

PROSPECTS FOR  
A FEATURE FILM INDUSTRY IN BRITISH COLUMBIA

By

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ABSTRACT

The purpose of this thesis is to assess the potential of establishing a viable indigenous feature film industry in British Columbia. An understanding of the B.C. situation was gained by researching and illustrating the organization of the various parts: production, distribution, and exhibition. This was undertaken by reading various industry publications on the "business" of film making and reading newspaper and trade journal articles. Information about the history of public policy as well as current federal and provincial programs for feature film making was taken from task force reports, Canadian Film Corporation reports, and Telefilm Canada annual reports. Statistics on the industry were gained from Statistics Canada, Telefilm Canada, the Canadian Film and Video Certification Office, and provincial agencies, in particular, B.C. Film annual reports. Personal interviews based on a questionnaire were held with eighteen British Columbia producers who were initiating feature film projects in 1988.

Canadian producers are dependent on access to federal and provincial sources of financing for as much as 62 per cent of their financing. The balance is provided by broadcasters, private investors, and deferral agreements, or through co-productions with other countries. Because of Hollywood's control of Canada's exhibition market, only 3-5

per cent of screen time is accorded to Canadian feature films. Because of our small domestic market, Canadian producers must rely on international sales to break even. Moreover, feature filmmaking in Canada, like in most other countries, is characterized by great risk and little chance of profitability. The Canadian government is now supporting a nucleus of Canadian-owned distributors with subsidies to help them establish both a capital base and contacts in the international marketplace. Domestic television production has also been a factor in Canada's feature film development. Writers, directors, producers, and technicians have gained experience by being able to work in the broadcast medium. Successful production companies produce a mixture of both television and feature films. As well, these companies have established relationships with companies in other countries, thereby providing them with an expanded market and opportunities for co-productions.

B.C.'s feature film sector is comprised of small production companies with limited revenues who produce feature films on a project-by-project basis through the opportunities provided by B.C. Film and Telefilm. Few have enough capital to plan and manage substantial feature film or television production. Increases in B.C. production are

a direct result of success in getting this support. However, Telefilm's funding to the province's filmmakers is unreliable, evidenced by the production of eleven films in 1988 and only one in 1990. A major drawback for B.C. producers is the geographic distance from head offices of existing Canadian broadcasting networks and major feature film distribution companies in Eastern Canada. However, B.C. producers have access to a strong local base of crews, studio facilities, and substantial post production, facilitated by the breadth of American location shooting and commercial production being done in our province.

The need is to establish a new, realistic level of operation for the feature film industry in B.C. and to provide the support to sustain it for 5-7 years in order to it to become viable. Given the above conditions, the three main factors in achieving a viable feature film industry in B.C. will be:

- a) the development of several medium-size companies;
- b) the provision of adequate funds from federal and provincial sources; and,
- c) the promotion of the supply of good quality scripts.

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PROSPECTS FOR A FEATURE FILM INDUSTRY  
IN BRITISH COLUMBIA

CHAPTER ONE

INTRODUCTION

There is only sporadic mention in our magazines, newspapers, and other media of Canadian films opening in theaters, and never any mention of films originating from British Columbia filmmakers. In British Columbia, much attention is given to the presence of American production companies using the province as a location for their film and television productions. Set against this have been numerous government efforts to nurture a feature film industry in Canada. Born out of a long-time curiosity about these anomalies and encouraged by such recent critical successes as The Decline of the American Empire and A Winter Tan, this thesis examines British Columbia's indigenous feature film industry: its problems and prospects.

PURPOSE

The purpose of this thesis is to assess the potential of establishing a viable indigenous feature film industry in British Columbia. The focus is limited to private sector production of feature length films (i.e., 75 minutes or longer and intended for theatrical release), and proceeds upon the following objectives:

1. To identify the factors that are central to the development of a viable and indigenous feature film industry;

2. To examine the extent to which these factors are currently present in British Columbia; and,

3. To determine the policy response of the province toward developing an indigenous industry in British Columbia.

An indigenous film industry in British Columbia indicates that the major share of the production process is located in the province. Therefore, an indigenous industry requires a nucleus of producers who, through ongoing production companies, can initiate, manage, and complete the production process. Moreover, they must be able to find the necessary financing to carry out production and arrange effective distribution and sales. These producers, in turn, create opportunities for directors, writers, and other creative personnel.

