

Assessment of the Economic Impact of the Canadian Television Fund

Canadian Film and Television Production Association
(CFTPA)

Final Report

August 3, 2001

PRICEWATERHOUSECOOPERS 

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Introduction

- **The executive summary provides a brief overview of this document and its key findings. It is organized into four sections that correspond to the key chapters of the report:**
 - **Market Realities and the Role of the CTF:** explores some of the principles of the production industry and the role the CTF plays in the Canadian production industry.
 - **Performance of the Canadian Production Industry:** outlines the structure of the Canadian production industry and some of its key performance measures.
 - **The CTF's Contribution to the Production Industry:** outlines the CTF's specific contribution to the growth and development of the Canadian production industry.
 - **Counterfactual Analysis:** outlines the results of our counterfactual analysis, which assesses the economic impact on the independent Canadian production industry if the CTF were eliminated.

Market Realities and the Role of the CTF

- **The production industry is a ‘hits’ business that is highly risky and takes numerous years to see a return.**
 - Not unlike other industries that rely heavily on research and development (eg. pharmaceutical, software), the production industry invests in numerous products. A handful of successful products (ie. the ‘hits’ that resonate with an audience) generate the bulk of revenue for the industry.
- **The US production industry is most equipped to deal with the economics of a ‘hits’ business and operates with unparalleled production budgets.**
 - The US has a domestic audience 10 times that of Canada and up to 5 times that of other major industrialized nations (eg. Germany, France, UK).
 - Due to the tremendous size of the US market, productions in the US can be financed domestically and international sales are an add-on.
 - In countries outside the US (eg. Canada, UK), productions cannot generally be financed entirely with private domestic money alone. International sales or public support are required just to complete the financing structure.
 - Average TV program license fees per hour in the US (ie. \$2.2 million) are two times English-language and seven times French-language Canadian drama production budgets.

Market Realities and the Role of the CTF (continued)

- **Countries outside of the US have developed their own models to create television content, because the US model is not a sustainable model for every country.**
 - At the dawn of the TV era, public/state broadcasting was the norm and the full cost of creating TV programming was left to state/public broadcasters. Programming was generally produced in-house. The US, with its private broadcasting system and independent producers, was an anomaly at the dawn of TV rather than the norm.
 - As the TV industry has evolved, public broadcasting has given way to private broadcasting and independent production. However, recognizing the need for public support to create domestic content, public support mechanisms (eg. independent production funds, tax credits) were set up to offset the cost of creating domestic content.
 - Most countries outside the US still rely on public sector mechanisms (eg. public broadcasters, content regulations) and financial support to independent producers (eg. production funds) in order to produce domestic oriented content.

Market Realities and the Role of the CTF (continued)

- **Canada has developed its own model to support the creation of Canadian programming based on its own market realities and public policy goals.**
 - Due to the size of Canadian audiences from which to generate advertising revenues, Canadian broadcasters can only cover a portion of the production budgets of Canadian productions (eg. 25%).
 - To complete the financing of Canadian productions, Canadian producers must turn to a combination of support mechanisms or foreign markets, but they generally cannot do both.
 - The underlying principle of Canada's broadcast policy is that entertainment is not just business, it is culture. As such, the creation and exhibition of distinct Canadian content that speaks to Canadians is a fundamental principal of Canadian broadcasting policy.
 - The federal government has initiated various support mechanisms to fulfill the principals of its broadcasting policy, such as content quotas, production tax credits and the Canadian Television Fund.

Market Realities and the Role of the CTF (continued)

- **The CTF is a critical public incentive for the creation of distinct Canadian programming that fulfils the principals of broadcasting policy, today and in the future.**
 - The CTF is a public/private partnership that was created to provide funding and create a critical mass of high quality, distinct Canadian programming in under-represented categories (ie. Drama, documentaries, children's programs, variety and performing arts), and particularly in peak viewing times.
 - The CTF has created a unique financing structure for a unique type of production in the broadcasting system – CTF funded productions receive a 10 out of 10 Canadian content rating, addresses Canadian themes and stories and are financed nearly entirely by private and public domestic sources.
 - There is a growing need for the CTF as the number of Canadian broadcast, specialty and pay TV services entering the broadcasting system and seeking access to the CTF continues to expand.

Performance of the Canadian Production Industry

- **The Canadian production industry contributes greatly to economic activity and job creation both within its industry and within industries it intersects.**
 - The Canadian film and TV production industry has grown nearly 130% over the last seven years from just under \$2 billion to \$4.4 billion. ⁽¹⁾
 - Independent Canadian production (of which CTF funded production is a component) represents the largest segment of the production industry in Canada, accounting for over \$2 billion.
 - The production industry's contribution to GDP and job creation in other sectors is the highest among cultural industries.
 - The production industry is one of twenty-nine industries in the Canadian economy that is in the top quartile in terms of GDP and employment income multipliers.
 - The production industry is a sunrise industry that continues to grow several times faster than the economy and employs a higher proportion of highly-skilled young workers.

(1) The production industry in Canada is made up of three broad sectors: Broadcaster in-house production, independent Canadian production and foreign location shooting.

The CTF's Contribution to the Production Industry

- **The Canadian Television Fund contributes significantly to the growth and development of the independent Canadian production industry, even though its mandate is cultural and not economic.**
 - The CTF is a public/private partnership that contributes over \$200 million annually towards independent Canadian TV production.
 - For every \$1 dollar contributed by the CTF to a production an average of \$2 dollars is contributed from private and other public sources. Combined, they create over \$600 million in production activity annually and over 16,000 direct and indirect jobs.
 - CTF funded production represents over one-third of English-language and over half of French-language independent Canadian TV production.
 - In respect to genres, CTF funded TV productions represent significant shares of independent Canadian TV production: 45% of children's, 71% of documentary, 43% of drama, and 54% of performing arts and variety.
 - In respect to regional contribution, CTF funded production represents a greater share of independent Canadian TV production in the the Atlantic and Prairie regions than in Quebec, Ontario and BC (ie. CTF funded production represents 93% share of total TV production in Atlantic Canada and 58% share in the Prairie provinces).

Counterfactual Analysis

- **There are three principal components to independent Canadian production financing: 1) broadcast license fees; 2) CTF and 3) foreign sources. Productions funded by the CTF have a very different financing structure than those that do not receive CTF funding.**
 - Canadian broadcast license fees and the CTF are the two critical components that secure financing for CTF funded productions (ie. they can represent up to 60% of the production budget). Tax credits and foreign sales are important to complete the financing structure.
 - Productions that do not receive CTF funding rely on domestic and foreign license fees to cover up to 70% of the financing. Tax credits are an important source of financing to complete the financing structure.
- **If the CTF were eliminated, the CTF financing model would be destroyed, along with the unique Canadian oriented programming it creates.**
 - CTF and the license fee make up over 60% of the total financing. Without the CTF, the CTF financing model collapses and producers would have to obtain a large foreign presale.
 - With a greater reliance on foreign sales comes an increased input from international clients on the creative elements of the production.

Counterfactual Analysis (continued)

- **Without the CTF, independent Canadian producers will have to change their financing model from a majority of domestic to a majority of international sources of financing – essentially the financing model used by independent Canadian productions that don't utilize CTF funding today.**
 - If the CTF were eliminated, broadcasters would not have the economic capacity to raise their license fees in order to compensate for the financing gap created by the lack of CTF funding.
 - An additional \$485M of foreign financing would be required to maintain the current level of independent Canadian TV production. This would be double the current level.
 - Doubling the level of foreign sources that the independent Canadian TV production companies could obtain in one year is unlikely - access to key markets (i.e. US, UK, France, Germany) are already well penetrated by Canadian producers and these markets will not grow dramatically due to the elimination of the CTF.
 - Even if we assume that foreign sources of financing could not double but might grow 25% to 50%, the ability of producers to switch to financing a model that relies more heavily on foreign sources will still vary based on the language/market and genre specialization. Not all genres have the same international appeal, nor do all producers have sufficient international contacts to obtain international sales – it takes many years to build contacts and a reputation to sell internationally.

Counterfactual Analysis (continued)

- **If the CTF were eliminated, it would have a significant impact on economic activity and jobs in the independent Canadian TV production sector.**
 - Independent Canadian TV production would decline between 32% and 40%.
 - An estimated \$456 to \$578 million in independent Canadian TV production activity would be lost, which corresponds to between 12,000 and 15,300 direct and indirect jobs.

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Introduction

- **PricewaterhouseCoopers (PwC) was commissioned by the Canadian Film and Television Production Association (CFTPA) in March 2001 to conduct an impact study of the Canadian Television Fund (CTF).**
- **The primary objective of the study was to evaluate the impact that the CTF has on the Canadian production industry. To determine the impact of the CTF, PwC has:**
 - **Consulted with broadcasters and producers to gain insights on the role of the CTF in supporting different genres of Canadian programming in various languages.**
 - **Conducted a literature review of documentation relating to the CTF and the Canadian production industry, including broadcasting policies, industry reports and government studies.**
 - **Conducted extensive data analysis on the industry, including special runs of CAVCO, CTF and Statistics Canada data.**

continued ...

Introduction (continued)

- The output of our analysis is presented in this document and organized in the following manner:
 - **Section 3** outlines many of the market forces and business realities of the production industry, both in Canada and the world, to clarify the role and purpose the CTF plays in the Canadian broadcasting system.
 - **Section 4** provides an overview of the production industry in Canada and its contribution to the Canadian economy.
 - As a significant part of the Canadian production industry, **section 5** outlines the CTF's contribution to the Canadian production industry.
 - In **section 6**, we outline our counterfactual analysis, which outlines the impact on the independent Canadian production industry if the CTF were eliminated.

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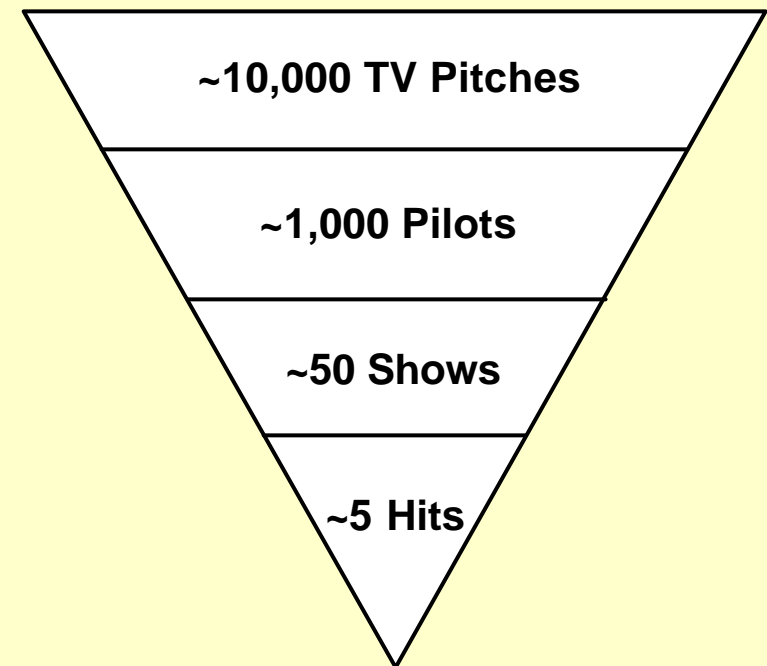
Introduction

- **The objective of this section of the report is to illustrate some of the market principles underlying the production industry globally and outline the purpose and role of the CTF in the Canadian market.**
- **As such, this section of the report will:**
 - **Demonstrate the high risk nature of the production industry that contributes to challenges creating domestic TV content**
 - **Summarize some of the models countries outside of the US have undertaken to create domestic TV content**
 - **Describe some of the challenges broadcasters and producers face creating domestic TV content for the Canadian market**
 - **Outline broadcasting policy that has created demand-side and supply-side mechanisms to create domestic TV content**
 - **Demonstrate the broadcasting system's growing need for the CTF.**

The production industry is a 'hits' business

- The TV production industry is a numbers game:
 - As a rule of thumb, 9 out of 10 shows that get on the air fail to find an audience.
 - The 'hit' show that resonates with an audience produces an above average return that covers the loss of the failures.
 - Companies must diversify production to siphon hits.
- This 'hits' business model is most commonly depicted in its form in the US (see graphic).
- While the 'hits' model can be applied to most other countries in the world, other countries are unable to sustain the same level of intensity as the US market.
 - Developing 'TV pilots' can cost several million dollars each to produce, with no guarantee of success.

Annual Network TV Series Development Funnel in the US*



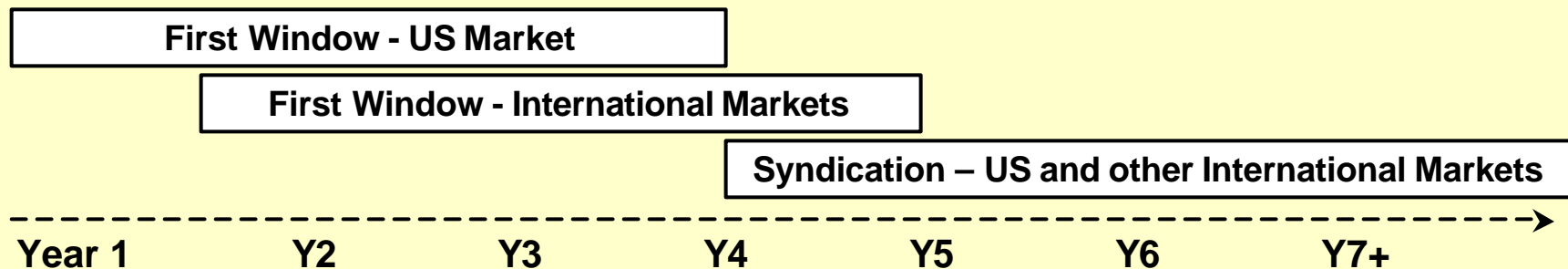
* Illustrative

3) Market Realities and the Role of the CTF

Even a 'hit' production takes years to see a return

- Even when a producer lands a 'hit', it can take 7+ years to reap the full value from that investment.
- Even in the US, a broadcaster's license fee does not generally cover the upfront investment by the production company, so there is a portion of financing at risk:
 - For prime-time drama, US broadcasters typically pay a license fee that is 80% of the cost of production. In return, US broadcasters get first window rights to air the program in the US. ⁽¹⁾
 - International sales typically bridge some of the 20% gap, but typically don't accrue until the TV series shows signs of success in the US.
 - Once the show is renewed for its fourth year, it has enough episodes to be positioned for the 'syndication' market.

Typical Release Schedule of US Drama Series



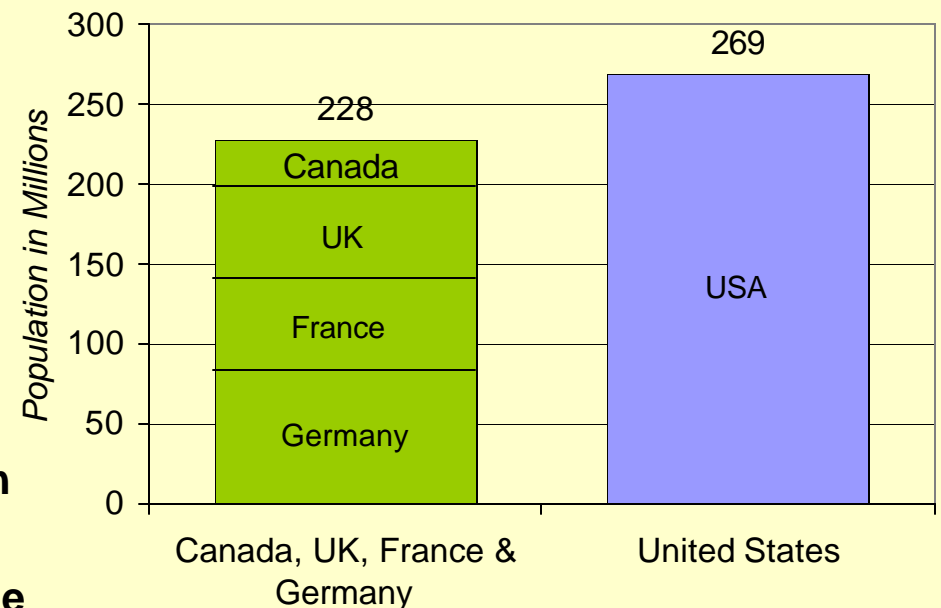
(1) This is changing now due to a shift in regulations that permit broadcasters to own the programming they air. As such, broadcasters are increasingly contributing more to production, but taking a proprietary stake.

3) Market Realities and the Role of the CTF

The US market is most equipped to deal with the risks of a ‘hits’ business. Countries outside the US have developed alternative models.

- **The United States has a domestic market of approximately 300 million from which to recoup the cost of production. This has two major competitive impacts:**
 - 1) US distributors can sell American product internationally at very competitive prices; and**
 - 2) US producers can work with unparalleled production budgets.**
- **In contrast, production companies in countries such as Canada, the UK, France and Germany are most often unable to recoup the cost of production within their domestic market.**
 - **This is particularly the case when the production budgets approach American levels.**

US Population vs. Cumulative Population of Canada, UK, France and Germany



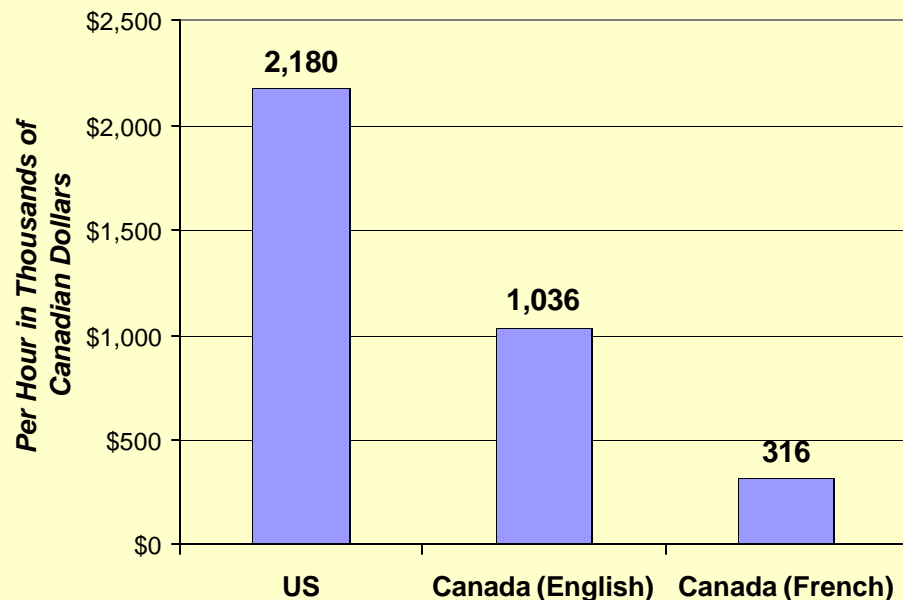
Unlike in the US, where foreign exports are an add-on, production companies must penetrate foreign markets just to produce competitive content or receive public support.

