

transforming results
PWC CONSULTING

Assessment of the Economic Impact of the Canadian Television Fund 2002

Executive Summary

Canadian Film and Television Production Association
(CFTPA)

September 2002

A business of **PRICEWATERHOUSECOOPERS** 



CFTPA
Representing television, film
and interactive production in Canada

ACPFT
Parti-partenaire de l'industrie de la production
cinématographique, télévisuelle et interactive au Canada

The Economic Contribution of the CTF to the Production Industry

- **The Canadian Television Fund (CTF) makes a significant contribution to the growth and development of the independent Canadian production industry.**
 - The CTF is a public/private partnership that contributes over \$200 million (all amounts in Canadian dollars) annually towards independent Canadian television production.
 - It was created in 1996 and is comprised of two funding programs: the Licence Fee Program (LFP) and the Equity Investment Program (EIP).
 - The CTF operates with both cultural and economic goals. The Fund's objectives are:
 - To increase the broadcast presence of high-quality Canadian television programs in all regions of Canada, in both official languages.
 - To enhance the capacity of the Canadian broadcast and production sectors to produce and distribute television programming across the country in categories traditionally under-represented in the broadcasting system: documentary, children's programming, performing arts and variety, and especially prime-time drama.
 - To create increased employment.
 - To support distinctively Canadian programming in English, French and Aboriginal languages.
 - To increase the audience of CTF-supported programming.

... continued

The Economic Contribution of the CTF to the Production Industry

- The CTF supports well over \$600 million, annually, in film and television production in Canada.
 - In 2000/01, the CTF contributed \$210 million to support 486 television and film productions with total budgets of \$683 million.
 - The most recent data for the 2001/02 production year indicate that the CTF contributed over \$240 million to support 583 television and film productions with total budgets of \$802 million.
 - For every \$1 contributed by the CTF to a production, about \$2 were contributed by private and other public sources. Combined, they created \$683 million in production activity in 2000/01 and over 18,000 direct and indirect jobs.
 - CTF-Funded Production represents 29% of English-language CAVCO Production⁽¹⁾, and 46% of French-language CAVCO Production.
 - In respect to genres, CTF-Funded Production represents a significant portion of production in each of the major genre categories: 37% of children's, 66% of documentary, 32% of drama, and 32% of performing arts and variety.
 - In respect to regional contribution, CTF-Funded Production represents a greater share of independent Canadian production in Atlantic Canada and the Prairie Provinces compared to Quebec, British Columbia and Ontario.

(1) CAVCO Production refers to film and television production that has been certified as Canadian content by the Canadian Audio-Visual Certification Office (CAVCO).

Market Realities and the Role of the CTF

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

... continued

Market Realities and the Role of the CTF

- **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 (i.e., 20% to 25%).
 - To complete the financing of Canadian productions, Canadian producers must turn to support mechanisms and foreign markets.
 - The challenge for Canadian producers is to create films and television programs that can compete in the domestic market with international content.
 - 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 principle.
 - In addition to the CTF, the federal government has initiated various support mechanisms, such as content quotas and production tax credits, in order to fulfill the principles of its broadcasting policy.

... continued

Market Realities and the Role of the CTF

- **The CTF is a critical public incentive for the creation of distinct Canadian programming that fulfils the principles of broadcasting policy, today and in the future.**
 - The CTF was created to provide funding and create a critical mass of high quality, distinct Canadian programming in under-represented categories (i.e., drama, documentaries, children's programs, variety and performing arts), and particularly in peak viewing times.
 - The production of distinctly Canadian content requires significant financial resources. In the drama genre – the costliest to produce – the average budget of a CTF-supported project was \$4.5 million⁽¹⁾ in 2000/01. The average cost for a one-hour episode of CTF-funded drama was over \$500,000.
 - The CTF has created a unique financing structure for a particular type of production in the broadcasting system. CTF-Funded Productions receive a 10 out of 10 Canadian content rating, address Canadian themes and stories, and are financed nearly entirely by domestic sources – both public and private.

(1) In most cases, the cost of drama project refers to the total cost of a drama series, which includes several episodes.

... *continued*

Market Realities and the Role of the CTF

- **With the proliferation in the number of Canadian broadcast, and specialty and pay television services over the last several years, the need and demand for access to the CTF has continued to expand.**
 - Although the amount of funding for the CTF has increased over the past several years, the demand for funding still greatly exceeds the availability of funding. In 2000/01, only 58% of LFP and 57% of EIP applications were accepted.
 - The most recent data from the CTF indicate that the demand for funding remains high in 2002. According to the CTF, the amount of funding requested within each language/genre envelope in 2001/02 exceeds the amount available.
 - The increase in the number and influence of pay and specialty services in Canada during the last few years has led to increased demand for funding.
 - In 2001/02, 73 different broadcasters contributed licence fees to CTF-supported projects. This is an increase from 56 broadcasters in 2000/01 and 47 in 1999/00.
 - The share of broadcaster licence fees from pay and specialty services has been trending higher during the last several years. In 2001/02, pay and specialty services accounted for 47% of the broadcaster licence fees contributed to CTF-supported projects. This is an increase from 18% of licence fees in 1996/97.