#### FEATURE FILMMAKING IN BRITISH COLUMBIA

##### Foreign Production in British Columbia

Up until the last few years, British Columbia has been used by American companies primarily as a location for feature filmmaking and television series (Audely, 1986; Testar, 1985). The British Columbia Film Promotion Office has been successful in attracting increasing numbers of American and foreign productions to the province. For example, over \$150 million was spent on production in British Columbia in 1987 by foreign producers. Ninety-five percent of this production originated in the United

States (Cox, 1987). Included among the obvious reasons for this are the currency exchange rate, attractive locations, adequate studio facilities, and lower wage scales.

Foreign production in B.C. has been an important factor in the growth of experienced technical crews, studio facilities and a substantial amount of post production servicing being done in the province (Audely, 1986). According to a provincial Department of Communications survey, 2,550 individuals were directly involved in the production industry in B.C.; however, local talent in the American productions is still relegated to subsidiary roles, while key creative personnel, such as leading actors, directors, writers, cinematographers, and editors, are imported for the high visibility, high paying jobs (Brunet, 1986).

Nevertheless, there is concern over the dependence of B.C. on foreign production. The volume of such production carried out in B.C. may vary substantially over time depending largely on factors beyond provincial control. For example, changes in American government policy, changes in the currency exchange rate, or changes in federal tax policy within Canada can all affect the degree of attractiveness of the province as a production location. Constant fluctuation in the level of U.S. productions including the current drop in overall U.S. film production<sup>1</sup> and competition from the United States in attracting studio-based production make B.C.'s current level vulnerable. There are presently 44 states and 60 cities in the U.S. with film promotion offices (Cawdery, 1986).

1. Christopher Harris and David Sherman, "Not a Bad Wrap to the Decade," Playback, January 22, 1990, p. 3.

## Indigenous Feature Filmmaking

Prior to 1987, there were only a handful of feature length films produced in the province. In the early eighties, three very low budget (under \$200 thousand dollars) feature films were produced using a combination of personal investment and federal funding (Bruyere, 1986). In 1983, for example, of a total production revenue of \$8.1 million (up from \$3.0 million five years earlier) 80 percent of it was earned from the production of television commercials, educational, and corporate films. The remainder was made up from television dramas and documentaries. In 1983, B.C.-based companies represented 5.4 percent of the revenues of the Canadian industry.

## SIGNIFICANCE OF THE THESIS

Industry trends and government initiatives are providing opportunities for the industry in British Columbia. The feature film sector is part of a complex of film and television-related activity that includes not only theatrical exhibition, but now the growing ancillary markets of home video and pay television. Eighty percent of a feature film's revenue is generated from these three markets (Testar, 1985). Pay-television expanded in the early 1980's at a rate of 50 per cent per year, and the market for home video at 25 per cent per year. Of this, 16% of revenues are expected to come from home video distribution, and

evidence indicates that this figure will continue to grow for several years as the number of home VCR sales in Canada continues to increase annually (Cawdery, 1986).

As articulated in many royal commission reports, the Canadian government has long recognized the importance of film as a cultural resource and vehicle for artistic expression. In addition to entertainment and relaxation, it is a means of communicating to vast audiences (Moore, 1986). In the U.S., 99% of the films viewed in the theaters are domestic films, while 97% of the films viewed in Canadian theatres are made outside of the country. In comparison, Australian domestically produced films take up 20% of total screen time while in Britain and France the figures are 20% and 49% respectively. Robert Fulford remarked: "it would seem that a given population should from time to time be able to see itself on the screen. That just seems fundamental and not even for nationalistic purposes, but because of questions of identity" (Fulford, 1982). Television has further expanded the influence of American mass entertainment. The substantial part of English language Canadian television programming, a considerable part of which is filled by feature films, is almost entirely American in content (Masse, 1986).