3) Market Realities and the Role of the CTF

US production companies produce with unparalleled production budgets

- The average license fee ⁽¹⁾ per hour of prime-time programming on US broadcast networks is \$2.2 million, which is:
 - 2 times the total production budget ⁽²⁾ for English-language CTF funded drama on broadcast networks; and
 - 7 times the total production budget ⁽²⁾ of French-language CTF funded drama on broadcast networks.

Average License Fee/Hour for Prime-time Programming on US Broadcast Networks vs. the Total Budget/Hour of CTF Funded Drama Productions on Canadian Broadcast Networks, 2000-01



Source: US - Kagan; Canada - CTF

- (1) License fee is the cost paid by broadcaster, which in the US case would be close to the total production budget (eg. 80%).
- (2) Total production budget, not license fee paid by broadcasters (eg. CTV, CBC). The license fee paid by broadcasters would be approximately 25%. Nearly all CTF funded drama airs only on broadcast networks in prime-time.

Three models for how TV content is created outside the US in spite of the overwhelming competitive odds

- **There are generally three models for the development of TV content in countries outside the US that are closely tied to changes in the broadcasting industry.**
 - 1. State/Public broadcasting.** Virtually every developed country in the world initiated the TV era with state run or public broadcasting. Recognizing TV's social/cultural influence, its great expense and issues of spectrum scarcity, most countries around the world felt TV was best left managed by the state and funded by the public through government appropriations, license fees on TV sets and/or levies on electricity. The full cost of creating TV programming was left to state/public broadcasters and generally produced in-house. The US, with its private broadcasting system and independent producers, was an anomaly at the dawn of TV rather than the norm.
 - 2. Content quotas and public support to independent producers.** Following the privatization trend in the 1980s, the TV industry in many countries was re-oriented around market forces. State/public broadcasters were privatized or began to rely on advertising for portions of their annual revenue and new private broadcasters emerged. Once mainly in-house, content creation was outsourced to independent producers. Though, still recognizing the need for public support to create domestic content, public support mechanisms (eg. independent production funds, tax credits) were set up to offset the cost of creating high-quality content. In order to maximize the efficient use of independent production funds, co-production treaties were set up between countries in order to increase the efficient use of production funds.

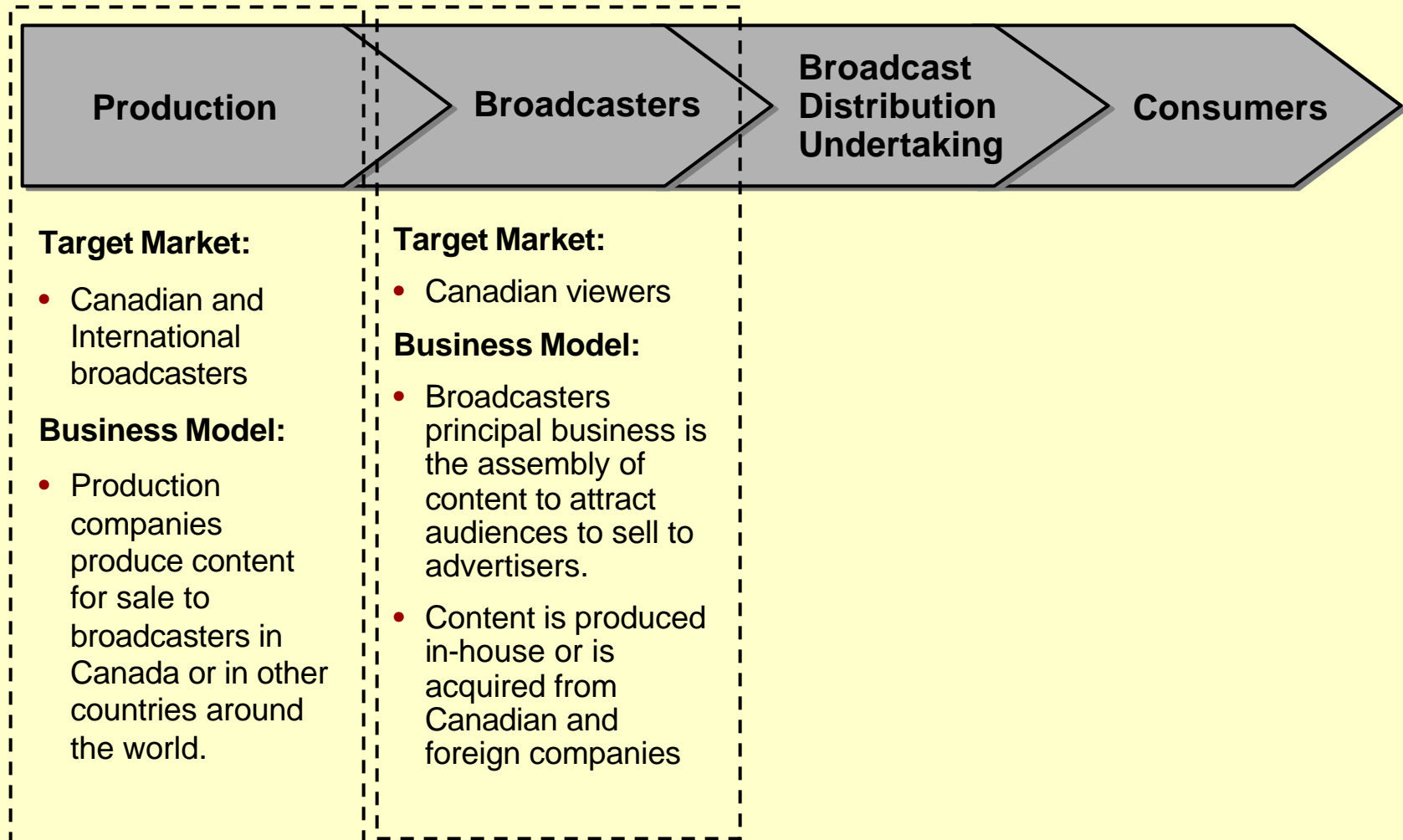
Three models for how TV content is created outside the US in spite of the overwhelming competitive odds (continued)

- 3. International Market Focus.** The most recent incarnation in the development of the TV production industry is the focus on the international market to support content that is competitive with the major Hollywood studios. The business model of the US studios is international in scope. Though supported by the huge US domestic market, content produced by the majors is intended for the world market. In order to be successful internationally, common studio strategies must be employed to bridge cultural barriers and attract audiences worldwide (eg. dependence on recognizable stars, special effects, internationally identifiable themes (eg. violence, sex, adventure)). Companies outside of the Hollywood sphere in countries other than the US are starting to compete on this basis (eg. Bertelsman from Germany; Alliance Atlantis from Canada). For production companies outside the US though, focus on the international market means targeting the US because domestic markets outside the US do not have markets large enough to support production budgets that can compete with the major Hollywood studios.

3) Market Realities and the Role of the CTF

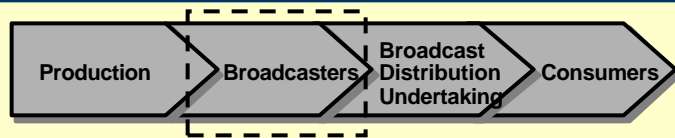
Canadian broadcasters and producers are both committed to Canadian content, but have different business models that influence their level of commitment

TV Industry Value Chain



3) Market Realities and the Role of the CTF

ENGLISH-language broadcasters can only contribute a portion of Canadian production budgets, but contribute higher proportions to obtain high-quality productions with Canadian themes.



- English-language broadcasters can only contribute a portion of the total production budget of Canadian productions (i.e. 8% to 27%) due to the size of Canadian TV audiences from which to reap a return.
- English-language broadcasters, are willing to contribute higher license fees for CTF funded productions because they are high-quality Canadian oriented programs and they can retain greater creative control.
- The alternative is to acquire Canadian productions without CTF funding, where international creative elements are often higher and linked to financing from international sources (ie. 63%).

Financing Structure of CTF Funded and Non-CTF Funded ENGLISH-Language Independent Canadian TV Productions, 1999-00 ⁽¹⁾

English Language, All Genres		
	CTF Funded	No CTF Funding
Broadcast Licence Fee	27%	8%
CTF (EIP & LFP)	31%	0%
Tax Credits	17%	19%
<u>Foreign</u>		
Distributor ⁽²⁾	6%	12%
U.S.	1%	30%
Other Foreign	6%	21%
<i>Subtotal</i>	13%	63%
Other Public	3%	1%
Other Private	9%	9%
Total	100%	100%

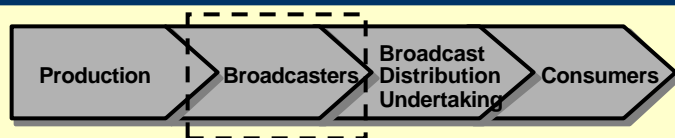
Source: PwC estimates based on data provided by CAVCO

(1) The sources above are in aggregate for all productions. Individual production financing will vary.

(2) Includes Canadian distribution companies which finances a percentage of the budget based on anticipated international sales.

3) Market Realities and the Role of the CTF

Obtaining domestic productions that have a higher proportion of foreign financing is not an option for FRENCH-language broadcasters



- Like English-language broadcasters, French-language broadcasters can only contribute a portion of the total production budget of Canadian productions. (3 & 4)
- CTF funded productions contribute to the creation of high-quality, domestic oriented content.
- In contrast to English-language production, foreign financing for French-language production is much less of an option.
 - Consumers in France (the most likely market) prefer domestic content first, then US content. French-language product from other markets is not as appealing, though co-productions have had some success.

Financing Structure of CTF Funded and Non-CTF Funded FRENCH-Language Independent Canadian TV Productions, 1999-00 (1)

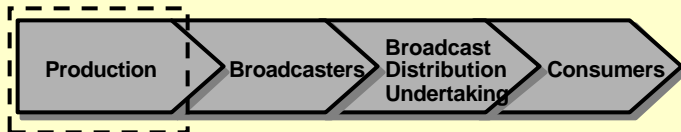
French Language, All Genres		
	CTF Funded	No CTF Funding
Broadcast Licence Fee (3)	36%	47%
CTF (EIP & LFP)	34%	0%
Tax Credits	23%	25%
<u>Foreign</u>		
Distributor (2)	1%	6%
U.S.	0%	1%
Other Foreign	0%	7%
<i>Subtotal</i>	1%	14%
Other Public	2%	2%
Other Private	5%	12%
Total	100%	100%

Source: PwC estimates based on data provided by CAVCO

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.
- (3) Broadcast license fees for CTF funded productions are lower than non-CTF as a share of total financing, but higher in real dollars because CTF funded productions have much larger budgets than non-CTF.
- (4) License fees tend to be a higher proportion of the budget than English-language broadcasters, but total production budgets tend to be much lower.

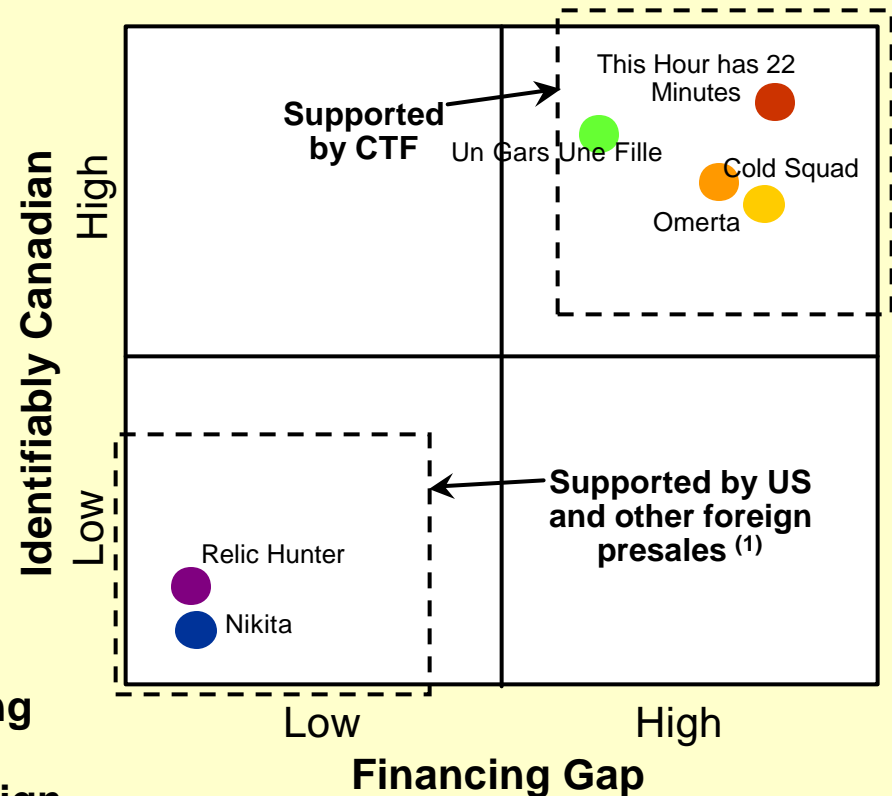
3) Market Realities and the Role of the CTF

The reality for Canadian production companies is “he who pays the piper calls the tune ...”



- In order to be attractive to broadcasters, Canadian productions must have high production values, which for English-language productions generally mean comparable US production budgets. For French-language productions, it means having very domestic oriented content with reasonably high production budgets.
- Despite this expectation among audiences, producers can only expect to get a 25% presale from broadcasters for Canadian productions due to the size of Canadian TV audiences from which to reap a return.
- In order to cover the remaining 75% financing gap, Canadian producers must turn to a combination of support mechanisms or foreign markets, but they generally cannot do both.

Reality of Financing Canadian Productions



Source: PwC analysis

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

Foreign investment helps sustain production in Canada for economic goals, but doesn't satisfy cultural goals that seek the development of 'Canadian stories'.

3) Market Realities and the Role of the CTF

Business realities of broadcast and production companies lead to economic challenges creating high-quality, distinct Canadian programming

- **Due to the size of English and French-language markets, Canadian broadcasters can only cover a portion of the budgets of Canadian programs with private money (e.g. a license fee of 25% of the total production budget) due to the size of Canadian TV audiences from which to reap a return.**
- **Despite this limitation, high-quality content must be produced in order to remain competitive:**
 - **English-language broadcasters need to compete with US content that flows freely across the border.**
 - **French-language broadcasters must deal with the fact that their audience demands very domestic oriented content which has very limited international appeal and consequent sales potential.**
- **In order to fill the gap between a Canadian broadcasters' license fee and the total budget of the production, Canadian producers must either 1) make foreign sales or 2) receive public support.**
 - **Distinct Canadian content generally has fewer international sales opportunities, so public support is necessary to create this content.**

Though Canadian broadcasting policy maintains distinct Canadian content must be created, market forces alone cannot sustain Canadian content.

Canada's broadcasting policy

- The ***Broadcasting Act* (1991)** clearly sets out that the broadcasting industry has a responsibility to provide Canadians with television programs that portray Canadian stories and values and that the independent production industry should have a significant role in the creation of Canadian programming.

“the Canadian broadcasting system should

(i) serve to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada,

(ii) encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinions, ideas, values and artistic creativity...”

“the programming provided by the Canadian broadcasting system should ...

(v) include a significant contribution from the Canadian independent production sector;”

- The **Broadcasting Act** promulgates Canada's social policy goals with respect to broadcasting, but it does **not** stipulate the mechanisms needed to reach these goals.

The federal government has set up a number of mechanisms to see that Canada's broadcasting policy goals are met.

3) Market Realities and the Role of the CTF

The federal government uses several demand and supply side mechanisms to achieve its policy goals.

Demand Side Mechanisms

- **The Canadian broadcasting content regulations (ie. Broadcast, specialty and pay TV services)**
- **CBC**

Supply Side Mechanisms

- **CTF**
- **Federal Film and Video Tax Credit**
- **CBC**

Support Mechanisms

Demand Side Mechanisms

The Canadian broadcasting content regulations

- The broadcasting content regulations require television licensees to allocate 60% of their schedule to Canadian content. During the prime-time viewing time, private television licensees must allocate 50% of the time to Canadian content. For the public broadcasters, the rate is 60%.
- In addition, multi-station ownership groups (broadcasters licensed to operate in several provinces with a potential reach of more than 70% of the audience in their language of operation) must air 8 hours per week of “priority Canadian programs” during the peak viewing period (7 p.m. to 11 p.m.). “Priority Canadian programs” include drama, music, dance and variety, long-form documentaries, regionally produced programs (other than news, information and sports), and entertainment magazine programs.
- A special Cancon credit gives broadcasters extra credit for airing Canadian drama productions during the peak viewing period.
- Canadian content regulations and programming commitments for specialty and pay TV services vary depending on the nature of the service.

Support Mechanisms

Supply Side Mechanisms

The CTF

- The CTF is a public/private partnership that was created to provide funding and create a critical mass of high quality Canadian programming especially in under-represented categories, and particularly in peak viewing times.
 - Drama, documentaries, children’s programs, variety and performing arts categories or genres were termed "under-represented" by public policy makers, starting in 1983 with the federal Department of Communication's (DOC) policy statement on broadcasting "Towards a New National Broadcasting Policy". It was deemed that support for these ‘under-represented categories’ was necessary based on their low availability on Canadian TV screens. Subsequently in 1984, Telefilm Canada established the Broadcast Program Development Fund, which aimed to support the production of under-represented categories.
 - In 1993, the CRTC re-iterated the findings of the DOC in their 1983 report in their “Structural Hearings”. Subsequently they established the regulatory underpinnings for the “Cable Production Fund”, which was established in 1996.
 - In 1996, the Cable Production Fund, Telefilm Canada and the Department of Canadian Heritage joined forces to create the Canada Television and Cable Production Fund, which was renamed the Canadian Television Fund in 1998.

... continued

Support Mechanisms

Supply Side Mechanisms

The CTF (continued)

- The objectives of the Fund are reported with slight variations in different documents, but are stated in the 1998-99 Activity Report as follows:
 - To increase the broadcast presence of high quality Canadian television programs in all regions of Canada, in both official languages, created by both the majority and minority official language sectors.
 - To enhance the Canadian broadcasting and production sector's capacity to produce and distribute television programming in Canada, and where appropriate, abroad.
 - To create increased employment.
- The CTF does not have a corporate development mandate, but because it is for 10 out of 10 Canadian programs⁽¹⁾ and makes use of the widest possible level of Canadian management, creative talent and technical crews, it greatly benefits in the overall development of the Canadian production industry.
 - Essentially, it permits independent Canadian production companies to exert the greatest created and management control over Canadian productions. The alternative, of which, is to have more prominent foreign influence and control which detracts from the personal development of Canadian management, creative talent and technical crews.

... continued

(1) Canadian Audio-Visual Certification Office (CAVCO) scale, which measures Canadian participation in varies segment of film and video production (eg. writers, director, producer, actors, etc)

Support Mechanisms

Supply Side Mechanisms

The CTF (continued)

- The CTF injects over \$200 million into the Canadian production industry, and supports over \$600 million in production budgets annually. These funds are disbursed through two programs—the Equity Investment Program (EIP) and the Licence Fee Program (LFP).
 - The EIP can contribute up to 49% of a project’s allowable costs for production of Canadian television programs and feature films through a direct cash investment.
 - The LFP contributes to the production of Canadian television and feature films in the form of a non-recoupable licence fee top-up where productions meet established criteria. The financial contribution ranges from 15% to 35% of production costs.
- By contributing a significant portion of total production financing, the CTF ensures that Canadian productions will be of higher quality and the content can be directed towards a domestic audience.