Counterfactual Analysis

- **There are three principal components to independent Canadian production financing: 1) broadcast licence fees; 2) the 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 licence fees and the CTF are the two most critical components to the financing of CTF production. These two sources often account for 60% of the production budget.
 - Productions that do not receive CTF funding rely primarily on domestic and foreign licence fees. These two sources often account for up to 65% of the financing for a production outside of the CTF.
- **If the CTF were eliminated, the current financing model for unique Canadian-oriented programming would be in severe jeopardy.**
 - Without the CTF, the CTF financing model would collapse and producers would have to seek large foreign presales to support their projects.
 - With a greater reliance on foreign sales, comes increased input from international clients on the creative elements of the production.

... continued

Counterfactual Analysis

- **Without the CTF, producers of distinctly Canadian programs would have to change their financing model. They would have to shift from a model with a majority of domestic financing to one with a majority of international financing – essentially the financing model used by independent Canadian producers outside of the CTF.**
 - If the CTF were eliminated, broadcasters would not have the economic capacity to raise their licence fees in order to compensate for the financing gap created by the lack of CTF funding.
 - An estimated additional \$456 million of foreign financing would be required to maintain the current level of independent Canadian television production. This would be a 62% increase over the the current level of foreign financing of \$741 million.
 - It is unlikely that Canadian producers could obtain a 62% increase in financing from foreign sources.
 - Even if we assume that foreign sources of financing could grow by 20% to 40%, the ability of producers to switch to a financing 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. As well, foreign financing often requires Canadian producers to commit to using international creative talent in their productions.

... continued

Counterfactual Analysis

- If the CTF were eliminated, it would have a significant impact on economic activity and jobs in the independent Canadian production sector.
- CAVCO Production, the largest component of the independent Canadian production sector, would decline by between 26% and 31%, if the CTF were eliminated.
- An estimated \$520 to \$622 million in independent Canadian production activity would be lost. This loss of production would lead to the loss of between 13,700 and 16,500 jobs (direct and indirect)⁽¹⁾.
- On an annual basis, about 2,100 to 2,500 hours of distinctly Canadian programming would be eliminated.

**Results of Counterfactual Analysis,
(Based on data for 2000/01 production year)**

	<u>Original Amount</u>	<u>Elimination of the CTF</u> (Amount of reduction)
Production Spending	\$2,017 M	\$520 M to \$622 M
Program Hours	N/a	2,098 to 2,451
Employment ⁽¹⁾ (Direct & Indirect)	53,300	13,700 to 16,500

Source: PwC estimates based on data from CAVCO, CTF and Statistics Canada

(1) Direct employment includes jobs in the film and television production industry. Indirect employment refers to jobs in other sectors of the economy. Employment is measured in terms of full-time equivalent positions

... continued

Counterfactual Analysis

25% Reduction in the CTF

- If the CTF were to be reduced by 25%, we estimate that independent Canadian production would drop by between \$130 million and \$155 million. This drop in production would eliminate about 500 to 600 hours of distinctly Canadian programming, and between 3,400 and 4,100 jobs⁽¹⁾.

50% Reduction in the CTF

- If the CTF were to be reduced by 50%, we estimate that independent Canadian production would drop by between \$260 million and \$311 million. This drop in production would eliminate about 1,000 to 1,200 hours of distinctly Canadian programming, and between 6,800 and 8,300 jobs⁽¹⁾.

Results of Counterfactual Analysis, (Based on data for 2000/01 production year)

	<u>Original Amount</u>	<u>25% Reduction in the CTF</u> (Amount of reduction)	<u>50% Reduction in the CTF</u> (Amount of reduction)
Production Spending	\$2,017 M	\$130 M to \$155 M	\$260 M to \$311 M
Program Hours	N/a	524 to 613	1,049 to 1,225
Employment ⁽¹⁾ (Direct & Indirect)	53,300	3,420 to 4,125	6,850 to 8,250

Source: PwC estimates based on data from CAVCO, CTF and Statistics Canada

(1) Direct employment includes jobs in the film and television production industry. Indirect employment refers to jobs in other sectors of the economy. Employment is measured in terms of full-time equivalent positions

transforming results
PWC CONSULTING

PwC Consulting™ refers to the management consulting services businesses of the member firms of the worldwide PricewaterhouseCoopers organization.

© 2002 PricewaterhouseCoopers. All rights reserved.