



CFTPA

*Representing television, film
and interactive production in Canada*

ACPFT

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

August 10, 2001

Maurizio Bevilacqua, MP

Chairman, Standing Committee on Finance

c/o The Clerk of the Standing Committee on Finance

House of Commons

Ottawa, Ontario

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Dear Mr. Bevilacqua:

The Canadian Film and Television Production Association (CFTPA) thanks the Committee for the opportunity to submit its views to the House of Commons Standing Committee on Finance's pre-Budget consultation process. We value the opportunity to speak directly to Members of Parliament and to participate in the public consultation on the Federal Budget on behalf of the nearly 400 television, feature film and new media production companies across Canada, which we, as a national trade association, represent.

In our view, the government has done an impressive job implementing its long-term plan to build a strong economy, while also working to enhance the quality of life for all Canadians. Previous budgets have been an effective balance of sound fiscal management, selective tax

reduction and strategic spending initiatives that reflected the priorities of Canadians. We appreciate the Committee's continuing efforts to consult with our industry on our current priorities and where we feel our industry can contribute to the economic and cultural well being of this country. We would like to thank your committee for its attention to the CFTPA's submissions over the past years and its support of the government's commitment to the Canadian production industry as part of the government's overall strategy. As we have done each year, we feel it is important to take this opportunity to outline our priorities and to explain how we feel they relate to the priorities of the Committee and to the Government's Budget planning.

This submission, as well as the commissioned study of the Canadian Television Fund is being translated and will be sent to the committee as soon as it is available.

I. Overview: An Important Contributor to the New Economy

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 growing provider of export dollars. Total production activity has increased dramatically in recent years, increasing 12% over the year to more than \$4.4 billion (**CFTPA Profile 2001**, 1999/2000 production year data). Total foreign revenues collected by Canadian producers increased to \$1.9 billion in 1999-2000, a growth rate of 17% over the previous year. The total number of direct and indirect jobs created by the production sector has also risen dramatically, growing from 105,000 to almost 120,000 in one year and doubling in just five years. Most of these jobs are highly skilled technical and creative positions. The overall sector growth rate is very strong, with the overall production and distribution sector growing at an annual average rate of 9.1%, based on GDP, over the past five years (Statistics Canada), and three times the average growth for all industries combined. The sector is making an increasingly strong contribution to the new, information-based, high technology economy. We are attaching copies of the CFTPA's [Profile 2001](#) for the Committee's reference, to provide further detail on the production sector's performance.

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. However, the level of public financing of Canadian certified productions has not been increasing significantly in recent years, and public funding has generally become a smaller part of the total production volume in the sector. Over the past seven years, the level of public financing of CAVCO certified productions has averaged approximately 17%. The balance of most production budgets is being made up of a combination of domestic sales, foreign sales, private investment and producer

investment, in addition to expense rebates based on labour cost, all organized and financed by the producer. Furthermore, the production sector is quickly adopting ever more sophisticated technology to keep pace with new media applications, digital broadcasting, and other industry demands. This presents further opportunities for additional private market sources to balance government funds as well as providing new points of access to Canadian media products.

The government's long-standing commitment to encourage the production of certified Canadian content as well as Canadian production as a whole, through the tax system, has resulted in a very open and constructive line of communication with both the Departments of Finance and Canada Customs and Revenue Agency. This relationship has resulted in a much greater appreciation on the government's side for the needs of our industry and how it works, and a greater appreciation on our part for the major role government programs and tax policy have played in assisting the industry's growth.

II. Contributions to the New Economy: Tax Credit Simplification

The federal tax credit system is an important factor for producers in financing their work in Canada and for the growth of the Canadian independent production sector generally. In terms of improvements to the system, the CFTPA has consistently urged the government to address ongoing problems of tax credit design, which have led to persistent delays and duplication. The Department of Finance has listened and been very responsive on this issue. The 2000 Federal Budget indicated that the government would look at simplifying the process, and the CFTPA is working with government officials to this end. Proposals have been made by both government and industry, and constructive meetings have taken place. Despite some progress, however, several key issues remain unresolved, and we would request the Committee's support in this area to encourage both the Departments of Finance and Canadian Heritage to bring this initiative to a successful conclusion as soon as possible.