Support Mechanisms

Supply Side Mechanisms

The federal film and video tax credit

- The federal film and video tax credit is a labour-based tax credit that was established in 1995. It replaced the previous Capital Cost Allowance (CCA) program, which was established in 1974.
- The tax credit was implemented specifically with an industry development role in mind as well as a basic incentive system to encourage a minimum baseline level of Canadian content.
 - The objective of the CPTC is to encourage Canadian programming and to develop an active domestic production sector.
 - Any production that meets a minimum of 6 out of 10 CAVCO points⁽¹⁾ qualifies for the tax credit.
 - The tax credit can be up to 12% of the total cost, net of assistance, of an eligible production.
- The federal film and video tax credit is successful in supporting film and video production “in Canada by Canadians” and creating a vibrant production industry. However, it is not a large enough source of financing in itself to produce distinct Canadian programming that deals with “Canadian” stories.

(1) Canadian Audio-Visual Certification Office (CAVCO) scale, which measures Canadian participation in various segments of film and video production (eg. writers, director, producer, actors, etc)

Support Mechanisms

Other Mechanisms

The CBC

- Unlike other support mechanisms, the CBC is both a demand and supply-side mechanism.
- On the supply side, the CBC creates Canadian programming in-house. However, the CBC's strategic direction is to acquire independent production, so its capacity to produce in-house has diminished over the years.
- On the demand side, the CBC's Canadian schedule creates a demand pull for the production of distinct Canadian programming. However, the CBC is only one outlet in the broadcasting system, so its contribution is finite.

3) Market Realities and the Role of the CTF

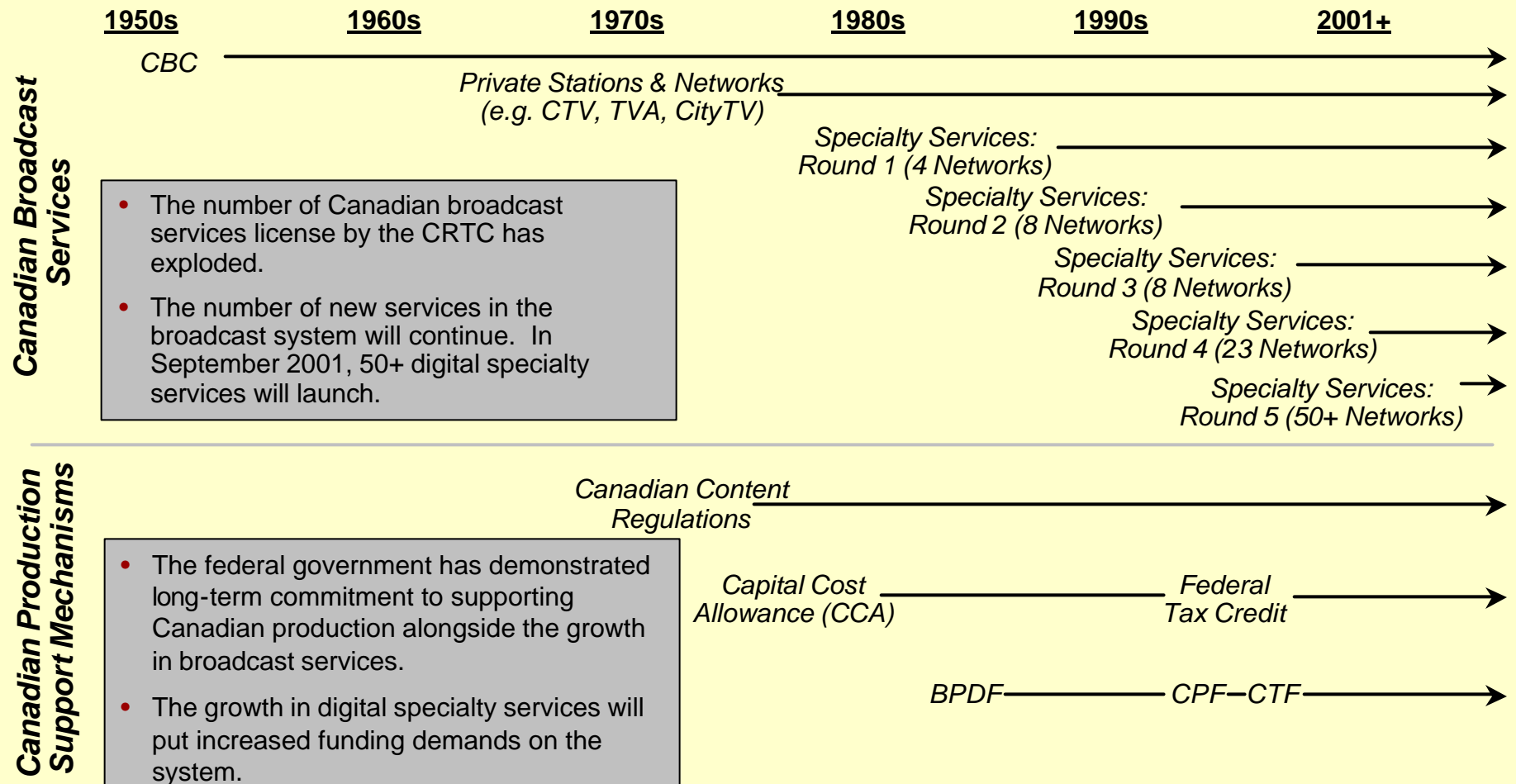
Assessing the importance of support mechanisms that assist in obtaining Canada's broadcasting policy

- The federal government has implemented a number of mechanisms that contribute to the creation of Canadian programming.
- In respect to the creation of distinct Canadian programming that conveys Canadian stories, the CTF is the most important mechanism. However, it is interdependent with other mechanism – the CTF would not be able to effectively fulfill its objective without other supporting mechanism, such as the tax credit and content quotas.

<u>Mechanism</u>	<u>Summary</u>
Content Quotas	<ul style="list-style-type: none">• The Canadian content regulations are absolutely necessary for ensuring that Canadian produced programs are aired. But because the content regulations are based on industrial criteria, they are not sufficient in themselves to ensure that programs that speak to Canadians about their culture are created (ie. distinct Canadian programming).
CBC	<ul style="list-style-type: none">• The CBC is both a supply side and demand side stimulus, but its impact is limited because it is only one of many outlets for Canadian programming with finite resources.
Tax Credits	<ul style="list-style-type: none">• The federal (and provincial) tax credit programs provide an incentive for Canadian productions, but because they represent a maximum of 12% of a total production cost, producers must also obtain substantial foreign investment. This takes away from the creation of distinct Canadian cultural programming, as Canadian producers need to balance the requirements of foreign clients.
CTF	<ul style="list-style-type: none">• The CTF provides an economic incentive for the production of high-quality Canadian content for production companies and broadcasters. In conjunction with the content regulation and use of the federal tax credit, this supports the cultural goals of Canadian broadcasting policy. Without the CTF, but with only the content regulations and tax credit, Canadian productions would be less domestically oriented.

3) Market Realities and the Role of the CTF

The federal government has continued to support Canadian production as the number of broadcasting services has expanded.



As the broadcast industry continues to grow, so to must Canadian production support mechanisms.

Conclusions

- The production industry is a 'hits' business that is highly risky and takes numerous years to see a return.
- Most countries outside the US must rely on public sector mechanisms (eg. public broadcasters, content regulations) and financial support (eg. production funds) in order to produce domestic oriented content.
- Business realities of broadcasters and producers in both English and French-language markets prevent the creation of distinct Canadian content with private money alone.
- The underlying principle of Canada's broadcast policy is that entertainment is not just business, it is culture. As such, the creation and exhibition of distinct Canadian content that speaks to Canadians is a fundamental principal of Canadian broadcasting policy.
- Both demand (e.g. Cancon quotas) and supply side (eg. production tax credits) mechanisms are necessary to ensure Canadian content is created, but direct supply-side investment from **the CTF is the linchpin incentive to broadcasters and producers to create high quality, recognizable Canadian content for Canadians.**
- Growth in digital specialty services will continue to put demand pressure on the Canadian Television Fund.

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Introduction

- **The objective of this section is to outline the growth and performance of the production industry in Canada.**
- **As such, this section of the report will:**
 - **Outline the various sectors of the production industry in Canada**
 - **Outline the Canadian production industry's contribution to GDP and jobs compared to other cultural sectors and other industries in Canada**

4) Performance of the Canadian Production Industry

The film and TV production industry in Canada is made up of three segments

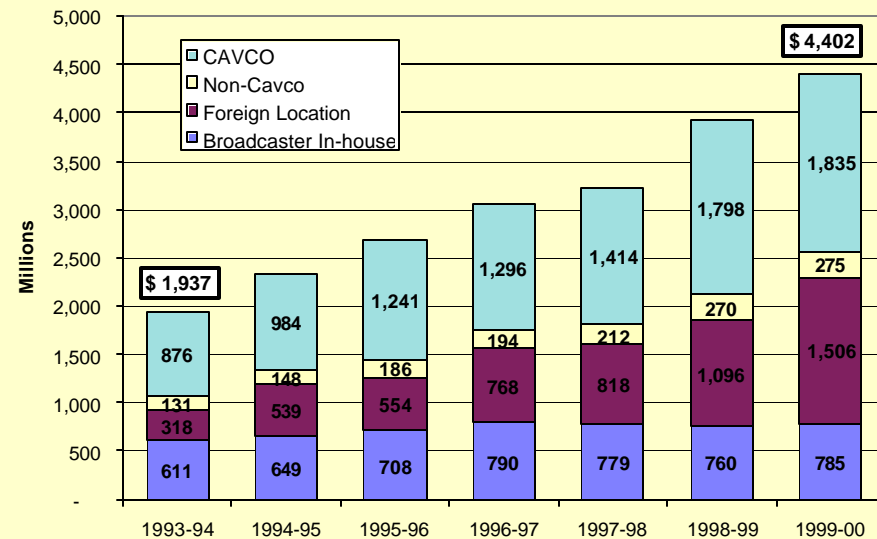
1. **In-house** – which is production that broadcasters do in-house. This now is essentially limited to news production, but exceptions exist (eg. *Canada: A People's History* was a CBC/SRC in-house production).
2. **Independent Canadian** – which is production that is done by Canadian production companies that usually operate independently from broadcasters. Canadian production has sub-classifications that are necessary to measure the total size of the independent production industry.
 - **CAVCO certified** – refers to productions certified as ‘Canadian’ for the purpose of utilizing the Canadian Film or Video Production Tax Credit (CPTC). **CTF funded production tends to be CAVCO certified.**
 - **Treaty Co-production** – CAVCO production that is developed jointly by production companies in two or more treaty nations. Treaty co-productions are considered indigenous in both countries (eg. Canadian) and thus, are fully entitled to legislative and regulatory benefits in their respective countries (eg. public incentives; Canadian Content Quotas).
 - **Non-CAVCO** – refers to Canadian productions that are certified by the CRTC as Canadian rather than CAVCO. The reason they do not get certified by CAVCO is they don't utilize the federal tax credit.
3. **Foreign Location Shooting** – primarily US film and video productions that are shot in Canada. In this type of production, the US producer retains the copyright, but Canada benefits in the form of direct and indirect jobs and economic activity.

4) Performance of the Canadian Production Industry

Size of the film and TV production industry by segment

- The Canadian film and TV production industry has grown nearly 130% over the last seven years from just under \$2 billion to \$4.4 billion:
 - Independent Canadian⁽¹⁾ production represents the largest portion of production accounting for over \$2 billion.
 - Foreign location production represents \$1.5 billion.
 - In-house production represents less than \$800 million and has remained relatively constant over the period.

Volume of Film and Television Production by Sector



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

The film and TV production industry in Canada has experienced strong growth over the last seven years.

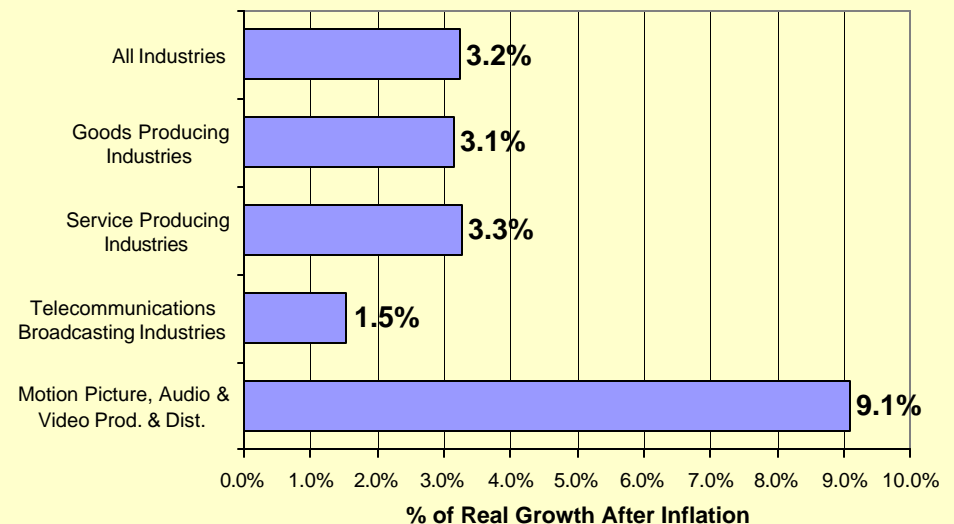
(1) Independent Canadian is both CAVCO and Non-CAVCO, some of which may be treaty co-production.

4) Performance of the Canadian Production Industry

GDP Growth by Industry Sector

- The Canadian film and television production industry* is one of the fastest growing sectors of the Canadian economy.
- From 1995 to 1999, the production industry* grew at an average annual rate of 9.1%.
 - This is six times faster than the growth rate of the telecommunication broadcasting industries (i.e. radio and television broadcasting, cable, wireless and satellite television), and
 - Approximately three times the growth rate of all industries in the economy combined.

Average Annual Real Growth of the GDP by Industry Sector (After Inflation), 1995 to 1999



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

Source: PwC calculations based on data from Statistics Canada

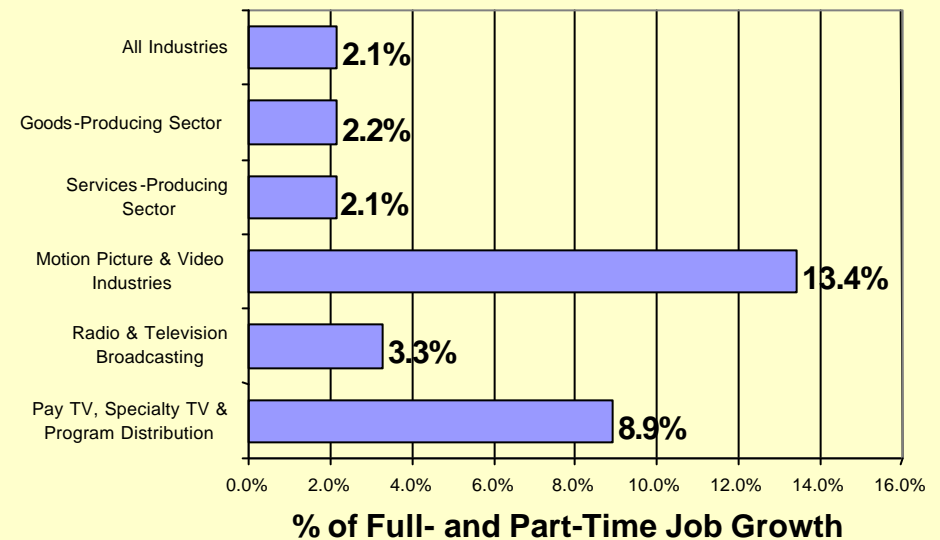
The production industry* has grown at three-times the rate of all industries in the economy combined.

4) Performance of the Canadian Production Industry

Job Growth by Industry Sector

- The Canadian film and television production industry* is also one of the fastest growing contributors to job creation in the Canadian economy.
- From 1995 to 1999, employment in the motion picture and video industries grew at an average annual rate of 13.4%.
 - This growth is four times faster than the radio and television broadcasting industries, and
 - Over six times faster than all industries combined.

Average Annual Growth of Full- and Part-Time Jobs in Industry Sectors, 1995 to 1999



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

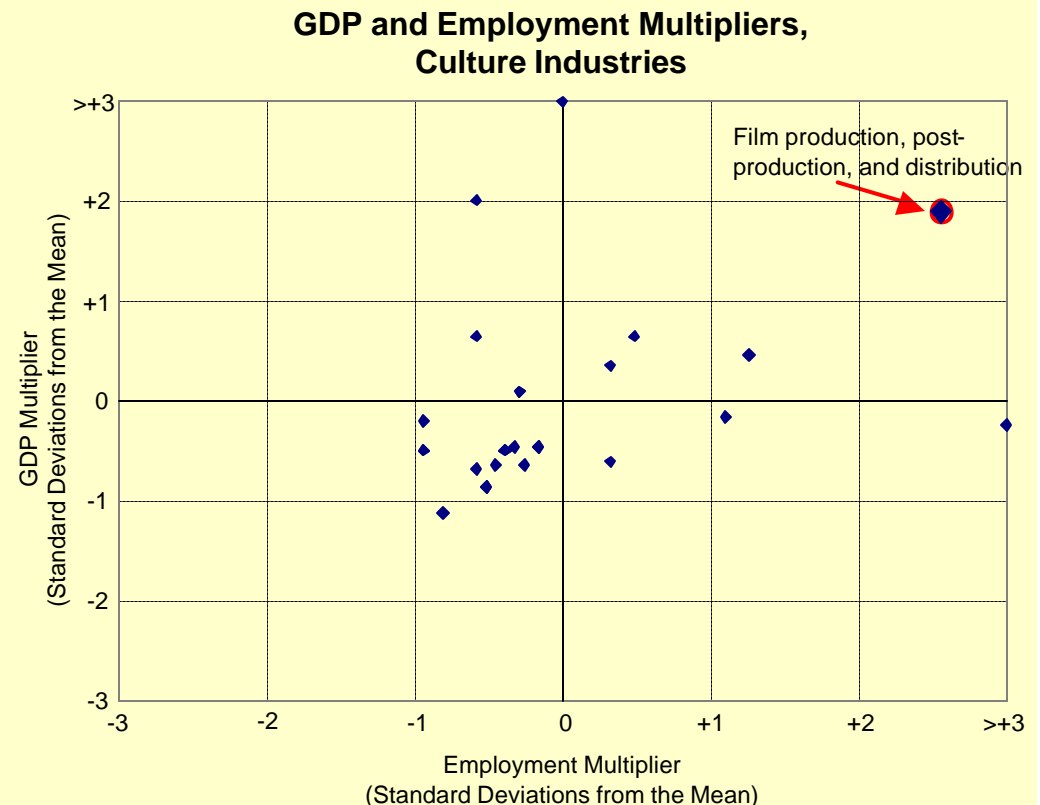
Source: PwC calculations based on data from Statistics Canada

The jobs in production industry* have grown at six-times the rate of all industries in the economy combined.