Domestic feature film production in all countries, except the United States, depends on a support structure of financial assistance from public sources. This is especially true in Canada because of a small domestic market in proximity to the U.S. To further these ends, the institutions of the National Film Board (NFB), the Canadian Broadcasting Corporation (CBC), and Telefilm



Canada are mandated by parliament to define, enhance, and support Canadian identity and cultural expression. Ever since the National Film Board was established in 1939, the federal government has provided assistance in support of the industry. Through the Canadian Film Development Corporation (renamed Telefilm Canada in 1984) and the Canada Council's film programs, the government has provided for an artistic, technical, and economic climate in which its creative talents could be translated onto the screen. Further to this, since 1986, changes to the 1968 Broadcasting Act gave the Canadian Radio-television and Telecommunication Commission (CRTC) the authority to enact more stringent regulatory policies for Canadian content in the broadcasting system. Since 1983, the Canadian Broadcasting Corporation (CBC) has represented an important market for independently-produced Canadian programs.

#### Federal Initiatives

The federal government, through Telefilm Canada, invests \$95 million annually for the development of film production through three funds: the \$35 million dollar broadcast fund created in 1983, (raised to \$60 million in 1988); the \$35 million dollar feature film fund created in 1986; and, the \$17 million dollar distribution fund created in 1988.

The CBC had set a goal of obtaining 50% of its programming from independent producers, and, as stated in the recent broadcasting policy of 1988, the CBC has been mandated to achieve 95% Canadian content by 1990<sup>2</sup>.

A 1987 agreement between the NFB and Telefilm Canada was struck to aid feature film production in the regions outside of Montreal and Quebec. These funding bodies would make available \$5 million annually for twelve feature film co-productions with independent producers.

#### Provincial Initiatives

Quebec, Ontario, Alberta, Manitoba, British Columbia, and Saskatchewan all have programs to support film production. All programs make it a condition of funding that the majority of the production budget is to be spent in the province so that the majority of economic benefits that flow from production activity accrue to the province involved.

In September 1987, the B.C. government established B.C. Film, an agency that invested \$10.5 million from lottery proceeds over three years. The fund is intended to strengthen the indigenous industry and to complement the success the industry has had in attracting foreign production into the province. B.C. Film also provides funds to B.C.-based companies and individuals for script development, production, pre-production, promotion, and distribution.

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2. Kathryn Young, "Fulfillment of 95% Dream Growing Closer," Playback, March 6, 1989, p. 19.

## METHODOLOGY

An understanding of the B.C. situation was gained by researching how the film industry functions and the inter-relationships and organization of the various parts: production, distribution, and exhibition. This was undertaken by reading various industry publications on the "business" of film making and reading newspaper and trade journal articles, in particular, the Canadian magazines of Cinema Canada and PlayBack. Information about the history of public policy as well as current federal and provincial programs for feature film making was taken from task force reports, Canadian Film Corporation Annual Reports, Telefilm Canada annual reports, essays and criticism from the Journal of Canadian studies, one of the few sources for articles on government film policy. Statistics on the industry were gained from Statistics Canada, Telefilm Canada, the Canadian Film and Video Certification Office, and provincial agencies, in particular, B.C. Film Annual reports. Personal interviews based on a questionnaire (appendix one) were held with eighteen British Columbia producers who were initiating feature film projects in 1988. Identification of the production companies was facilitated by discussions with the current director of the B.C. Film Fund, as well as a government official in the Ministry of Tourism, Recreation and Culture. Several open-ended interviews and phone conversations were held with the various industry associations.

## PROBLEMS IN DATA COLLECTION

There is a considerable amount of specialized history of Canadian filmmakers and cultural and historical accounts of the National Film Board and the CBC. Furthermore, most analysis of the Canadian film industry concerns the role of government. Research and publications about the marketing and distribution of films are few, even in the United States. Rarer are studies dealing with the 'business' of independent filmmaking in Canada.

