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CFTPA
Representing television, film
and interactive production in Canada

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

September 9, 2008

Elizabeth May
Leader of the Green Party of Canada
PO Box 997, Station B
Ottawa, ON
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Dear Ms. May:

With the federal election having been called, we thought it timely to share with you the priorities of the 400 small-and medium-sized Canadian independent television, feature film and interactive media production companies we represent across Canada.

We ask that the Green Party of Canada incorporate into its election platform a statement supportive of a vibrant Canadian independent production sector and a strategy to foster innovation, improve competitiveness and promote its growth well into the future. We would welcome the opportunity to meet with your senior party officials to discuss these important issues.

***Independent Production Sector Contributes to Growth of New Economy***

In addition to the important role it plays in helping define Canada's cultural identity and ensure diversity, the independent production industry makes a very significant contribution to Canada's economy.

Aided by astute public policy, the industry experienced growth over the last two decades. The independent producers generates a considerable proportion of the $5 billion in production activity that now occurs, including about $1.7 billion in exports, and sustains approximately 100,000 jobs from coast to coast.

The independent production sector is an important component of Canada's new economy. Indeed, we fully agree with those who conclude that a strong cultural sector is a key element for driving innovation, growth and prosperity in the knowledge-based, technology era. As highlighted in a recent Conference Board of Canada report that was undertaken in collaboration with the Department of Canadian Heritage[1]:

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[1] *Valuing Culture – Measuring and Understanding Canada's Creative Economy*, Conference Board of Canada, August 2008.

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- There is clear empirical evidence that Canada's culture sector, encompassing arts and culture industries, generates a wealth of contributions to Canada's cultural, social, and economic fabric.
- Countries around the world, as well as cities and regions, recognize the pervasive role that a dynamic culture sector plays in the overall economy – generating employment and wealth directly within the arts and culture industries, but also attracting people and spurring creativity and innovation across all sectors of the economy.
- Cultural diversity is an important driver of the creative economy and a critical strength that contributes to our national competitiveness.
- In a dynamic environment of global competition, demographic change, and migration, Canada's culture sector plays a critical role in attracting people, businesses, and investment; stimulating creativity and innovation; and distinguishing Canada as an exciting place where people can celebrate their heritage and achieve personal and professional fulfilment.
- Culture plays a crucial role in the attraction and retention of talent and investment.
- The largest three culture subsectors in terms of employment in 2003 were written media, the film industry and broadcasting. They accounted for 26.6 per cent, 14.8 per cent, and 9.2 per cent of culture sector employment respectively. Considering the effect of culture industries on other sectors of the economy, including direct, indirect and induced effects combined, culture and related industries employed over 1.1 million people in 2007.

Without a clear strategy for the independent production industry not only would Canada's cultural creativity and diversity be diminished, but we would also undermine our country's ability to set the necessary foundation upon which to build a more solid economy that will lead to increased productivity and a better standard of living for all Canadians going forward.

***The Challenges Independent Producers Face***

In partnership with the government our sector has grown over much of the last decade to become a shining example of what can be accomplished through visionary policy and forward-looking public investment. Even with this growth, however, the hundreds of small- and medium-sized businesses in our industry remain financially very fragile and overall corporate capacity has not improved to any significant degree.

With unprecedented consolidation in the communications sector, the shift towards digital technologies, the migration to multi-platform distribution/consumption, and a significant transformation in the traditional value chain, Canadian independent producers must now also contend with some of the most daunting challenges ever.

It is important to emphasize that we face these new challenges while still having to deal with the long-standing difficulties associated in neighbouring the world's largest exporter of filmed entertainment. With a small Canadian population spread out over a large territory, it is not readily possible for companies in our sector to achieve economies of scale that are comparable to those attained by the multinational integrated entertainment companies based in the US. These foreign companies are able to recoup their cost of production in their much larger domestic market and spread their risk across the multitude of distribution networks they own and control. These economic

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advantages enable them to sell their programming in Canada at a discounted price. When you add these efficiencies to the marketing muscle these foreign companies exert, it becomes abundantly clear why Canada, and in particular the English-language market, has long been dominated by US programming and why successive governments have actively sought to support the independent production sector.