4) Performance of the Canadian Production Industry

The Canadian production industry's indirect impact on GDP and jobs in other industries compared with other culture sectors

- The GDP multiplier for the production industry* is about 2 standard deviations beyond the mean multiplier across various culture industries.
- The employment multiplier is about 2.5 standard deviations beyond the mean multiplier for culture industries.



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

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

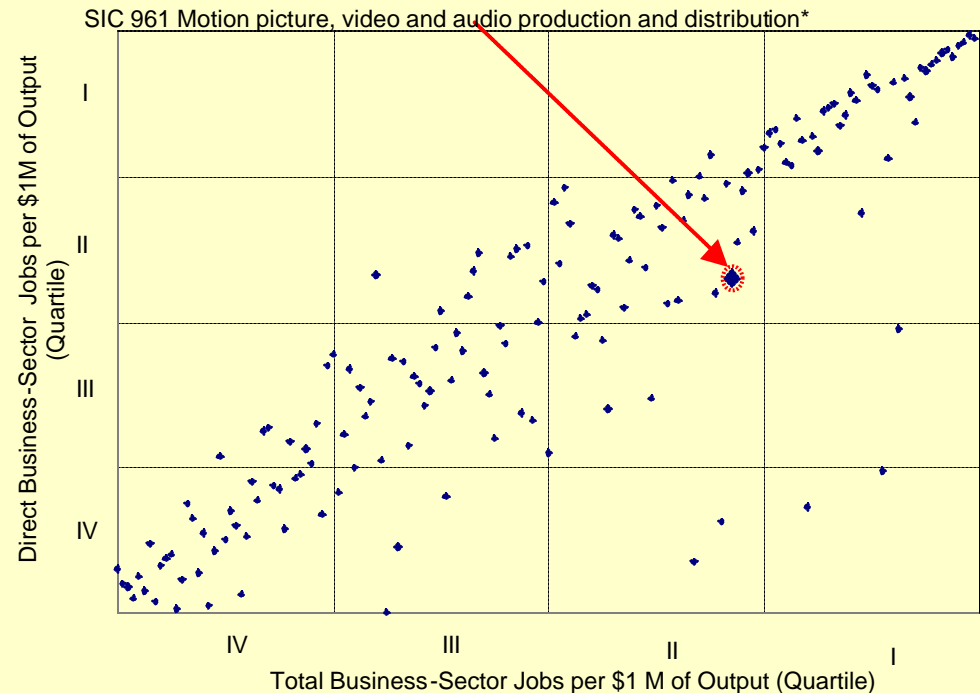
The production industry* has very high GDP and employment impacts compared to other culture industries.

4) Performance of the Canadian Production Industry

The production industry's contribution to direct and indirect jobs in comparison with other industries in the economy

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

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



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

Source: PwC calculations based on data from Statistics Canada

The production industry* generates above average direct and indirect jobs in comparison with other industries in the economy.

4) Performance of the Canadian Production Industry

The film and television production industry generates extremely high GDP and employment income impacts in other industries

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



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

Source: PwC calculations based on data from Statistics Canada

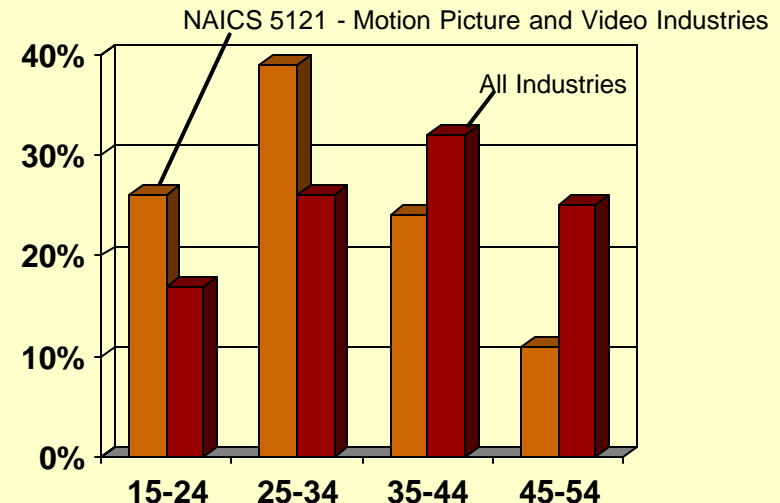
The production industry* is among the top contributors to GDP and job creation in other sectors of the economy.

4) Performance of the Canadian Production Industry

Demographics of the Film and TV Production Industry Workforce

- The age structure of the production industry* takes on a younger composition than the overall Canadian workforce.
- While 17% of the Canadian workforce is between the ages of 15 and 24, 26% of the motion picture and video industry workforce is comprised of persons between the ages of 15 and 24. A similar difference also exist in the 25-34 age bracket.
- As the production industry is an “above the collar” (2) workforce, the production industry is a strategic sector for the federal government.

Age Structure of the Workforce (1), 1999



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

Source: Statistics Canada, Labour Force Survey

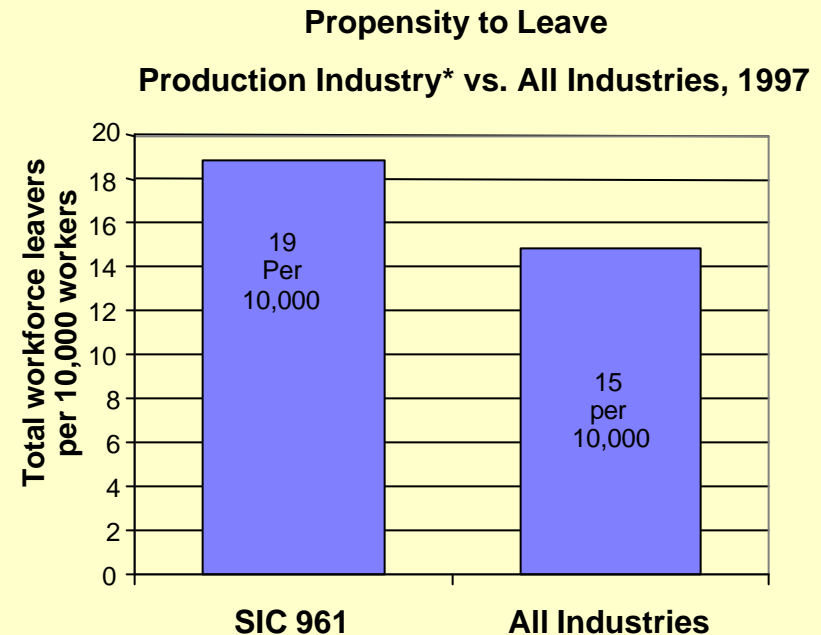
- (1) Due to data limitations, the workforce includes all workers between the age of 15 and 54 and excludes any workers age 55 and over.
- (2) Above the collar is industry vernacular that refers to the make up of the production industry workforce, which includes highly skilled crews, shrewd managers and creative talent (all of which need to use their heads).

Compared to the overall workforce, the production industry* employs a younger workforce.

4) Performance of the Canadian Production Industry

Propensity for Brain Drain

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



Source: Statistics Canada, Small Area and Administrative Data Division

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

The production industry in Canada is highly susceptible to brain drain, which could be exacerbated from uncertainty in the production industry.

4) Performance of the Canadian Production Industry

Ranking production segments contribution to the development of a strong production industry in Canada

	Independent Canadian (CTF Funded)	Independent Canadian (<u>No</u> CTF Funding)	Foreign Location
Canadian Creative Control	<u>HIGH</u> • Content produced for Canadian broadcast clients. The production company retains copyright.	<u>MEDIUM</u> • Content produced for domestic and foreign clients. The production company retains copyright.	<u>NONE</u> • Content produced for foreign client. Foreign company retains copyright.
Importance of public support	<u>HIGH</u> • CTF funded production is the most domestically oriented. Foreign sales are less frequent.	<u>MEDIUM</u> • Use of foreign markets is high. Domestic tax credits are principally the only public support mechanism used.	<u>LOW TO ZERO</u> • Low dollar is principal draw to Canada. Foreign tax credits are utilized, but have a lower rate than domestic credits.
Use of Foreign Financing	<u>LOW</u> • Foreign sales are less frequent because content is geared heavily to the domestic market.	<u>HIGH</u> • Productions are made by Canadian producers with a high percentage of foreign financing.	<u>EXCLUSIVE</u> • Financed by US studios. Canadian production companies work for US companies for a fee.
Use of Canadian Resources	<u>EXCLUSIVE</u> • Supports Canadian management, creative talent and crews. (10 CAVCO points)	<u>MEDIUM</u> • Supports Canadian mgmt and crews. Utilizes fewer creative talent than CTF productions (ie. 6-8 CAVCO points)	<u>LOW</u> • Supports Canadian crews and some ancillary creative talent and management.
Support to growth in the domestic production industry	<u>HIGH</u> • Builds Canadian production companies serving Canadian clients that utilize the widest array of Canadian resources.	<u>MEDIUM</u> • Builds Canadian companies that sell to foreign and Canadian clients and utilizes Canadian resources.	<u>LOW</u> • Builds strong production crews, but limited contribution to creative and management talent. Production could be shifted easily to another country.

4) Performance of the Canadian Production Industry

Conclusions

- **The production industry in Canada has grown into a multi-billion dollar industry (\$4.4bn), with independent Canadian production representing the largest component (\$2bn).**
- **Growth in GDP and Job creation in the production industry exceeds service industries and goods producing industries in aggregate.**
- **The production industry's contribution to GDP and job creation in other sectors is the highest among cultural industries and among the highest in comparison with all other industries in the Canadian economy.**
- **The production industry is a sunrise industry that continues to grow faster than the economy and employs a higher proportion of highly-skilled young workers.**
- **Compared with other sectors of the production industry in Canada, the CTF ranks highly in its contribution to the development of a strong production industry in Canada. This is the case despite the fact that the CTF has a cultural objective but not a corporate development objective.**

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Introduction

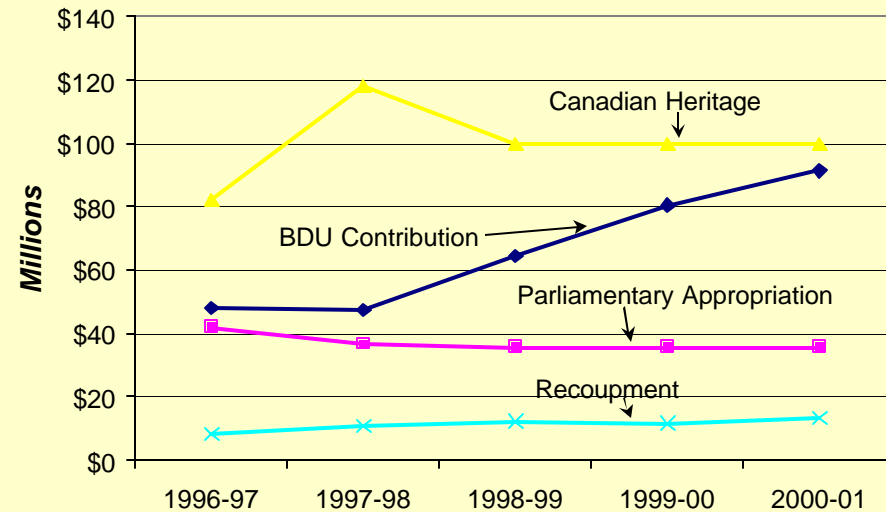
- **The objective of this section is to outline the CTF's contribution to the production industry in Canada.**
- **As such, this section of the report will:**
 - **Establish the CTF's contribution to production activity and job creation**
 - **Outline the CTF's contribution to Canadian production activity by language, region and genre**

5) The CTF's Contribution to the Production Industry

Level of Funding Available from the CTF

- CTF is a joint private/public partnership that contributes over \$200 million annually to support distinct Canadian production.
- Total revenues directed to the fund have increased from \$180 million in 1996-97 to \$239 million in 2000-01
- This growth is principally from the BDU component of the fund, which has grown from \$48 million in 1996-97 to \$91 million in 2000-01, or 90% growth over the period.
 - Growth from the BDU contribution will continue as the BDU industry expands.

Funding Sources for the CTF (EIP & LFP),
1996-97 to 2000-01



Source: CTF

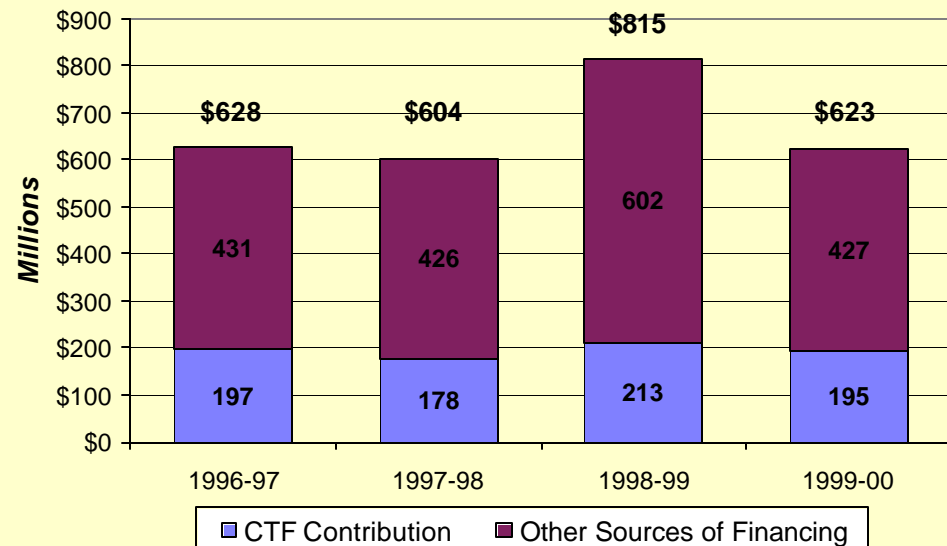
The CTF contributes over \$200 million annually to the Canadian production industry and the private sector component continues to grow.

5) The CTF's Contribution to the Production Industry

Total Production Activity Funded by the CTF

- The CTF's average annual \$200 million in funding contributes to over \$600 million annually in total production activity. ⁽¹⁾
- In other words, for every \$1 dollar contributed by the CTF to a production an average of \$2 dollars is contributed from private and other public sources. ⁽²⁾

Production Activity with CTF Contributions,
1996-97 to 1999-00



Source: CTF

(1) 1998-99 is significantly higher than other years due to an over subscription in that year that required CTF to borrow money from future years.

(2) More detail on the sources of financing for CTF funded productions is outlined in section 6 of this report and the appendix.

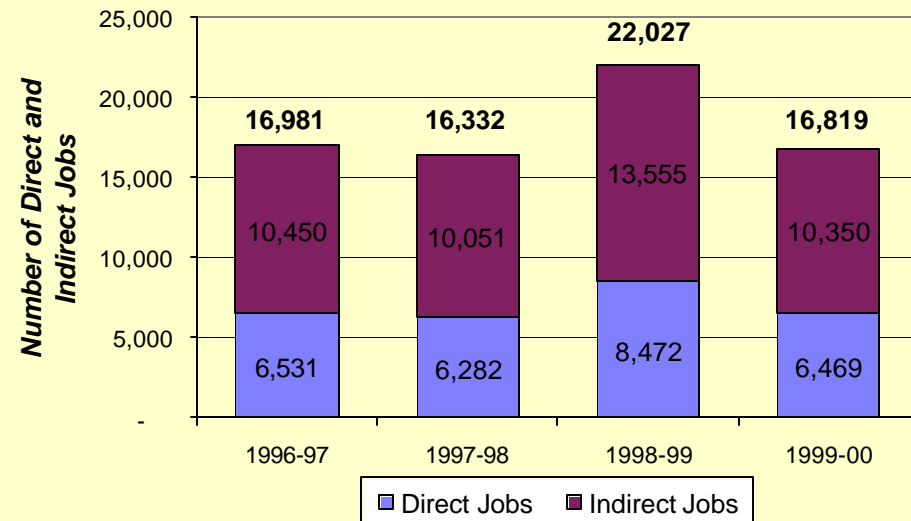
The CTF contributes to over \$600 million in total independent Canadian production activity annually.

5) The CTF's Contribution to the Production Industry

Total Jobs Created by CTF Funded Productions

- CTF funded productions support over 6,000 direct and another 10,000 indirect full-time equivalent jobs in Canada. (1)

Total Direct and Indirect Jobs for Productions Funded by the CTF, 1996-97 to 1999-00



Source: PwC estimate

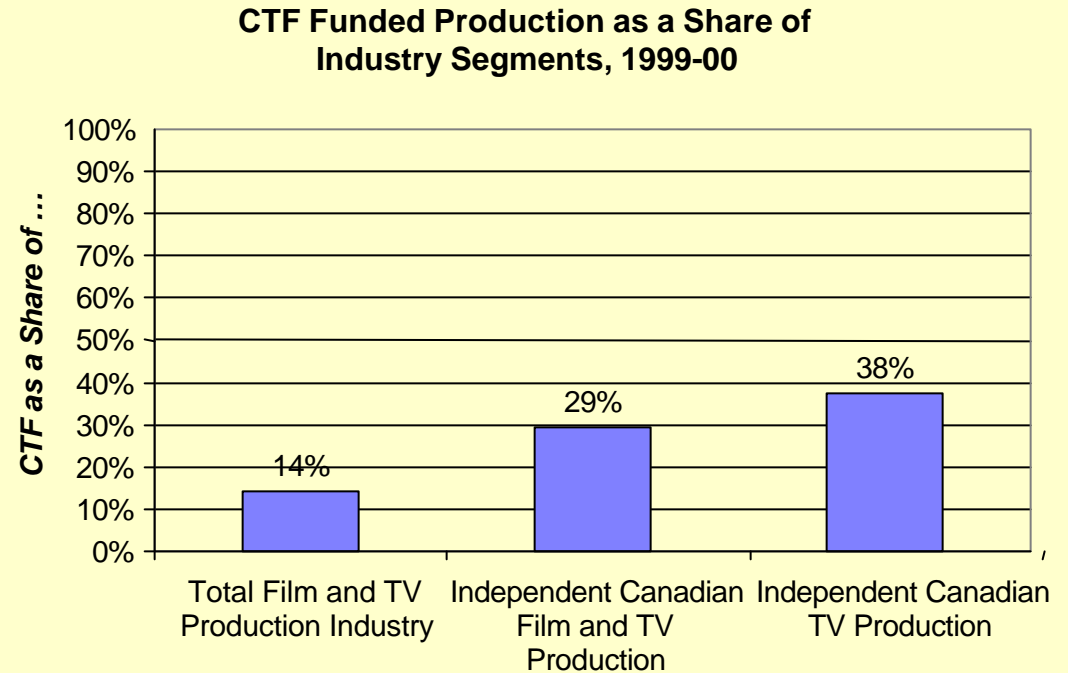
(1) Direct and Indirect Jobs calculated using our methodology from our annual Economic Profile, which estimates 10.4 direct and 16 indirect jobs per \$1 million in production expenditures.

