the creation of feature films that reach a larger audience in the English-language market.

In this context, the Government of Canada must explicitly endorse the traditional 2/3-1/3 linguistic allocation of direct assistance between the English and French markets and commit to reallocating Telefilm's recoupment to the linguistic market from which it originated. In short, there should be a complete separation of the policies and procedures, as well as all calculations, benchmarks and practices between the English- and French-language markets.

4.2.4. The Canada New Media Fund

The Canada New Media Fund is a key component of the government's Canadian Cultural Online Program (CCOP). The overall goal of the CCOP is to increase the production of Canadian content for interactive platforms, including the Internet, encourage greater access to such works both domestically and internationally, and promote the overall development of the new media industry in Canada.

These goals were established in recognition that Canadians – especially young Canadians – have very rapidly embraced the Internet and other interactive media as one of their primary access points to culture, information, entertainment and education.

These new and innovative means of communicating present an unprecedented opportunity to encourage participation in Canada's cultural life. Through these new technologies we have the opportunity to develop content that will strengthen connections among citizens and promote understanding across diverse Canadian communities. Further, a healthier domestic production capacity in this sector will help ensure that digital content made by Canadians can be shared with international audiences.

The new media sector in Canada is significant in many respects. There are thousands of active companies across the country, employing tens of thousands of Canadians, and generating millions of dollars in annual economic activity. However, the size of the industry veils some troubling realities. As highlighted in a study commissioned by Telefilm Canada close to two years ago, the new media sector faces formidable challenges that do not exist for other cultural industries. Further, given its limited resources, the CNMF can provide assistance to only about 15% of all applicants.

While the increase to the CNMF that was announced by the Minister of Canadian Heritage last February should help address some of these challenges, more policy emphasis needs to be put on this sector. While a wide breadth of federal policies and programs have been adopted for other cultural industries, the same cannot be said for new media despite the fact that this sector is as important culturally and economically for Canadians.

A comprehensive federal policy strategy that establishes a clear vision for the future and a solid foundation for sustained growth in the industry would greatly aid the new media sector in Canada. Such a strategy should include specific initiatives ranging from dedicated professional development initiatives and tax credits to a multitude of targeted direct subsidy programs and strong regulation, the whole of which to ultimately stimulate increased supply of Canadian interactive works and stronger Canadian businesses.

4.3. Review cultural agencies and streamline their practices so they are focussed on the goal

While our views in this regard may go beyond the scope of the Standing Committee's 2005 Pre-Budget Consultations, suffice it to say for now that we believe there is a pressing need to review the cultural agencies and streamline their practices so that they are all focussed on the same goal.

In our current policy system, the actions of one federal organization may undermine the goals of another. In our view, all federal institutions and funding programs should work in concert.

We highlight the relationship between the Canadian Broadcasting Corporation and the Canadian Television Fund as but one example.

The CBC has a specific mandate pursuant to the *Broadcasting Act.* To carry out its broad mandate, the Government of Canada provides the CBC with hundreds of millions of public dollars in an annual appropriation. In addition to its annual appropriation, the CBC is guaranteed access each year to about 40% of the Canadian Television Fund.

In our view, it would make much more sense to properly finance the CBC each year and allow the CTF to focus on its goal. As such:

> **(11) We recommend that the CBC be adequately funded by the government so that it may carry out its mandate without having to rely on any additional funding provided via the CTF.**

5. Conclusion

While over the years there has been a considerable increase in the demand for film, television and new media content, and a significant improvement in our annual output of Canadian content, this growth has not been matched by a healthier corporate infrastructure. On the whole, Canadian independent film and television companies are still very fragile financially. A new strategy from the Government of Canada can help move this industry to the next level and better position it for a more productive future.

Canadian producers are well-positioned to deliver on the increased demand, but they need a revitalized environment if their businesses are to have sustainable growth into the future. Please be assured that producers are eager to work collaboratively with Member of Parliament and government officials to achieve this goal.

Thank you for your continued support and interest in strengthening the Canadian production industry. We look forward to discussing the strategies outlined in this submission during the consultation process and beyond.

Sincerely,

Guy Mayson
President and CEO