## OVERVIEW

Chapter two provides an understanding of how the industry functions as whole, including the three principal sectors of the industry: production, distribution, and exhibition. Included are the ancillary markets of conventional television, pay-television, and home video.

Chapter three outlines the current policy directions of the federal and provincial government.

Chapter four presents a profile of B.C. producers who have initiated feature films, in addition to an analysis of the scale, level of activity, staffing and sources of financing of these companies. The methodology (a field survey) and its subsequent limitations will also be addressed in this chapter.

Conclusions about the feature film industry in B.C. are suggested in the final chapter (and recommendations are made with respect to present provincial and federal programs).

## THE MECHANICS OF A FEATURE FILM INDUSTRY

### CHAPTER TWO

#### INTRODUCTION

Feature filmmaking is a collaborative process. One or more producers must bring together the many artistic (e.g. writing, directing, and acting) and technical skills required, as well as the necessary financing, to complete a feature film. Similarly, as an industrial process, feature filmmaking is also collaborative. In other words, there must be a working relationship among the three major sectors: production, distribution, and exhibition. Producers must find and establish effective distribution and exhibition in both Canadian and foreign markets. Without such relationships, a film may be made but not seen.

Since it is important to understand the inter-relationships between the three sectors, this chapter provides an overview of the complex process of production distribution, and exhibition. This includes the process and mechanics of each stage, the foreign and domestic markets for feature film, and the location of the production and distribution sectors in Canada. Since the American industry is well known and better documented than Canadian feature filmmaking, the mechanics of the industry was gleaned from American publications. Additionally, since foreign control of distribution and theatrical exhibition limits Canada's

revenue capacity, a brief history and impact of major Hollywood production, the "hollywood effect", is provided. Finally, methods of financing Canadian feature films in a limited market are discussed.

## PRODUCTION

During the film-making process, which takes approximately 12 to 24 months from the start of the development phase to theatrical release, a feature film progresses through four principal stages: (1) development, (2) pre-production, (3) principal photography, and (4) post production.

### 1. Development

In the development stage, underlying literary material is acquired, either outright, through an option, or by engaging a writer to create a script. In Canada, scriptwriters may approach a producer to develop their project or, frequently, the producer performs the functions of writing, producing, and directing. The script must be sufficiently detailed to provide the production company and others participating in the financing of the film with enough information to estimate the cost of producing it. In

Canada, production budgets can range from under \$200 thousand to an average of \$3 million.<sup>1</sup> The producer uses this package to obtain commitments for production financing which can come from a combination of investors, distributors, broadcasters such as networks and pay-television services or government agencies.

The conventional wisdom of the American film industry (and the pattern is similar in Canada) is that one in ten potential properties acquired by producers are put into serious development; of these, one in ten will be produced (O'brian, 1987). In the United States, agents are frequently used by a producer to package the financing and marketing campaign and make sales once the project is completed.

## 2. Pre-production

During pre-production, the producer completes the necessary financing, distribution and business arrangements. The selection of the director, production manager, actors, actresses, and technical personnel is begun. Preproduction is complete when commitments for production financing are locked in place and a budget is prepared.

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1. Occasionally, production budgets have been higher. Notable examples are David Cronenburg's Dead Ringers with a budget of \$14.2 million and Bethune: The Making of a Hero, a co-production between Canada, France, and China, with a budget of \$20 million. Playback, August 20, 1990, p. 1; Telefilm Canada Annual Report, 1987-1988, p. 61.

### 3. Principal photography

The production financing is the money used to complete principal photography and post production. Principal photography, the actual filming of the film, is the most costly and requires intensive labour use and cash flow. It involves the technicians hired from various unions, the cast, the lease of outside locations or studio facilities, and the purchase or rental of all the supplies and materials that will be required.