The CTF funded productions support over 16,000 direct and indirect jobs annually.

5) The CTF's Contribution to the Production Industry

CTF funded production as a share of total industry

- As discussed in section 3, the production industry in Canada is made up of three segments: in-house, independent Canadian and foreign location.
- The \$600 million in annual production funded by the CTF represents:
 - 14% of the total production industry in Canada
 - 29% of independent Canadian Film and TV production
 - 38% of independent Canadian TV production



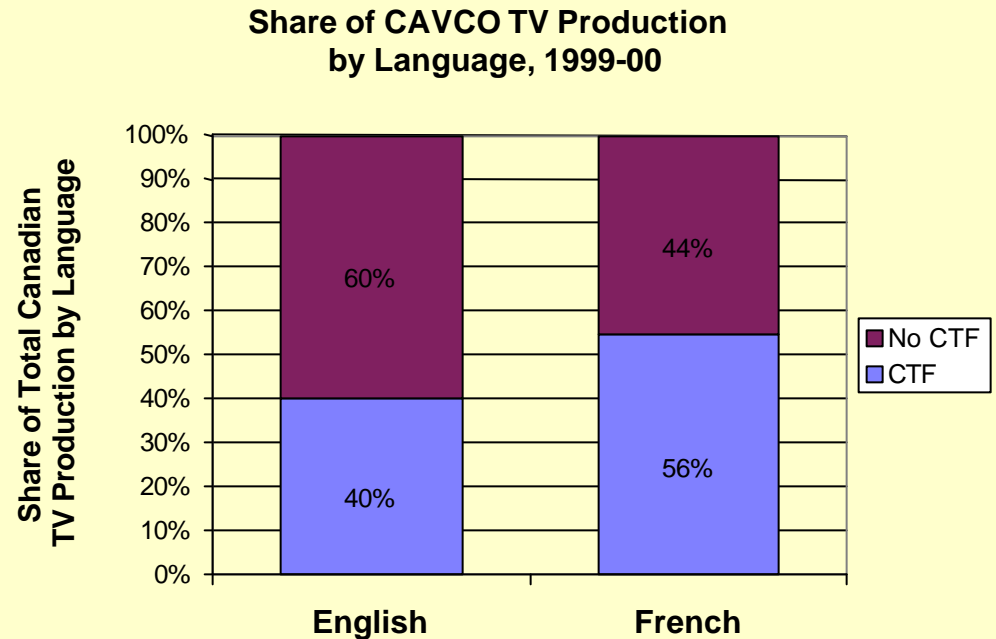
Source: PwC estimates based on data collected from CAVCO, CRTC, CBC/SRC and the Department of Canadian Heritage.

The CTF funded production represents a significant share of the production industry in Canada.

5) The CTF's Contribution to the Production Industry

CTF funded production as a share of total independent Canadian TV production

- English-language productions that receive CTF funding represent forty percent of the total independent Canadian English-language TV production budgets in Canada.
- French-language productions that receive CTF funding represent over half of total independent Canadian French-language TV production budgets.



Source: PwC estimates based on data collected from CAVCO

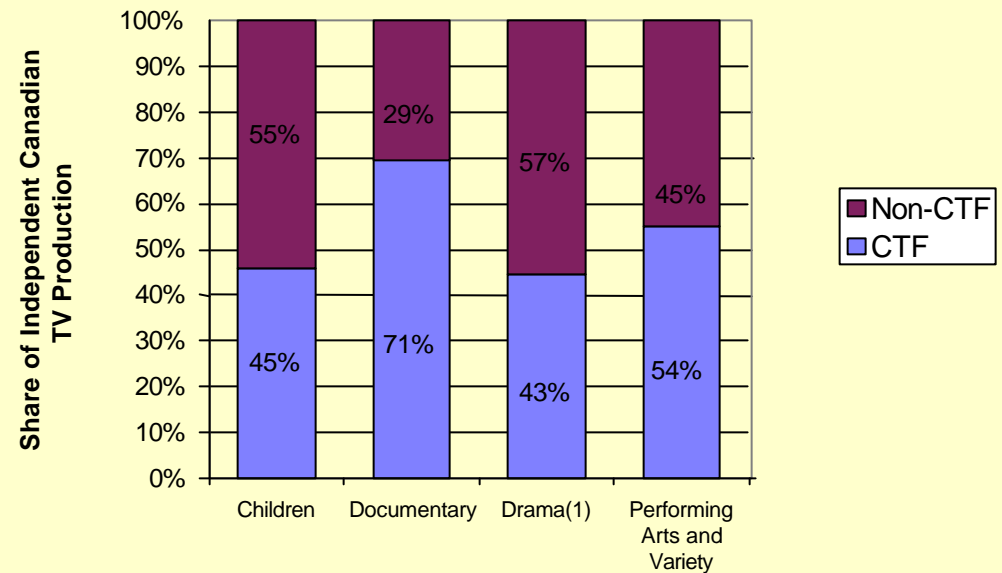
CTF funded production represents a significant share of both English and French-language independent TV production in Canada.

5) The CTF's Contribution to the Production Industry

CTF funded production as a share of total independent Canadian TV production by genre

- CTF funded TV productions represent significant shares of independent Canadian TV production:
 - 45% of children's
 - 71% of documentary
 - 43% of drama
 - 54% of performing arts and variety

Share of CTF vs. Non-CTF Independent Canadian TV Production, 1999-00



Source: PwC estimates based on data collected from CAVCO
(1) Drama is CAVCO's Fiction Category

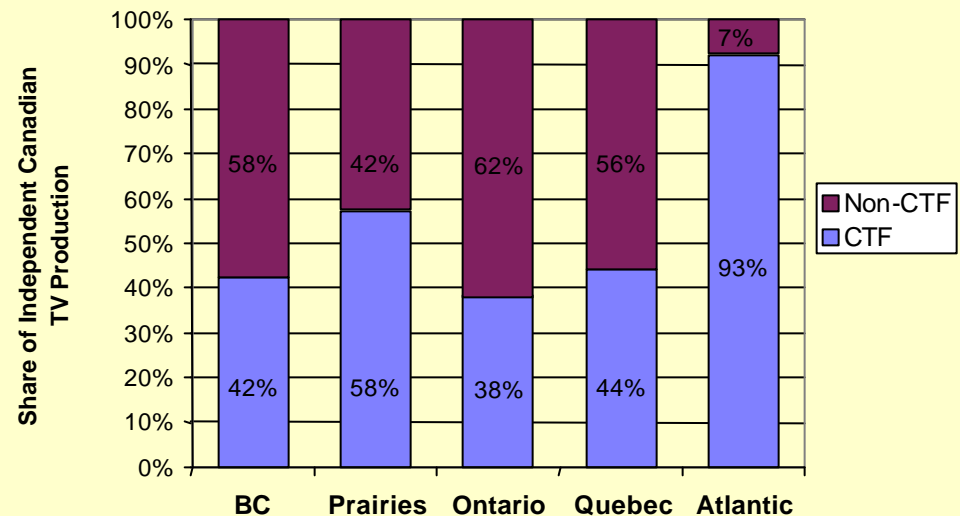
CTF funded productions represent a significant share of independent Canadian TV priority programming.

5) The CTF's Contribution to the Production Industry

CTF funded production as a share of total independent Canadian TV production by region

- In terms of market share of total independent Canadian TV production, CTF funded production represents:
 - 93% in Atlantic Canada
 - 38% in Ontario
 - 44% in Quebec
 - 58% in the prairie provinces, and
 - 42% in BC

Share of CTF vs. Non-CTF Independent Canadian TV Production by Region, 1999-00



Source: PwC estimates based on data collected from CAVCO

CTF funded production represents a greater share of total production in the regions outside of Ontario, Quebec and BC.

5) The CTF's Contribution to the Production Industry

Conclusions

- CTF contributes approximately \$200 million annually to productions that in turn generate over \$600 million in production activity which supports over 16,000 direct and indirect jobs.
- BDU contributions to the CTF have increased over 90% since initiation of the fund, while public contributions have remained stable.
- The CTF funded production represents a significant share of the production industry in Canada:
 - Forty percent of English-language independent Canadian TV production activity and over half of French-language.
 - Represents a greater proportion of independent Canadian TV production in the regions.
 - Represents a significant share of priority program genres, such as drama, children's and documentary programming.

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Introduction

- **The objective of this section of the report is to outline the impact on the production industry in Canada if the CTF were eliminated. Our assessment outlines the impact of the CTF in terms of economic activity and jobs in the independent Canadian production sector, based on the likely market behaviour of broadcasters and production companies. As such, this section of the report will:**
 - **Outline some of the fundamentals of production financing in Canada**
 - **Explore the differences in financing CTF funded vs. non-CTF funded independent Canadian TV productions.**
 - **Outline the likely market behaviour of broadcasters and production companies if the CTF were discontinued based on our interviews, data analysis and industry expertise**
 - **Estimate the overall impact on independent Canadian TV production activity if the CTF were removed (ie. Optimistic and Pessimistic Scenarios)**

6) Counterfactual Analysis

Typical Financing Sources Utilized by Independent Canadian Production Companies

- Production financing is often referred to as an art in itself, because every deal is essentially unique. While in many respects this is true, we have narrowed down some of the key components to financing TV production in Canada.
- The three key components to financing are 1) broadcast license fees, 2) CTF and 3) foreign sources. However, these three components come together in very different manners depending on the nature of the production. Tax credits are an important part of financing, but are used to complete financing rather than initiate it.
- In addition to the major three components, we have listed other financing sources.

<u>Financing Source</u>	<u>Description</u>
Canadian broadcast license fees	<ul style="list-style-type: none">• A Canadian broadcast license fee is what is paid by broadcast, specialty and pay TV services to air programming. A license fee gives broadcasters the right to air a certain program a certain number of times. The license fee varies depending on the total budget and genre and market, but for Canadian programs, it typically is between 15% to 35% of the total production budget.
Canadian Television Fund (EIP and LFP)	<ul style="list-style-type: none">• The Canadian Television Fund (CTF) comprises of two types of funding: 1) EIP, which is an equity investment in a production, and 2) LFP, which is a license fee top-up (ie. A non-recoupable contribution). CTF funding is utilized by producers who want to produce high-quality Canadian stories (ie. 10 out of 10 CAVCO points), that could not generally access foreign financing. As such, the CTF bridges the difference between the broadcast license fee and total production budget.

... continued

6) Counterfactual Analysis

Typical Financing Sources Utilized by Independent Canadian Production Companies (continued)

<u>Financing Source</u>	<u>Description</u>
Foreign	<ul style="list-style-type: none">• While all productions have some potential for foreign sales, the foreign financing component is most typically used by Canadian production companies that produce content that is geared towards international markets, rather than a domestic audience. <u>Broadcast license fees</u> from foreign broadcasters is a typical source of foreign financing. Also, <u>distribution advances</u> from Canadian and/or foreign distributors is another common form of financing. In the case of a distribution advance, a distribution company advances a certain percentage of the financing based on anticipated international sales.
Tax Credits	<ul style="list-style-type: none">• The federal government and most provincial governments have instituted tax credits that are based on the use of Canadian labour. These credits have been implemented for industrial and cultural reasons to encourage Canadian production activity. Rates vary depending on the jurisdiction, but range from 20% to 40% of Canadian labour.
Other private sources of financing	<ul style="list-style-type: none">• While broadcast, CTF and foreign sources are the principal sources of financing production in Canada, other private sources often come into play. For instance, there are a number <u>private production funds</u> that may contribute a portion of the budget (e.g. Rogers Telefund). Also, depending on the size of the production company, it may be able to finance a portion of the budget in lieu of future revenues.
Other public sources of financing	<ul style="list-style-type: none">• Other sources of public funding are also available from the Canada Council, provincial Arts Councils and provincial film and TV development agencies (e.g. OMDC).

6) Counterfactual Analysis

Assessing the importance of financing sources for CTF funded and Non-CTF funded independent Canadian production

<u>Financing Source</u>	<u>Independent Canadian (CTF Funded)</u>	<u>Independent Canadian (NO CTF Funding)</u>
Canadian broadcast license fees	<p><u>HIGH</u></p> <ul style="list-style-type: none"> Primary source of financing that triggers CTF funding. In combination, the Canadian broadcast license fee and the CTF are linchpins to the creation of 10/10 Canadian productions. 	<p><u>MEDIUM</u></p> <ul style="list-style-type: none"> While broadcast license fees for independent Canadian productions are most often obtained, they are typically much less than US or other foreign license fees.
Canadian Television Fund (EIP and LFP)	<p><u>HIGH</u></p> <ul style="list-style-type: none"> Absolutely essential for 10/10 Canadian productions. Without it, 10/10 Canadian productions would not be produced. 	<p><u>NOT APPLICABLE</u></p>
Foreign	<p><u>LOW</u></p> <ul style="list-style-type: none"> While many CTF funded productions obtain international sales, foreign financing is not substantial enough to create 10/10 Canadian productions. 	<p><u>HIGH</u></p> <ul style="list-style-type: none"> Though produced by Canadians, productions will not typically be Canadian oriented stories.
Tax Credits	<p><u>MEDIUM</u></p> <ul style="list-style-type: none"> Federal and/or provincial tax credits are most typically utilized for CTF funded production. However, they are not a replacement for CTF. 	<p><u>HIGH</u></p> <ul style="list-style-type: none"> Federal and/or provincial tax credits are heavily utilized. In combination with the low dollar, they are a key competitive advantage.
Other <u>private</u> and <u>public</u> sources of financing	<p><u>LOW</u></p> <ul style="list-style-type: none"> These are ancillary sources of financing. 	<p><u>LOW</u></p> <ul style="list-style-type: none"> These are ancillary sources of financing.

Reaction of Broadcasters to the elimination of the CTF

- **Without the CTF topping up broadcaster contributions to the production of high-quality Canadian content, Canadian broadcasters would have to immediately re-orient their program strategy.**
- **We can expect the following constraints will come into play in the formulation of a new strategy:**
 - **Broadcasters would still be expected to meet their Canadian content requirements.**
 - **Broadcasters' license fee contributions to Canadian programming will remain in check with their business plans.**
 - **Program time slots are valuable and they will not want to waste them by presenting cheap programming that will not attract audiences. However, they will also need to temper program decisions to make the economics of programming slots work.**

... continued

Reaction of Broadcasters to the elimination of the CTF (continued)

- **Based on these constraints, we could reasonable expect the following:**
 - **Broadcasters would not have the economic capacity to raise their license fees in order to compensate for the financing gap created by the lack of CTF funding.**
 - **As advertising revenue is a principal source of revenue for broadcasters, the current slowdown in the advertising market from slower growth in the economy as a whole will put further short-term pressure on programming expenditures.**
 - **In order to fulfill their Canadian content requirements, broadcasters would take the license fees they currently contribute to CTF funded programming and deploy them over a similar number of hours as today. In order to achieve this, they would employ some of the following methods:**
 - **Air more repeats of Canadian programs;**
 - **Produce more TV shows in-house to keep expenditures to a bare minimum, such as cooking shows, talk shows and news programs. French-language broadcasters would also produce more teleromas in-house (i.e. soap operas);**
 - **Acquire more industrial Canadian programming that requires a lower license fee than CTF funded productions, because it is backed primarily from US and other foreign sources of financing (this is not an option for French-language broadcasters); and/or**
 - **Contribute a slightly higher license fee for programming genres that have comparatively lower budgets and cannot obtain international financing (e.g. documentary, performing arts and variety).**

Reaction of Producers to the elimination of the CTF

- Without the CTF as a source of financing to produce high-quality Canadian programming, production companies would have to re-orient their production strategy.
- We can expect the following constraints will come into play in the formulation of a new strategy:
 - Producers could not expect to receive increases in broadcast license fees to replace the CTF.
 - Producers would need to find alternative sources of financing to continue producing, or they would go out of business.
 - Foreign sources of financing, such as US broadcasters license fees or European distribution advances, are finite and will not grow dramatically due to the elimination of the CTF.

... continued

Reaction of Producers to the elimination of the CTF (continued)

- **Based on these constraints, we could reasonable expect the following:**
 - **Canadian broadcasters would not have the economic capacity to raise their license fees in order to compensate for the financing gap created by the lack of CTF funding. As such, independent Canadian producers would need to reorient their production strategy to sell more aggressively in foreign markets or produce genres with lower budgets that broadcasters could contribute a higher proportion of financing to.**
 - **Attempting to access foreign sources of financing to replace the CTF, producers would need to expand their existing foreign contacts. This would be difficult in the short-term, as it takes many years to build contacts and a reputation to sell internationally. Furthermore, producers would find that access to key markets (ie. US, UK, France, Germany) are already well penetrated by Canadian producers and these markets will not grow dramatically due to the elimination of the CTF. In fact, a decrease in demand would not be unreasonable to assume due to slower economic growth experienced recently in the US, Europe and Asia.**
 - **It is very likely that many small to medium sized production companies will go out of business and the workers (ie. Management, talent and crews) will need to leave the independent Canadian production sector (ie. either to foreign productions or into other industries).**

6) Counterfactual Analysis

Elimination of the CTF would destroy the CTF financing model, along with the unique Canadian-oriented programming it creates

- The CTF and the Canadian broadcast license fee (EIP and/or LFP) are the two critical components to any CTF funded production.
 - CTF and the license fee make up over 60% of the total financing.
 - With the CTF and the license fee in hand, the remaining 40% financing gap can be covered with tax credits, foreign sales and other sources.
 - Without the CTF, the CTF financing model collapses and producers would have to obtain a large foreign presale.

CTF Financing Model used by Independent Canadian production companies, 1999-00 ⁽¹⁾

All Languages, All Genres

Broadcast Licence Fee	30%	CTF Funded	Canadian broadcast license fee triggers CTF funded (EIP and/or LFP).
CTF	32%		
Tax Credits	18%	} Other sources of financing are utilized/ come into play after the license fee and CTF (ie. the bulk of financing) are secured.	
<u>Foreign</u>			
Distributor ⁽²⁾	5%		
U.S.	1%		
<u>Other Foreign</u>	4%		
Subtotal	10%		
Other Public	3%		
<u>Other Private</u>	8%		
Total ⁽³⁾	100%		

Source: PwC estimates based on data provided by CAVCO

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.
- (3) Totals may not add to 100% due to rounding.

Independent Canadian production companies would have to shift financing models to continue to produce independent Canadian programming.

6) Counterfactual Analysis

Without the CTF, independent Canadian producers would have to transition to a financing model that relies principally on foreign sources

- If the CTF were eliminated, the financing model it created would be destroyed.
- In order to continue producing independent Canadian production, producers would have to rely more heavily on foreign sources of financing.