As you are aware, there are two systems of tax credit for film and television production. The **certified film or video production credit**, created in 1995, exists for productions which meet high levels of Canadian creative and technical content and are produced by Canadian controlled companies. The maximum credit achievable is 12% of the total budget. The **production services credit**, created in 1997, provides a rebate of Canadian labour costs to producer or service providers for productions, which must meet Canadian labour requirements, but have no minimum Canadian creative content requirements. It is designed to encourage the use of Canadian labour in Canada. The maximum achievable credit rate is approximately 5.5 to 6% of the total budget.

Canadian producers are very supportive of both tax credit approaches. However, our primary concern is that the incentive for producing Canadian content production has been effectively reduced because of the overly complex design of the certified tax credit. In our proposals to Finance, we have stated that this concern could be addressed by taking the following measures:

1. Simplify the Tax Credit calculation.

The certified film or video production credit involves a double calculation that provides an applicant with a credit calculation based on the lesser of two amounts: total budget cost or total labour costs. The eligible cost is reduced by a number of "grinds" and cost disqualifications, and the result is a tax credit based on a smaller eligible production cost than expected and the lesser of the two amounts. This complexity also results in numerous disputes and delays in application review by officials, significant bank financing costs and serious delays in receiving a credit. By comparison, the production services credit is a simpler design, with a single calculation based on labour costs and is much simpler and faster to administer.

2. Reduce program administration delays.

Because of an overly complicated administration process, producers regularly wait over a year for tax credit returns. There have been some improvements in overall processing time, and CCRA has been very open to improve the process, but a year - and often much more - from submitting a CAVCO return to receiving a tax rebate is common. Producers pay significant interim financing costs to banks, which further erodes the value of the credit to producers. We have asked that the administrative system be greatly accelerated, and have asked that a system of tax credit advances be implemented for clients with proven track records. This system has been implemented in Research and Development Tax Credit programs, and would be a major step forward in improving production cash flow and reducing bank charges.

3. Revise provisions affecting Investment

There are currently provisions in the certified tax credit legislation dealing with private investment which could treat revenue participation by domestic or foreign distributors and broadcasters as investment, and ultimately disqualify those productions from the tax credit. The potential negative impact of these provisions can be enormous and they create huge uncertainty at the critical financing stage of production over what type of financing would be acceptable. The production service credit, on the other hand, has no investor provisions and financing is not

reviewed

We have raised these issues with the Departments of Revenue and Finance. While they have been sympathetic and willing to discuss them, potential solutions have been more problematic. While we will certainly continue to work with officials to achieve viable resolutions to our concerns, we respectfully request the Committee's support in encouraging Finance and Heritage to work with industry to reach a satisfactory conclusion for all parties. We are major supporters of the tax credit regimes for production and we want the system for certified production to work more simply and efficiently, and for the system to provide a real incentive for the production of Canadian content.

III. **Contributing to Canada's New Economy and Canadians' Quality of Life – The Canadian Television Fund**

Renew the Contribution to the Canadian Television Fund (CTF).

We would like to thank the Committee for its past support for the renewal of the government's commitment to the Canadian Television and Cable Production Fund (CTCPF) in 1998, now called the Canadian Television Fund (CTF). The Fund has been a unique public/private sector partnership supported by contributions from the Cable industry, as well as Telefilm Canada and Canadian Heritage, and overseen by a public/private sector Board. This fund plays an important cultural as well as economic role, ensuring the presence of high quality Canadian programming by providing vital production financing for high Canadian content production. Television plays a key role in the cultural life of a country and the Government has made a long-standing commitment to encourage a Canadian presence on the nation's television screens. As the number of domestic and international signals multiply, it is more important than ever to ensure that this presence is a strong one.