These are some of the major challenges in our goal towards sustainable development in the Canadian independent production industry. We believe this goal can be achieved with a strong government commitment and focussed policy. Indeed, improving the sustainability of the independent production sector must be attained if we are to play a greater role in contributing to Canada's innovation, growth and prosperity in the future.

***A Federal Strategy to Foster Innovation, Improve Competitiveness and Promote Growth***

As we have shared with you in the past, we believe that improving the sector's sustainability requires a comprehensive and focussed federal strategy, and one delivered through a concerted effort by all federal departments and institutions. Further, we maintain that this strategy must have three specific underpinning policy thrusts: i) ensuring fair business practices, ii) promoting a stable and predictable financing environment and iii) encouraging market access and penetration.

<u>Fair Business Practices:</u>

Increased consolidation in the communications sector in Canada over the last number of years has resulted in a significant tipping in the balance of power towards a handful of media companies to the extreme detriment of the independent production sector. These few large media companies, which now control virtually all licensed television services in Canada, are now demanding terms in the acquisition of content that are excessive. These practices are both undermining the capacity of independent production companies to capitalize their activities and hindering any potential for growth.

With support from the CRTC, we are attempting to deal with these issues by negotiating Terms of Trade Agreements with each broadcaster. Negotiations are at an early stage but we are hopeful progress can be made.

In addition, a statement by the Green Party that it understands the need for fair and predictable business practices to ensure meaningful competition in this sector would go a long way to moving this issue forward. **More specifically, we would recommend that the Government of Canada:**

1) **Update its broadcast policy and regulations to help ensure a viable business environment for independent producers.** This can be done through an amendment to Section 3 of the *Broadcasting Act*, strengthening its meaning by explicitly stating that a) a healthy independent production sector is key to ensuring diversity in the broadcasting system, b) the programming provided by the Canadian broadcasting system should include a predominant contribution from the Canadian independent production sector, and c) the strengthening of corporate capacity in the independent sector is critical to a healthy industry and an important objective of the *Act*.

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A Stable and Predictable Financing Environment:

Addressing the structural challenges in the television industry only addresses part of the problem. The new federal strategy must also be coupled with measures that promote a stable and predictable financing environment. Within such an environment independent producers will be better equipped to raise the necessary financing – including attracting foreign investment – to produce quality content audiences demand.

The Canadian Television Fund (CTF) is a crucial federal program that supports the creation of distinctively Canadian television production. Since 1995, the Fund has contributed to the creation of more than 27,000 hours of Canadian television programs; has provided more than $2.7 billion in financing; and has triggered a total production volume worth more than $8 billion. Perhaps more importantly, the quality programs supported by the CTF have won critical acclaim and are appreciated by a growing audience base of Canadian and international viewers. Without the CTF, we would estimate that independent production levels in Canada will decline by as much as 40%, with corresponding job losses of about 15,000.

With regard to theatrical feature film, we would highlight that the Canada Feature Film Fund (CFFF) has been instrumental in supporting the development, production and marketing of quality Canadian theatrical films. While considerable progress had been made in terms of increasing our share of the box office market since 2001 – and more Canadians than ever are seeing Canadian films – we have lost some ground over the last two years in particular. One of the key challenges to reversing this downward trend relates to securing the necessary financing to be able to develop, produce and market an adequate supply of quality Canadian films to be able to more effectively compete with the hundreds of foreign, mainly US, films that are distributed each year in Canada. An increase in annual resources allocated to the CFFF would help address some of these challenges. More specifically, however, considerable work was undertaken by the industry in working with Telefilm Canada in developing a proposal to create a dedicated $30 million Co-Production Fund specifically to support official Treaty co-productions. This initiative not only would have lessened the considerable demand on the CFFF, but it would have helped leverage investment sums of equal value from foreign sources. We would offer that the future of the Canadian theatrical film sector depends on increasingly accessing foreign sources of financing and penetrating not only the domestic market, but more markets abroad.