Financing Model of CTF Funded and Non-CTF Funded Independent Canadian TV Productions, 1999-00 ⁽¹⁾

All Languages, All Genres			
	CTF Funded		No CTF Funding
Broadcast Licence Fee	30%		16%
CTF	32%		0%
Tax Credits	18%		20%
Foreign			
Distributor ⁽²⁾	5%		11%
U.S.	1%		23%
Other Foreign	4%		19%
<i>Subtotal</i>	10%		53%
Other Public	3%		1%
Other Private	8%		10%
Total ⁽³⁾	100%		100%

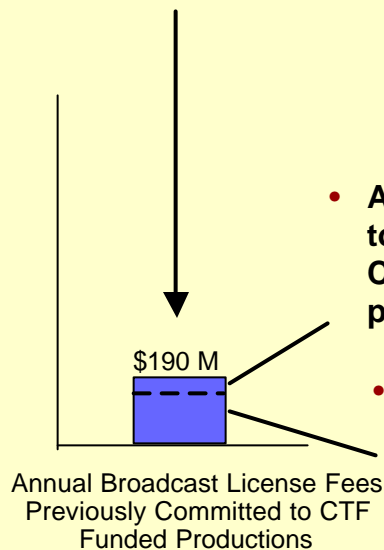
Source: PwC estimates based on data provided by CAVCO

- (1) The sources above are in aggregate for all productions. Individual production financing will vary.
- (2) Includes Canadian distribution companies which finance a percentage of the budget based on anticipated international sales.
- (3) Totals may not add to 100% due to rounding.

6) Counterfactual Analysis

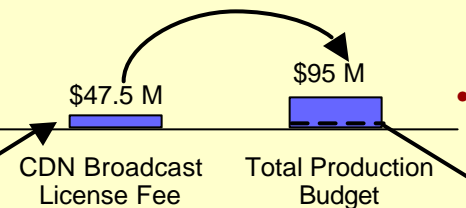
Elimination of the CTF will create \$485 million in additional demand on foreign markets to maintain the same level of independent Canadian TV production, or double the current level.

- If the CTF were eliminated, \$190M in Canadian broadcast license fees spent on CTF funded productions would be available for other productions.

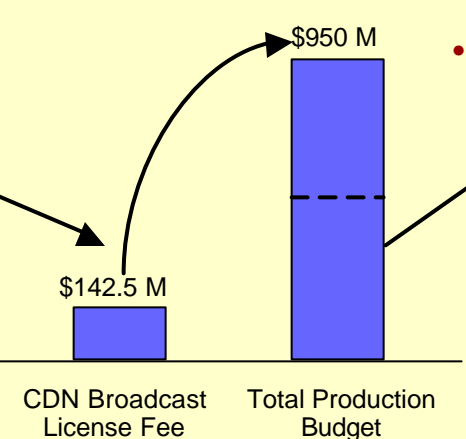


- Assume 25% goes to lower budget Canadian productions.
- Assume 75% goes to independent Canadian productions with high level of foreign financing.

- Assume 50% of the financing is covered by broadcasters, it creates \$95M in total production.

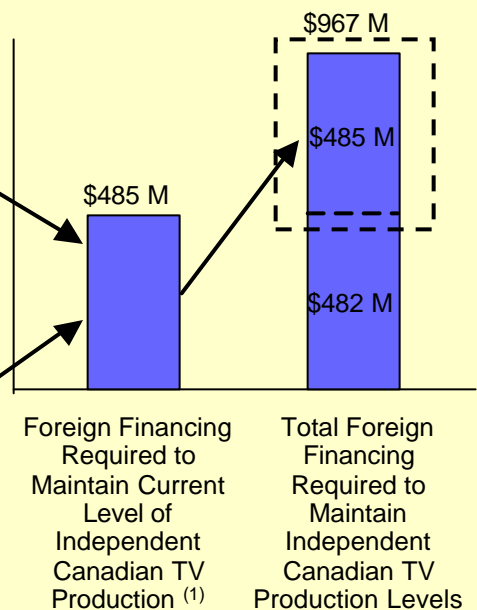


- Assume 15% of the financing is covered by broadcasters, it creates \$950M in total production.



- Assume 20% of the financing is covered by foreign sources.
- Assume 55% of the financing is covered by foreign sources.

If the CTF were eliminated, an additional \$485M of foreign financing would be required to maintain the current level of independent Canadian TV production. This is would be double the current level.

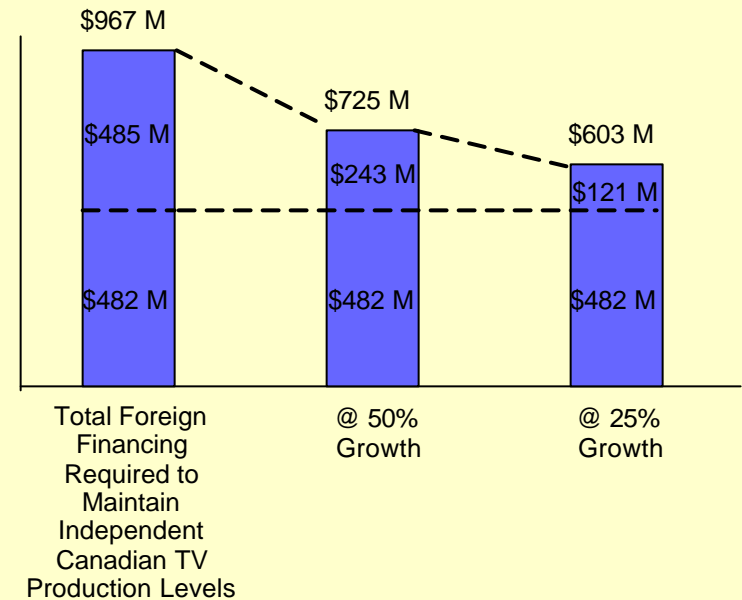


(1) Net of foreign financing from previous CTF funded productions.

6) Counterfactual Analysis

It is unlikely that independent Canadian producers would be able to double the level of foreign financing sources.

- Doubling the level of foreign sources that the independent Canadian TV production companies could obtain in one year is unlikely.
 - Producers would find that access to key markets (i.e. US, UK, France, Germany) are already well penetrated by Canadian producers and these markets will not grow dramatically due to the elimination of the CTF. In fact, these markets are currently experiencing economic slowdowns which is impacting the advertising revenue. The advertising revenue broadcasters obtain will significantly influence program spending.
 - Independent producers would have to expand their existing foreign contacts, which would be difficult in the short-term, as it takes many years to build contacts and a reputation to sell internationally.



It is unreasonable to assume that foreign sources of financing could double, but they may be able to grow between 25% to 50%.

6) Counterfactual Analysis

The ability of independent Canadian production companies to utilize foreign sources of financing will vary significantly by language and genre.

- **Even if we assume that the foreign sources of financing could grow 25% to 50%, it is not reasonable to assume that these targets could necessarily be met by all independent Canadian producers.**
 - **It will be more difficult for French-language producers to rely on foreign sources of financing.**
 - **Producers tend to have specialization by genre, which are developed over time. Not all genres have the same international appeal, nor do all producers have sufficient international contacts to obtain international sales.**
- **In order to assess the vulnerability of genres in both the English and French TV markets to the elimination of CTF funding, we looked to the following three variables:**
 - **Share of Total Market – the ability for producers to finance the production of particular genres in the English or French markets will be indicative by the market share of CTF funded production. The higher the market share of CTF funded production, the less experience producers in that genre specialization will have in international markets. The less experience producers have in the international market, the more likely producers in that genre specialization will have limited international contacts to leverage foreign sources of financing.**

...continued

6) Counterfactual Analysis

The ability of independent Canadian production companies to utilize foreign sources of financing will vary significantly by language and genre (continued)

- **CTF % of Total Budget** – the larger the CTF funded component of the budget, the more difficult it will be for that financing component to be replaced. The more difficult it is to be replaced, the less likely a production of that genre in that market would be able to move ahead.
- **Budget Size** – The larger the average budget size of a particular genre in a particular market, the harder it will be to find additional sources of financing to replace it.
- In order to judge the vulnerability of genres, we have rated them against each other in their respective markets (see the next two pages)⁽¹⁾.

The ability to switch financing models will vary based on the language/market and genre specialization.

(1) Detailed data can be found in the appendix.

6) Counterfactual Analysis

Rating the vulnerability of genres – ENGLISH Market Results

Docs

- CTF funded docs represent a high share of the market (70%) and a high level of financing from the CTF (30%)

Drama

- CTF funded drama represents a third of the market share (34%), but a high level of financing from the CTF (34%). Has a high average budget size.

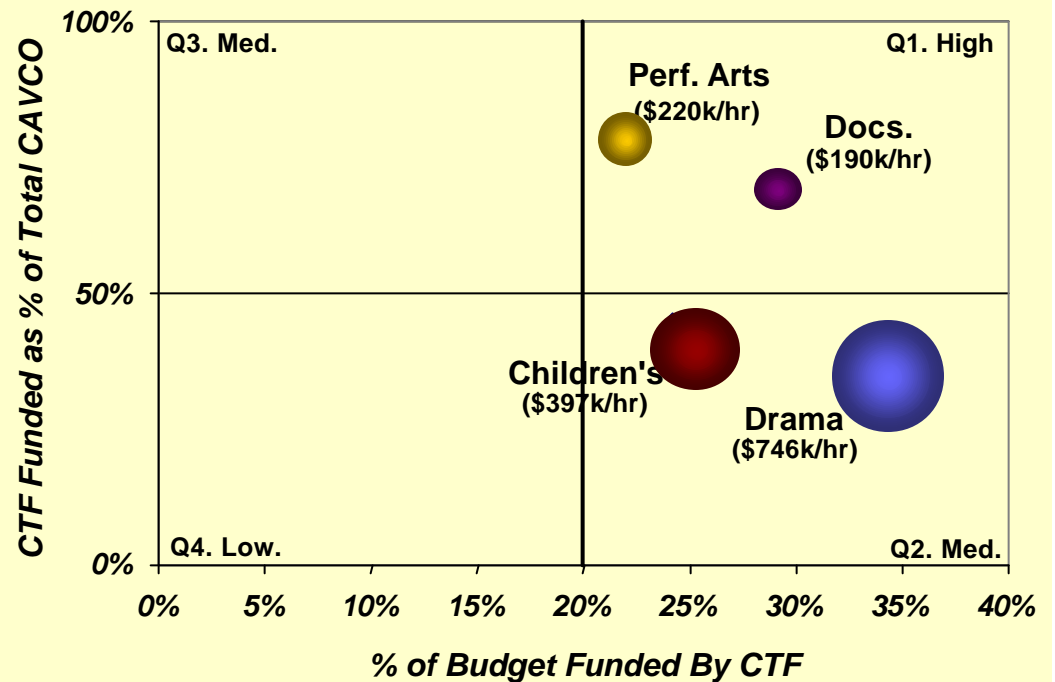
Perf. Arts

- CTF funded represents a high share of total production (78%) and a relatively high share of the budget (22%). Has a low average budget size.

Children's

- CTF funded represents just less than half of the market (45%) and a high share of the budget (25%). Has a high average budget size.

ENGLISH CTF Funded Production by Genre: Market Share/CTF as % of Budget/Avg. Budget Size



Source: PwC estimate based on CAVCO and CTF data.

6) Counterfactual Analysis

Rating the vulnerability of genres – FRENCH Market Results

Drama

- CTF funded represent nearly the entire market almost exclusively (93% share) and a very high level of financing from the CTF (35%). Average budget per hour is high for the French market.

Docs

- CTF funded represents two-thirds of the market and a very high level of financing from the CTF (35%).

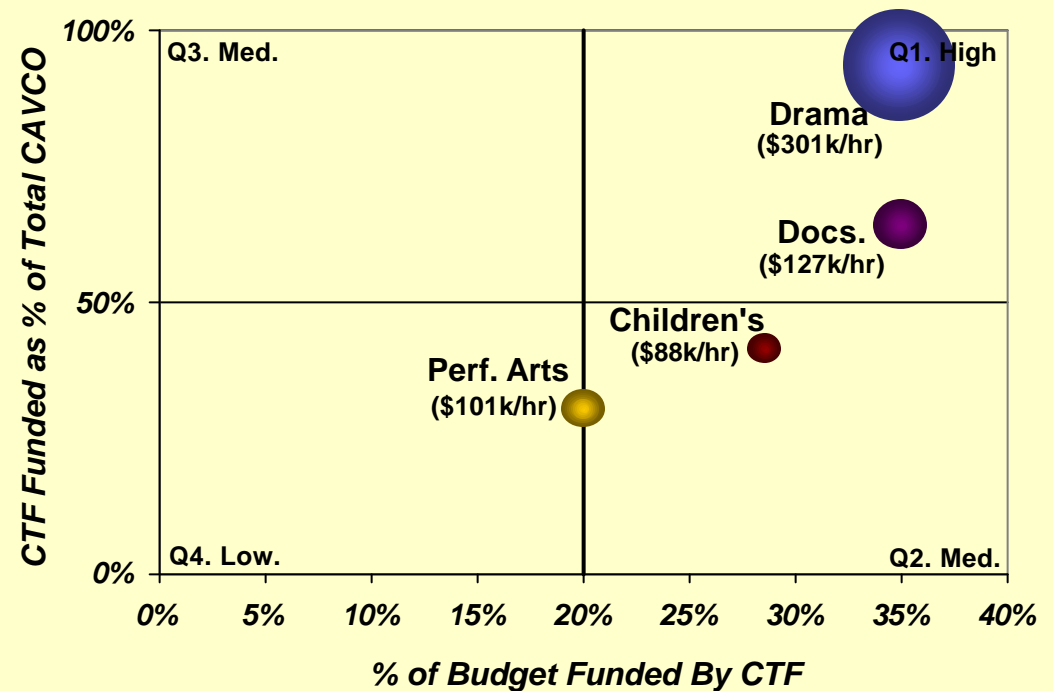
Children's

- CTF funded represents just under half of the market (44%) and a high level of financing from the CTF (29%).

Performing Arts

- CTF funded represents just over a third of the market (33%) and a significant portion of the budget (20%).

FRENCH CTF Funded Production by Genre: Market Share/CTF as % of Budget/Avg. Budget Size



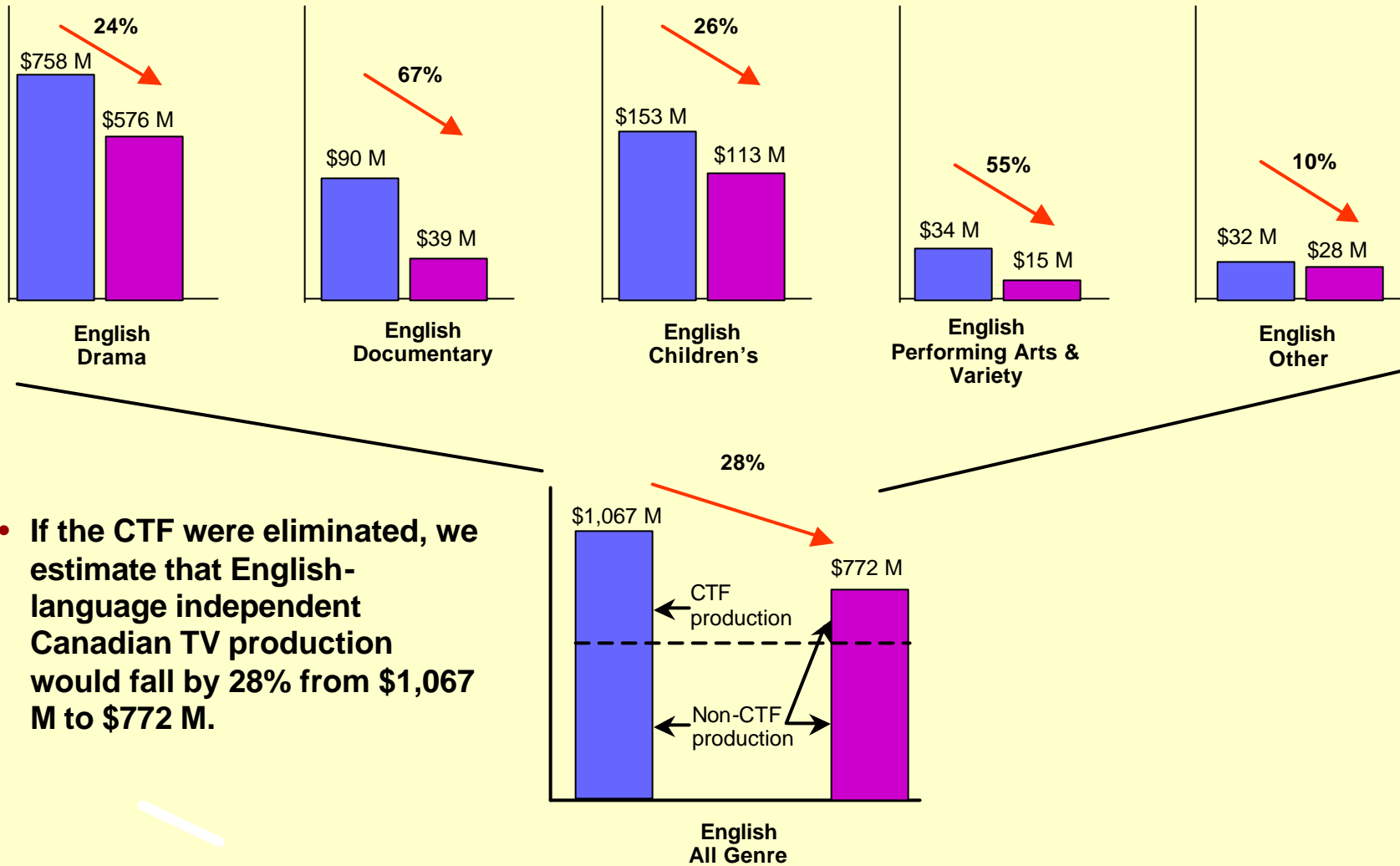
Source: PwC estimate based on CAVCO and CTF data.

Counterfactual Analysis - Approach

- **Using the information we have provided in this section (ie. Financing sources and models, reaction of producers and broadcasters, restraints of the international financing market, vulnerability of genres by market) we have developed a model to quantify the impact on the independent production industry if the CTF was eliminated.**
- **In order to assess the economic impact on the independent Canadian production industry if the CTF were eliminated, we have outlined two scenarios – an optimistic and a pessimistic. For each scenario, we have:**
 - **Set benchmarks for the maximum level of foreign financing growth (ie. 50% for the optimistic scenario and 25% for the pessimistic scenario).**
 - **Developed further ratings that assess the ability of producers to obtain foreign financing by genre and language/market.**
- **For each corresponding scenario, we have outlined the impact on the level of independent Canadian TV production, corresponding jobs and hours of original programming.**

6) Counterfactual Analysis
Optimistic Scenario

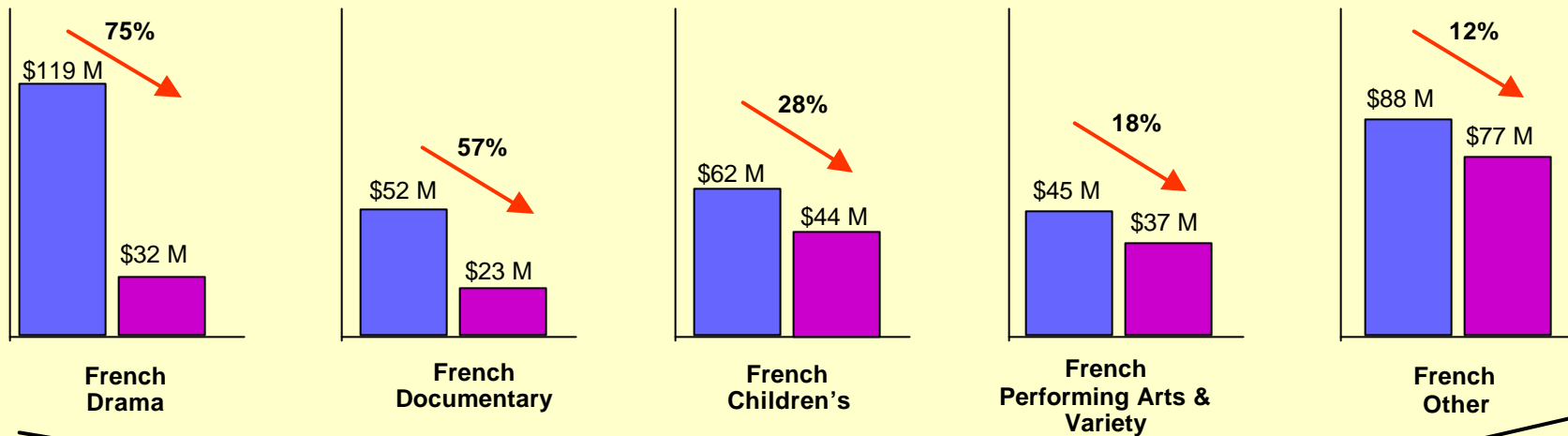
Without the CTF, ENGLISH-language independent Canadian TV production would be about \$295 million lower.