Consulting firm KPMG provided a positive evaluation of the CTF in its "**Report of the Review of the Canadian Television Fund (2000)**" (commissioned by the Department of Canadian Heritage), stating the following in its conclusion:

"The CTF provides this incentive to both producers and broadcasters to provide such programs to Canadians. While all of the other mechanisms also play an important role in ensuring the demand for such programs and the expertise to produce them and are also important parts of the funding puzzle, only the CTF speaks essentially to the cultural imperative."

KPMG's conclusions also eloquently summarize the realities of the Canadian production and broadcasting economy which underline the need for continued support in an era of increased market demand:

"It is only by providing funding for individual programs that speak to distinctively Canadian concerns, experiences and themes that companies will be interested in directing their efforts to such programs, given that production for the larger foreign markets can be much more lucrative. Furthermore, since presales to such markets are less likely for such programs than for more internationally focused ones, the budgets must be based to a considerable extent on recouping their costs in Canada - inevitably requiring broadcasters to pay higher license fees. While many broadcasters are willing to pay slightly higher fees for such high quality programs that are attractive to Canadian audiences, there are limits to their ability to do so."

The evaluation helped the Minister of Heritage and the Government as a whole to move forward with a renewal of the government's contribution to the Fund, which was due to lapse in April 2001. Unfortunately, the renewal was only for a year, and part of a larger government initiative to renew a wide range of government programs for a year, until April 2002, while longer term commitments were reviewed by Cabinet and the Minister of Finance. A broad range of industry groups have been concerned that it is imperative that the government's contribution to the Fund is renewed on a long term basis in order to ensure the Fund's objectives and those of the government can be fully realized.

To assist in this renewal exercise, the CFTPA undertook an economic impact analysis of the Fund's performance, in order to dramatize the Fund's economic as well as cultural importance in the current Canadian broadcasting environment. A copy of this study is being filed with the Committee under separate cover, but some of the key conclusions are worth summarizing here:

- The CTF is the linchpin incentive to broadcasters and producers to create high quality recognizable Canadian Content for Canadians.
- The CTF is a major contributor to the development of a strong production sector in Canada and has a strong economic impact in addition to its primary cultural mandate.
- The CTF's annual contribution of approximately \$200 million generates over \$600 million in production activity. Its impact is particularly strong in priority program areas such as drama, children's and documentary.

- This activity in turn supports over 16,000 direct and indirect jobs.
 - This represents over 40% of independent English language television production and over half of French language.
 - CTF funding plays a huge role in encouraging production activity outside of the major production centres – assisting 93% of Canadian production in Atlantic Canada, 58% in Prairie provinces and 42% in British Columbia.
 - The Report concludes that without the CTF, the financing model for high Canadian content would be destroyed. Independent production levels would decline by as much as 40%, or \$578 million in production budgets
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- This corresponds to as much as 15,300 direct and indirect jobs.

The current level of contribution to the Fund is confirmed until April 2002. The Ministers of Heritage and Finance as well as the Cabinet will be considering the level and nature of the government's future contribution to the Fund in the coming months.

We request the Committee's support in recommending to the government that it renew its contribution of the CTF, on a long-term basis. Renewal would be, at a minimum, at the same level as it was previously renewed, that is, \$100 million annually. Though BDU contributions have increased, the production industry expects demand for independent production also to increase, particularly with the arrival of many new digital specialty and pay channels licensed by the CRTC over the next year. In our view, it is essential that current levels of public funds are available to match growing private sector contributions, in order to ensure production levels are adequate to meet the expected growth in demand.