While the interactive media production sector in Canada is still in its infancy, it is a sector with immensely strong growth potential. Yet, it receives relatively little federal government support. The Canada New Media Fund (CNMF) is the only federal program that supports the creation of interactive media content. Moreover, given its limited annual resources of $14.5 million, the CNMF is unable to support two-thirds of the applications it receives. A comprehensive federal broadband initiative that establishes a clear vision and a solid foundation for promoting growth in the interactive media production sector would be exceptionally beneficial.

As you know, the government's contributions to both the Canadian Television Fund (CTF) and the Canada New Media Fund (CNMF) are due to sunset at the end of this fiscal year. **We would recommend that the Government of Canada:**

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2) **Renew its funding to the CTF at an annual level that matches the contributions provided by broadcast distribution undertakings, and make such a commitment at the new funding level for a minimum of 3 to 5 years,**

3) **Renew its commitment to the CNMF by increasing the resources allocated to this program by an additional $15 million, and commit to those new reference levels for 3 to 5 years, and**

4) **Approve funding in the amount of $30 million per year, for a minimum of three years, earmarked specifically to a Co-Production Fund for Official Treaty theatrical films.**

Dedicated tax credits for film and television are instrumental in strengthening and growing the production industry. Tax programs such as the Canadian Film or Video Production Tax Credit (CPTC) and the Film or Video Production Services Tax Credit (PSTC) have proven to be effective forms of support for producers, and an efficient use of government funds.

As you 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. With a view to encouraging the production of harder-to-finance Canadian content productions and keep Canada on a level playing field with other jurisdictions competing for foreign production activity, **we would recommend that the Government of Canada:**

5) **Further enhance the CPTC tax rate, while maintaining an appropriate incentive gap with the PSTC.**

While direct federal assistance is crucial to maintaining a critical mass of quality Canadian content, without attracting more private investment from both within Canada and abroad, the goal of promoting greater sustainable development in the independent production sector will be considerably more difficult to attain. Given the inherent risks, however, private investors have not traditionally been interested in investing in either independent production companies or the content they produce.

The Government of Canada could play a role in this area by introducing new incentives that encourage greater private sector investment, particularly for expensive productions like big-budget feature films and dramatic television series the budgets for which are now extremely difficult to finance. As such, **we would recommend that the Government of Canada:**

6) **Work with the independent production sector to develop a new incentive to help attract greater private sector investment to the industry**

Promotion and Market Penetration:

Just as ensuring fair business practices and promoting a stable and predictable financing environment are crucial to promoting sustainable development in the independent production sector, so too is the need to place greater policy emphasis on promotion and market penetration. The need in this area is growing particularly quickly given major demographic trends and the resulting change in consumer behaviour, the multiplicity of access options now available to consumers, and the increasingly crowded nature of those platforms with content from around the world.

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It goes without saying that the diverse audiences in Canada and abroad will not view Canadian content if they don't know it is available. Promotion and marketing are crucial ingredients to the success of any industry, and this particularly relevant in the case of television, feature film and interactive media content where the consumers have greater choice than ever in what they view, how they view it and when they decide to do so.

With its small population, the Canadian market alone cannot be relied upon to build sustainable development in our sector. Achieving this goal will require that we increasingly access foreign markets and, where we currently do not export to any significant degree, foster greater relationships in those markets with a view to exploiting the opportunities that exist. This is an area where the Trade Routes program played such a meaningful role. Many producers who received assistance under Trade Routes to attend a foreign market, for example, were able to build on the relationships they developed at those markets and convert that experience into significant co-production or export opportunities.

As such, **we would recommend that the Government of Canada:**

7) **Develop a new support program in this area to replace the Trade Routes program, and one that specifically encourages the development of promotion, co-production and marketing strategies across multi-platforms, in niche markets, and promotes access to new markets in Canada and abroad.**

We are certain that by putting in place a new comprehensive and focussed federal strategy, along the three policy thrusts outlined herein, we can begin to lay the foundation in reaching our goal of sustainable development in the independent production sector.

We would welcome the opportunity to discuss our proposals with you in greater detail and are available at your convenience.

Sincerely,

Guy Mayson
President and CEO

c.c.: Mr. Blair Wilson, MP for West Vancouver
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