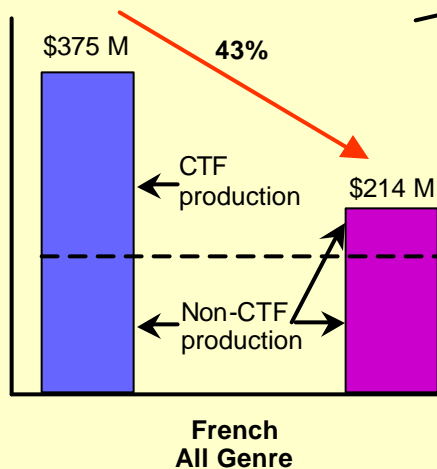
- If the CTF were eliminated, we estimate that English-language independent Canadian TV production would fall by 28% from \$1,067 M to \$772 M.

6) Counterfactual Analysis *Optimistic Scenario*

Without the CTF, French-language independent Canadian TV production would be about \$161 million lower.



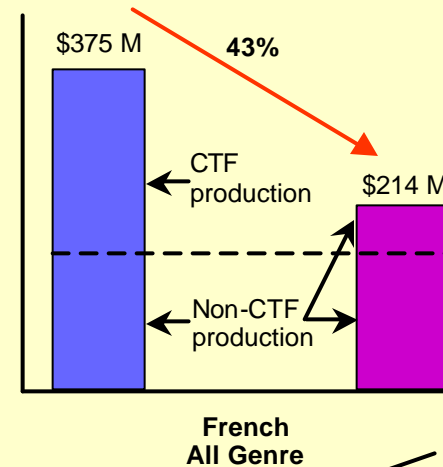
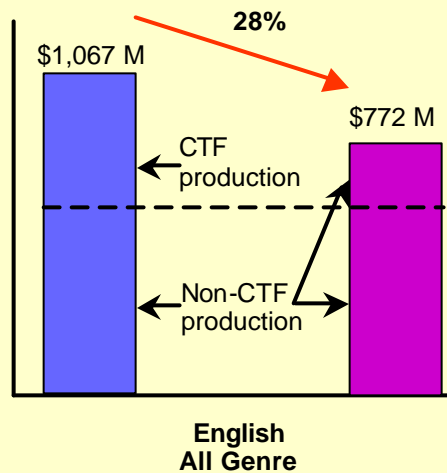
- If the CTF were eliminated, we estimate that French-language independent Canadian TV production would fall from \$375 million to \$214 million.



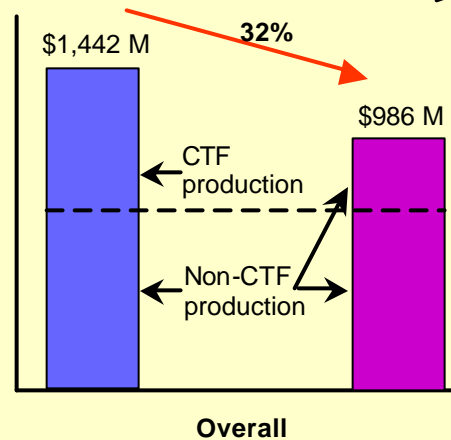
6) Counterfactual Analysis

Optimistic Scenario

Overall, the removal of the CTF would eliminate about **\$456 million** in production expenditures in the Canadian television industry



- Overall, without the CTF, we estimate that independent Canadian TV production would fall by 32%, from \$1,442 M to \$986 M.



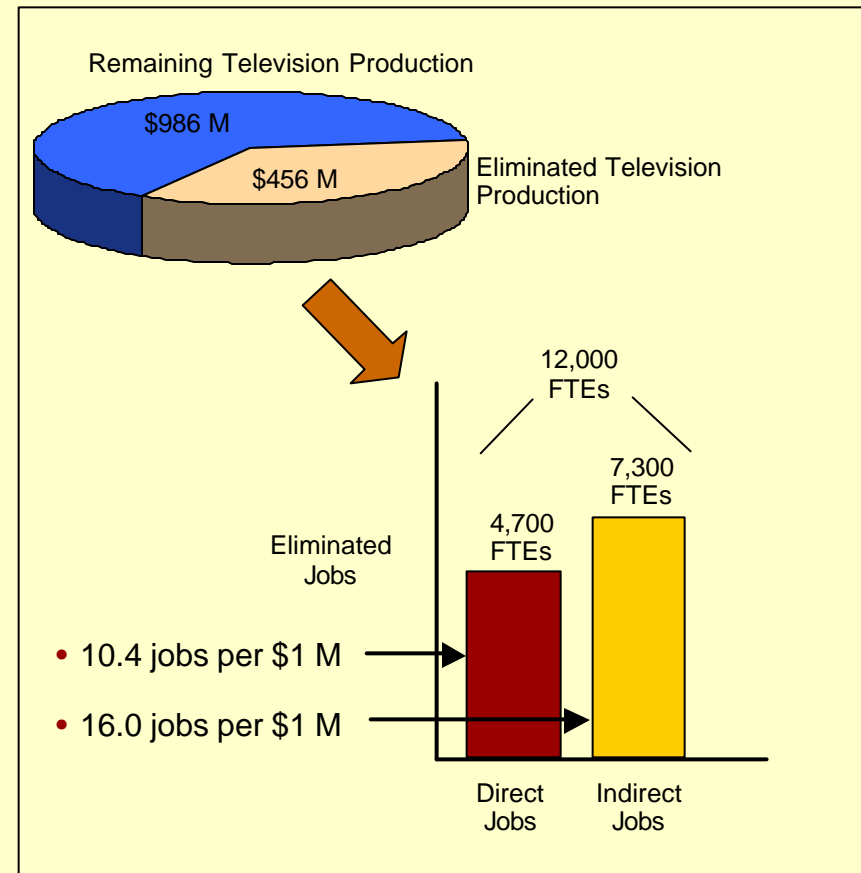
- Independent Canadian TV production could drop by \$456 M, if the CTF were eliminated.

6) Counterfactual Analysis

Optimistic Scenario

The elimination of \$456 million in production will lead to the elimination of 12,000 full-time jobs.

- At 10.4 FTEs per \$1 million in output, the loss of \$456 million in production expenditures, entails that 4,700 jobs would be eliminated directly in the television production industry.
- Furthermore, given that the production industry generates 16.0 indirect jobs per \$1 million in production expenditures, an additional 7,300 jobs will be lost in industries that supply inputs to the television production industry.
- In total, the model indicates that the removal of the CTF may lead to the involuntary loss of around 12,000 jobs.



Source: PwC estimate

- (1) Direct and Indirect Jobs calculated using our methodology from our annual Economic Profile, which estimates 10.4 direct and 16 indirect jobs per \$1 million in production expenditures.

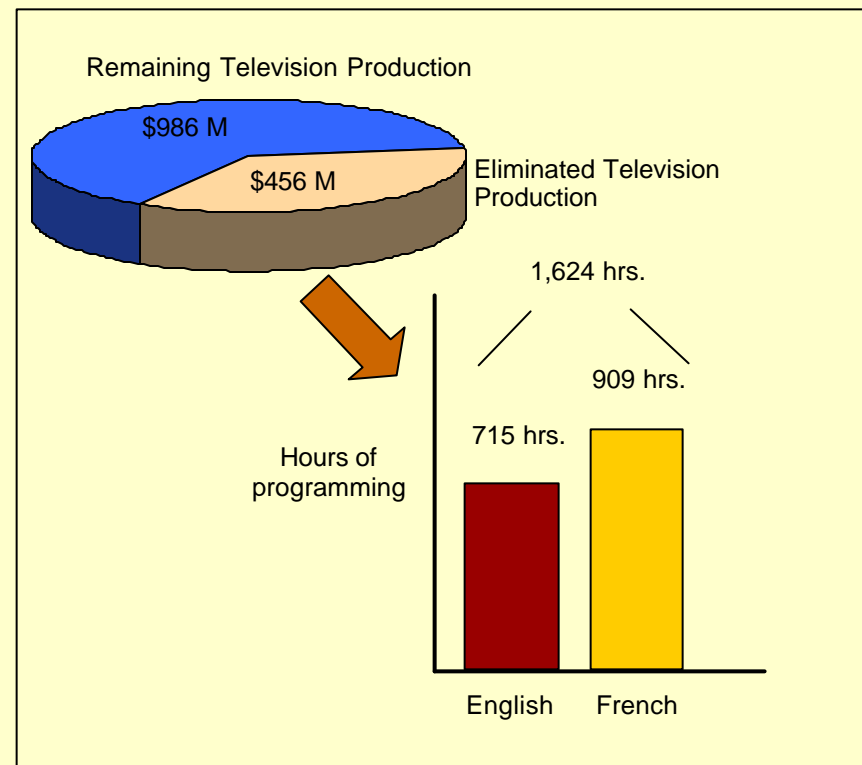
6) Counterfactual Analysis
Optimistic Scenario

Based on average production costs, the loss of the CTF would eliminate over to 1,624 hours of original Canadian TV production

- Based on the average cost of producing an hour of programming for each genre, the removal of \$456 million in production would eliminate 1,624 hours of original Canadian television programming.
- Note that the impact would be greater for French-language television, because hourly production costs are lower.

Average Production Costs and Implied Loss of Original Program Hours, by Genre

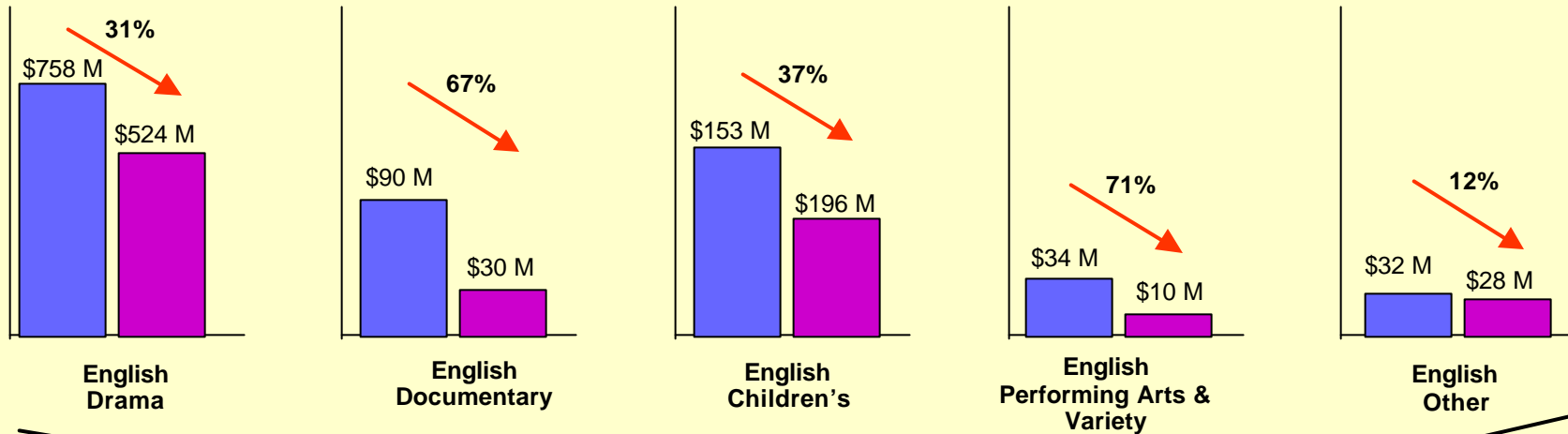
	Average costs	Lost Hours
English/Drama	746,000	244
English/Documentary	190,000	268
English/Children's	397,000	102
English/Performing Arts and Variety	220,000	85
English/Other	190,000	17
English - Total		715
French/Drama	301,000	317
French/Documentary	127,000	231
French/Children's	88,000	195
French/Performing Arts and Variety	101,000	82
French/Other	127,000	84
French - Total		909
Total		1,624



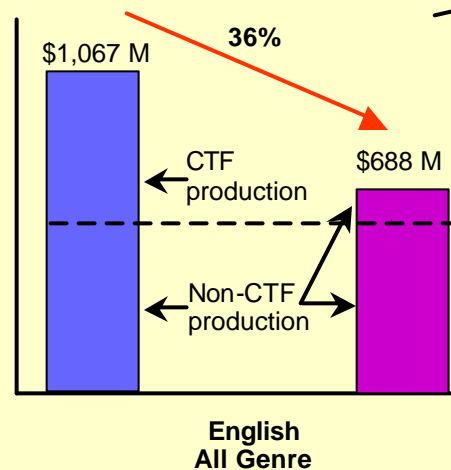
6) Counterfactual Analysis

Pessimistic Scenario

Without the CTF, English-language independent Canadian TV production would be about \$380 million lower.



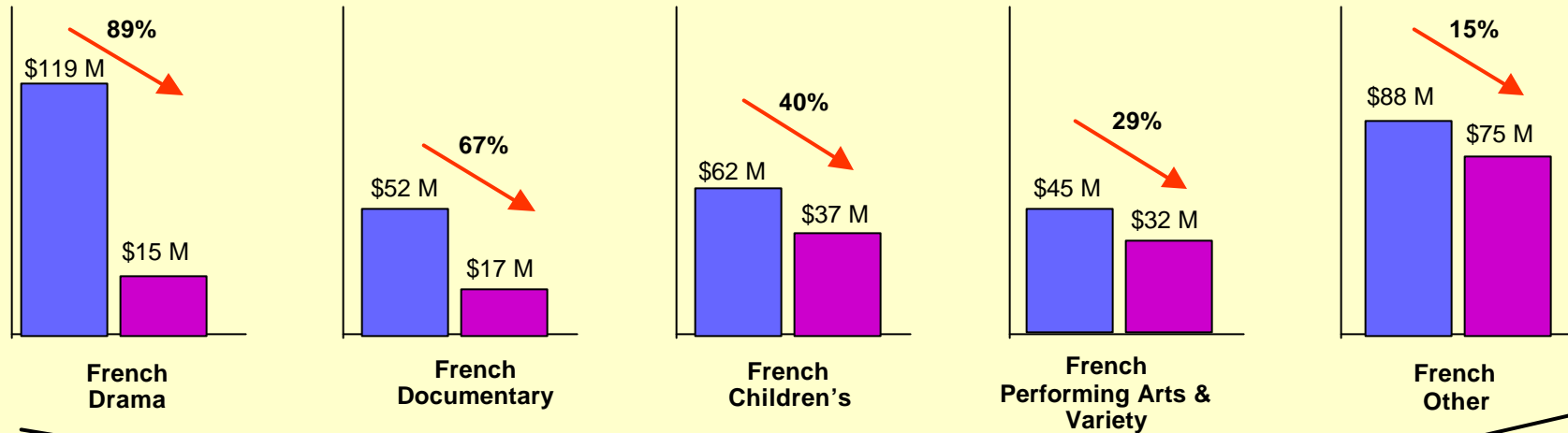
- If the CTF were eliminated, we estimate that English-language independent Canadian TV production would fall by 36% from \$1,067 M to \$688 M.



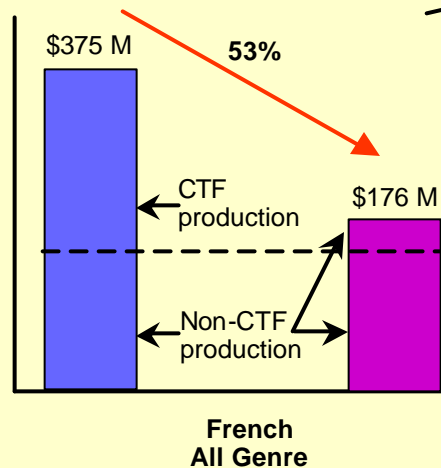
6) Counterfactual Analysis

Pessimistic Scenario

Without the CTF, French-language independent Canadian TV production would be cut by more than half.



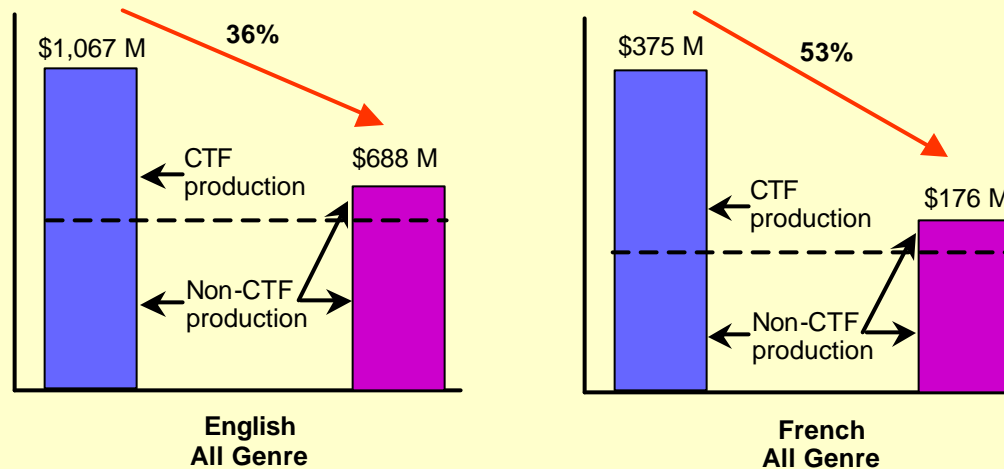
- If the CTF were eliminated, we estimate that French-language independent Canadian TV production would fall from \$375 million to \$176 million.