IV. Improved Corporate Financing Mechanisms for Production Companies

The challenges posed by the current tax credit program design and the CTF renewal underline a serious weakness in our current financing system, which is lack of access to traditional financing vehicles such as loans and lines of credit, as well as venture capital and equity investment. Within the Canadian production system, the responsibility of production financing has fallen on the shoulders of the independent producer. This responsibility however, has not been accompanied by facilitating access to adequate corporate financing to ensure the establishment of longer-term business plans and proper project development. Indeed, problems of securing stable financing on a

corporate level have never been more difficult and the pressures of production financing have steadily increased in recent years. As tax credits are delayed, bank charges only increase. Producer fees and overheads are systematically reduced by funding agencies, and any remote chance of recoupment is increasingly squeezed by other partners in order to improve their own positions. And throughout this, the producer is largely left to his own resources, securing financing on the strength of his/her personal assets simply to get the production made. The cultural policy objectives of the government are being fulfilled at the expense of the producer.

The government needs to work with industry to look at new and innovative ways of attracting private investment on a corporate level to the film and television industry as well as facilitating improved access to bank financing and lines of credit. Film and television production is a capital-intensive industry, with significant profit potential in the long-term exploitation of intellectual property and distribution. While risks are real, proper capitalization can help minimize them and the future revenue potential is also great – financing must be available to help reduce the project-by-project approach that has characterized the industry to date and provide for better long-term development and corporate growth. We would urge the Committee to recommend that the Government look seriously at ways of improving the financing of production companies as well as cultural industries generally.

V. Quality of Life and New Job Opportunities

The Canadian film and television production sector has been growing rapidly, as have the number of jobs linked to it. In 1999/00 the industry supported almost 120,000 direct and indirect jobs, in every region of the country. As production in Canada increases, job creation will continue to expand as well. The production sector is increasingly high-tech, with major technological developments occurring within traditional production and post-production environments as well as the creation of new media. The jobs the sector creates are highly skilled, well-paying, creative positions; they provide new opportunities, primarily for young people, in the new knowledge-based economy.

Increases in production have increased the demand for trained personnel and, therefore, the need to find ways of encouraging the creation of entry level positions, particularly for young people. The CFTPA, with financial assistance from Human Resources Development Canada (HRDC), has expanded the CFTPA's mentorship program for production interns and assistants. The program, administered by the CFTPA for our members, has had an overwhelming response, and demand has dramatically exceeded the number of interns available over the past three years. It has been completely subscribed, successfully placing youth in entry level positions on production sites across

the country where they will learn real work skills.

We are now looking forward to expanding our internship program to meet the obvious needs of a growing industry and will be seeking additional, longer term funding through HRDC. For the 2000-2001 year we placed 70 interns. In addition, we have established a number of private sector partnerships with major broadcasters to establish internship programs that meet the needs of both our industries. Consequently, we shall be able to place 70 plus an additional 20 interns. HRDC remains our single most significant program. The CFTPA would like to continue to build on existing relationships with government and expand those partnerships.

We encourage the Committee to support recommendations to the Finance Minister requesting that additional resources be made available for the continuation and creation of mentorship and internship programs, specifically for the film / television and new media production sectors. This is particularly important for the new technology areas of information and content creation.

VI. Conclusion

The film and television production industry is an important part of the new economy, and a growing one. Support for our sector is a good investment in the future of the cultural and economic life of our country and the energy and creativity of our youth. We believe strongly that our industry has a growing ability to contribute to the quality of economic and cultural life of all Canadians, and is providing expanding opportunities for Canadians to succeed.

Thank you for your consideration and the opportunity to comment. We look forward to an opportunity to present our views to the Committee during the course of its regional consultations.

Sincerely,

Elizabeth McDonald
President and CEO
Canadian Film and Television Production Association

c.c. The Honourable Paul Martin
Minister of Finance

The Honourable Martin Cauchon

Minister Responsible for the Canada Customs and Revenue Agency

The Honourable Jane Stewart

Minister Responsible for Human Resources Development Canada

The Honourable Sheila Copps,

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