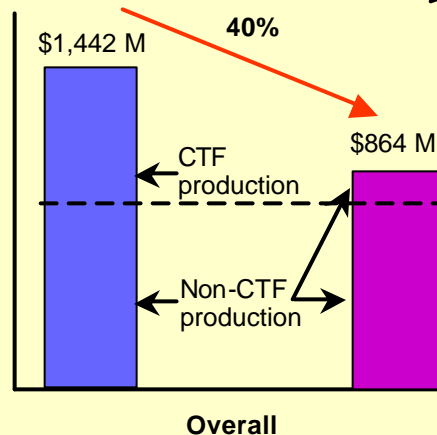
6) Counterfactual Analysis

Pessimistic Scenario

Overall, the removal of the CTF would eliminate about \$578 million in production expenditures in the Canadian television industry



- Overall, without the CTF, we estimate that independent Canadian TV production would fall by 40%, from \$1,442 M to \$864 M.



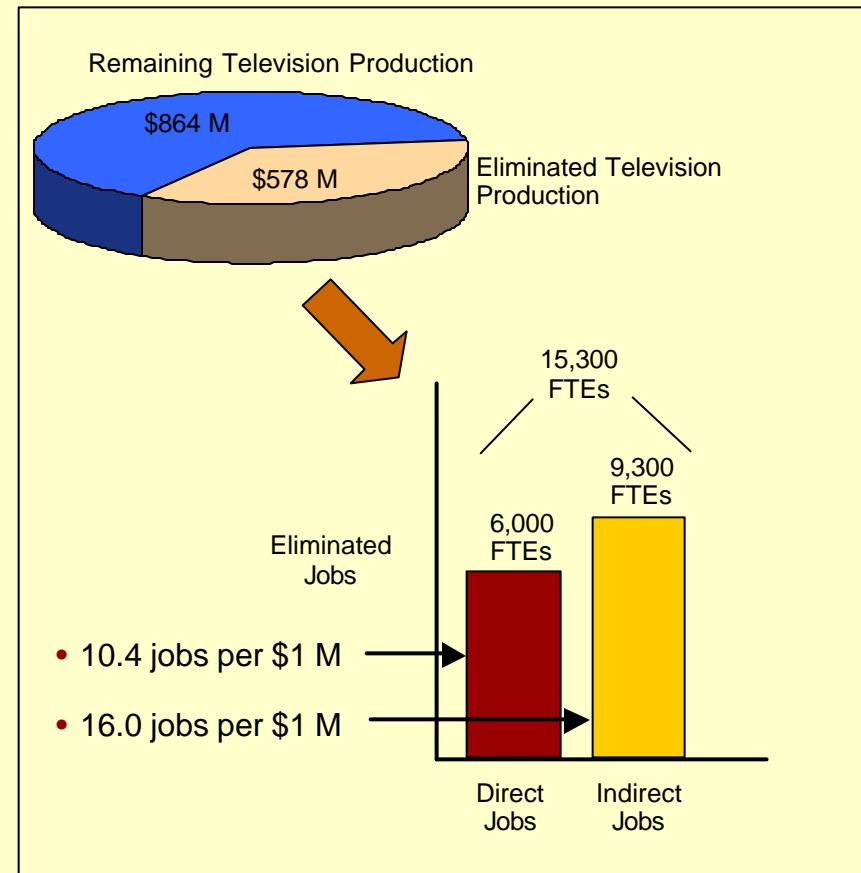
- Independent Canadian TV production could drop by \$578 M, if the CTF were eliminated.

6) Counterfactual Analysis

Pessimistic Scenario

The elimination of \$578 million in production will lead to the elimination of 15,300 full-time jobs.

- At 10.4 FTEs per \$1 million in output, the loss of \$578 million in production expenditures entails that 6,000 jobs would be eliminated directly in the television production industry.
- Furthermore, given that the production industry generates 16.0 indirect jobs per \$1 million in production expenditures, an additional 9,300 jobs will be lost in industries that supply inputs to the television production industry.
- In total, the model indicates that the removal of the CTF may lead to the involuntary loss of around 15,300 jobs.



Source: PwC estimate

- (1) Direct and Indirect Jobs calculated using our methodology from our annual Economic Profile, which estimates 10.4 direct and 16 indirect jobs per \$1 million in production expenditures.

6) Counterfactual Analysis

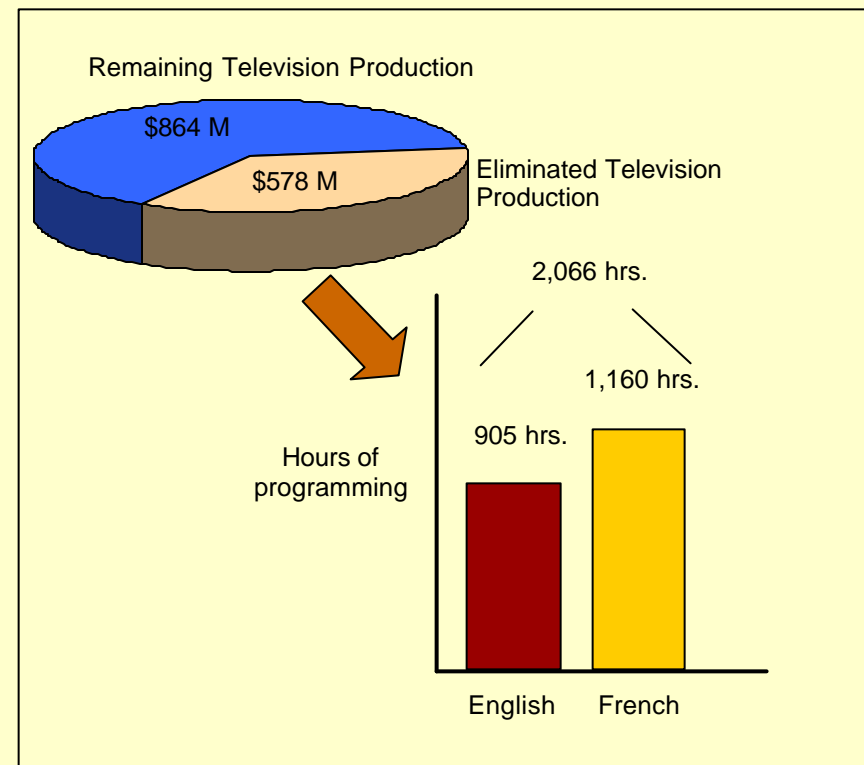
Pessimistic Scenario

Based on average production costs, the loss of the CTF would eliminate over 2,000 hours of original Canadian TV production

- Based on the average cost of producing an hour of programming for each genre, the removal of \$578 million in production would eliminate 2,066 hours of original Canadian television programming.
- Note that the impact would be greater for French-language television, because hourly production costs are lower.

Average Production Costs and Implied Loss of Original Program Hours, by Genre

	Average costs	Lost Hours
English/Drama	746,000	313
English/Documentary	190,000	318
English/Children's	397,000	145
English/Performing Arts and Variety	220,000	109
English/Other	190,000	21
English - Total		905
French/Drama	301,000	377
French/Documentary	127,000	275
French/Children's	88,000	277
French/Performing Arts and Variety	101,000	131
French/Other	127,000	101
French - Total		1,160
Total		2,066



Conclusions

- **CTF funding is critical to the financing of high quality, domestic oriented Canadian productions. Without the CTF, the CTF financing model will be destroyed, along with the unique Canadian oriented programming it creates.**
 - **Without the CTF topping up production budgets, broadcasters would have to re-orient their programming strategy and could not sustain the current level of high quality, Canadian oriented productions.**
 - **Without the CTF, independent Canadian production companies would have to reorient their financing model nearly exclusively to international financing sources.**
- **The CTF would have a significant impact on independent Canadian TV production:**
 - **Independent Canadian TV production would decline between 32% and 40%.**
 - **An estimated \$456 to \$578 million in independent Canadian TV production would be lost, which corresponds to between 12,000 and 15,300 direct and indirect jobs.**

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7) Conclusions

Conclusions on market realities in the production industry and the corresponding role of the CTF

- The production industry is a 'hits' business that is highly risky and takes numerous years to see a return.
- Most countries outside the US must rely on public sector mechanisms (eg. public broadcasters, content regulations) and financial support (eg. production funds) in order to produce domestic content.
- Business realities of broadcasters and producers in both English and French-language markets prevent the creation of distinct Canadian content with private money alone.
- The underlying principle of Canada's broadcast policy is that entertainment is not just business, it is culture. As such, the creation and exhibition of distinct Canadian content that speaks to Canadians is a fundamental principal of Canadian broadcasting policy.
- Both demand (e.g. Cancon quotas) and supply side (eg. production tax credits) mechanisms are necessary to ensure Canadian content is created, but direct supply-side investment from **the CTF is the linchpin incentive to broadcasters and producers to create high quality, recognizable Canadian content for Canadians.**
- Growth in digital specialty services will continue to put demand pressure on the Canadian Television Fund.

7) Conclusions

Conclusions on the performance and growth of the Canadian production industry

- **The production industry in Canada has grown into a multi-billion dollar industry (\$4.4bn), with independent Canadian production representing the largest component (\$2.1bn).**
- **Growth in GDP and Job creation in the production industry exceeds service industries and goods producing industries in aggregate.**
- **The production industry's contribution to GDP and job creation in other sectors is the highest among cultural industries and among the highest in comparison with all other industries in the Canadian economy.**
- **The production industry is a sunrise industry that continues to grow faster than the economy and employs a higher proportion of highly-skilled young workers.**
- **Compared with other sectors of the production industry in Canada, the CTF ranks highly in its contribution to the development of a strong production industry in Canada. This is the case despite the fact that the CTF has a cultural objective but not a corporate development objective.**

7) Conclusions

Conclusions on the CTF's contribution to the growth and success of the Canadian production industry

- **CTF contributes approximately \$200 million annually to productions that in turn generate over \$600 million in production activity which support over 16,000 direct and indirect jobs.**
- **BDU contributions to the CTF have increased over 90% since initiation of the fund, while public contributions have remained stable.**
- **The CTF funded production represents a significant share of the production industry in Canada:**
 - **Forty percent of English-language independent Canadian TV production activity and over half of French-language.**
 - **Represents a greater proportion of independent Canadian TV production in the regions.**
 - **Represents a significant share of priority program genres, such as drama, children's and documentary programming.**

Conclusions on the impact if the CTF were eliminated

- **CTF funding is critical to the financing of high quality, domestic oriented Canadian productions. Without the CTF, the CTF financing model will be destroyed, along with the unique Canadian oriented programming it creates.**
 - **Without the CTF topping up production budgets, broadcasters would have to re-orient their programming strategy and could not sustain the current level of high quality, Canadian oriented productions.**
 - **Without the CTF, independent Canadian production companies would have to reorient their financing model nearly exclusively to international financing sources.**
- **The CTF would have a significant impact on independent Canadian TV production:**
 - **Independent Canadian TV production would decline between 32% and 40%.**
 - **An estimated \$456 to \$578 million in independent Canadian TV production would be lost, which corresponds to between 12,000 and 15,300 direct and indirect jobs.**

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Detailed Market and Financing Information by Genre and Language

- The appendix provides detailed information on the financing structure and market shares of CTF funded and non-CTF funded productions. It is presented by genre and language.
- This information was used to calculate our ratings for our counterfactual analysis (in part).

English/Drama

Market Share

- English drama that are CTF funded represents 34.3% of total English drama TV production.
- English drama represents 71% of total English-language TV production and 53% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 34% of the financing for English drama productions that received CTF. Canadian broadcast license fees contribute 24%.
- About 70% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 5%.

English/Drama's Share of CAVCO Certified Production, 1999-00

(Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
English/Drama	34.3%	65.7%	100.0%
English/All Genre	24.4%	46.7%	71.1%
All Languages/All Genre	18.1%	34.6%	52.6%

Sources of Financing for English/Drama, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	24.2%	5.2%
CTF	34.3%	0.0%
Tax Credits	17.5%	18.8%
<u>Foreign</u>		
Distributors (1)	6.1%	13.1%
U.S.	0.7%	32.6%
Offshore	<u>6.2%</u>	<u>24.5%</u>
Subtotal	12.9%	70.3%
Other Public	1.7%	0.1%
Other Private	9.4%	5.6%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

English/Documentary

Market Share

- English documentaries that are CTF funded represents 70% of total English drama TV production.
- English docs represents 8.7% of total English-language TV production and 6.4% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 29% of the financing for English documentary productions that received CTF. Canadian broadcast license fees contribute 32%.
- About 23.5% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 21%.

English/Documentary's Share of CAVCO Certified Production, 1999-00
(Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
English/Documentary	69.5%	30.5%	100.0%
English/All Genre	6.0%	2.6%	8.7%
All Languages/All Genre	4.5%	2.0%	6.4%

Sources of Financing for English/Documentary, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	31.9%	21.0%
CTF	29.2%	0.0%
Tax Credits	15.2%	19.9%
<u>Foreign</u>		
Distributors (1)	6.0%	4.3%
U.S.	2.4%	15.8%
Offshore	2.2%	3.4%
Subtotal	10.6%	23.5%
Other Public	7.2%	6.2%
Other Private	5.9%	29.4%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

English/Children's

Market Share

- English children's that are CTF funded represents 45% of total English children's TV production.
- English children's represents 14% of total English-language TV production and 11% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 24% of the financing for English children's productions that received CTF. Canadian broadcast license fees contribute 25%.
- About 61% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 6%.

English/Children's Share of CAVCO Certified Production, 1999-00

(Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
English/Children's	44.7%	55.3%	100.0%
English/All Genre	6.3%	7.8%	14.2%
All Languages/All Genre	4.7%	5.8%	10.5%

Sources of Financing for English/Children's, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	24.6%	6.3%
CTF	24.2%	0.0%
Tax Credits	15.8%	21.6%
<u>Foreign</u>		
Distributors (1)	8.6%	22.2%
U.S.	0.3%	28.5%
Offshore	8.7%	10.5%
Subtotal	17.6%	61.2%
Other Public	3.8%	0.1%
Other Private	14.0%	10.8%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

English/Performing Arts and Variety

Market Share

- English performing arts and variety that are CTF funded represents 78% of total English performing arts and variety production.
- English performing arts and variety represents 3% of total English-language TV production and 2% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 22% of the financing for English performing arts and variety productions that received CTF. Canadian broadcast license fees contribute 50%.
- About 1% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 62%.

English/Performing Arts and Variety's Share of CAVCO Certified Production, 1999-00
(Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
English/Perf. Arts and Variety	77.8%	22.2%	100.0%
English/All Genre	2.4%	0.7%	3.0%
All Languages/All Genre	1.7%	0.5%	2.2%

Sources of Financing for English/Performing Arts and Variety, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	49.9%	61.5%
CTF	22.0%	0.0%
Tax Credits	18.2%	20.1%
Foreign		
Distributors (1)	3.7%	0.9%
U.S.	0.0%	0.0%
Offshore	<u>1.0%</u>	<u>0.0%</u>
Subtotal	4.7%	0.9%
Other Public	1.5%	4.5%
Other Private	3.7%	13.0%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

French/Drama

Market Share

- French drama that are CTF funded represents 93% of total French drama production.
- French drama represents 33% of total French-language TV production and 9% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 35% of the financing for French drama productions that received CTF. Canadian broadcast license fees contribute 36%.
- About 20% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 21%.

French/Drama's Share of CAVCO Certified Production, 1999-00

(Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
French/Drama	93.4%	6.6%	100.0%
French/All Genre	30.9%	2.2%	33.1%
All Languages/All Genre	8.5%	0.6%	9.1%

Sources of Financing for French/Drama, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	35.9%	20.7%
CTF	35.4%	0.0%
Tax Credits	22.4%	24.0%
<u>Foreign</u>		
Distributors (1)	1.3%	1.7%
U.S.	0.0%	0.0%
Offshore	0.0%	18.5%
Subtotal	1.3%	20.2%
Other Public	1.2%	11.1%
Other Private	3.8%	24.0%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

French/Documentary

Market Share

- French documentaries that are CTF funded represents 66% of total French documentary production.
- French docs represents 16% of total French-language TV production and 4% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 35% of the financing for French documentary productions that received CTF. Canadian broadcast license fees contribute 26%.
- About 9% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 28%.

French/Documentary's Share of CAVCO Certified Production, 1999-00 (Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
French/Documentary	66.2%	33.8%	100.0%
French/All Genre	10.3%	5.2%	15.5%
All Languages/All Genre	2.8%	1.4%	4.2%

Sources of Financing for French/Documentary, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	26.1%	28.5%
CTF	34.6%	0.0%
Tax Credits	22.9%	24.6%
<u>Foreign</u>		
Distributors (1)	3.4%	3.7%
U.S.	0.0%	0.2%
Offshore	0.5%	4.7%
Subtotal	3.9%	8.6%
Other Public	6.2%	3.9%
Other Private	6.4%	34.5%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

French/Children's

Market Share

- French children's that are CTF funded represents 43% of total French children's production.
- French children's represents 17% of total French-language TV production and 5% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 29% of the financing for French children's productions that received CTF. Canadian broadcast license fees contribute 39%.
- About 59% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 8%.

French/Children's Share of CAVCO Certified Production, 1999-00

(Percent of total production expenditures)

	CTF	Non-CTF	Total
French/Children's	42.9%	57.1%	100.0%
French/All Genre	7.3%	9.7%	17.0%
All Languages/All Genre	2.0%	2.6%	4.6%

Sources of Financing for French/Children's, 1999-00

	CTF	Non-CTF
Cdn. Broadcast Licence Fee	38.8%	7.7%
CTF	29.2%	0.0%
Tax Credits	23.2%	26.0%
Foreign		
Distributors (1)	1.0%	19.5%
U.S.	0.0%	3.1%
Offshore	0.0%	36.9%
Subtotal	1.0%	59.4%
Other Public	0.3%	0.0%
Other Private	7.4%	6.9%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.

French/Performing Arts and Variety

Market Share

- French performing arts and variety that are CTF funded represent 35% of total French children’s production.
- French performing arts and variety represents 12% of total French-language TV production and 3% of all TV productions in all languages.

Financing Details

- Overall, CTF funding comprised about 20% of the financing for French performing arts and variety productions that received CTF. Canadian broadcast license fees contribute 49%.
- 0% of non-CTF production budgets come from foreign sources. Canadian broadcast license fees represent 66%.

French/Performing Arts and Variety’s Share of CAVCO Certified Production, 1999-00 (Percent of total production expenditures)

	<u>CTF</u>	<u>Non-CTF</u>	<u>Total</u>
French/Perf. Arts and Variety	35.4%	64.6%	100.0%
French/All Genre	4.1%	7.4%	11.5%
All Languages/All Genre	1.1%	2.0%	3.1%

Sources of Financing for French/Performing Arts and Variety, 1999-00

	<u>CTF</u>	<u>Non-CTF</u>
Cdn. Broadcast Licence Fee	49.3%	65.8%
CTF	19.6%	0.0%
Tax Credits	23.9%	23.7%
<u>Foreign</u>		
Distributors (1)	0.5%	0.0%
U.S.	0.0%	0.0%
Offshore	0.0%	0.0%
Subtotal	0.5%	0.0%
Other Public	0.4%	1.8%
Other Private	6.3%	8.7%
Total	100.0%	100.0%

Source: PwC estimates based on data provided by CAVCO

- (1) Distribution advance from Canadian company for international sales
- (2) The sources above are in aggregate for all productions. Individual production financing will vary.