### 4. Post production

During the post production stage, the editing, scoring and mixing of dialogue, music, and sound effects tracks of a feature film take place and master prints are prepared. These activities require technically sophisticated editing and sound and effects laboratories.

### Canadian Production Companies

According to Statistics Canada<sup>2</sup> there were 519 production and 152 laboratories and post-production service companies operating in Canada in 1987-1988. The production sector is almost completely Canadian-owned and is

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2. Government of Canada, "Statistics on the Film Industry," Statistics Canada Cat. 87-204, Table 1 and Table 8, Annual, 1987-88.



concentrated in Ontario (277 firms) with 63 per cent of total production revenue, Quebec (116 firms) with 25 per cent of total production revenue, and to a lesser degree, British Columbia (63 firms) with 7 per cent of total production revenue (Table 1).

Production companies primarily produce television commercials, television dramas, documentaries, educational programs, government sponsored programs, industrial (corporate) programs, and feature length films. They receive revenue for their productions from distributors, conventional television broadcasters, pay-television services, advertising agencies, educational institutions, government agencies, corporations, and other production companies in both domestic and foreign markets.<sup>3</sup>

In 1987 - 1988, Canadian production companies earned 30 per cent of the \$379 million total production revenue in the production of commercials for advertising agencies. Television broadcasters were the second largest customer at \$91 million in sales, while distributors, the primary buyers

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3. Revenue is received from other production companies by providing post production services, camera work, editing, and other contract work.

TABLE 1

**PROVINCIAL DISTRIBUTION OF CANADIAN PRODUCTION COMPANIES  
1987-1988**

(\$000)

PROVINCE	NUMBER OF FIRMS	PAID EMPLOYEES		TOTAL REVENUE \$,000
		FULL TIME	PART TIME	
Atlantic Region	21	78	14	4,650
Quebec	116	634	353	94,189
Ontario	277	1,443	560	229,383
Manitoba	10	35	5	2,395
Saskatchewan	10	16	8	1,313
Alberta	22	101	9	10,112
British Columbia, Northwest Territories and Yukon	63	279	54	26,700
TOTAL	519	2,586	1,003	378,742

of feature films and television programs, generated \$36 million in revenue (Table 2).<sup>4</sup> A high degree of specialization exists within the industry in B.C. and Canada as most companies limit their activity to one or two categories of production (i.e., television programs, television commercials, corporate videos etc.). For example, in 1987-1988, 23 of the 63 production companies earned 32 per cent of their revenue from advertising agencies, whereas only one quarter of the firms reported production revenue from two or more different types of production activities (Table 2).

An additional \$19 million in Canada was earned directly by producers in export revenues, (Table 3)<sup>5</sup> down from \$30 million the previous year.<sup>6</sup> Foreign distributors primarily buy feature films and television programs and revenue to producers from these categories was \$3.3 million. Additional buyers of feature films are pay-television services (\$188 thousand) and to some degree, conventional television (\$1.2 million). However, it is not possible to ascertain how much

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4. Government of Canada, "Statistics on the Film Industry," Statistics Canada Cat. 87-204, Table 3, 1987-1988.

5. Ibid., Table 4.

6. Government of Canada, "Statistics on the Film Industry," Statistics Canada Cat. 87-204, Table 4, Annuals 1986-1987 and 1987-1988.

TABLE 2

Total Production Revenue, by Class of Customer and by Province of the Production Company 1987-1988

Province or Region	Distributors		Free Television		Pay/Cable Television		Advertising Agencies		Educational Institutions		Government	
	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)
Atlantic-Atlantique	5	\$13	4	\$175	1	x	9	\$599	4	\$251	12	\$1,327
Quebec - Quebec	33	\$17,538	50	\$37,955	9	\$849	21	\$16,741	16	\$226	39	\$5,327
Ontario	56	\$17,047	79	\$44,468	20	\$5,529	74	\$85,653	41	\$2,196	58	\$8,611
Manitoba	1	\$7	1	x	--	--	6	\$643	4	\$32	5	\$241
Saskatchewan	--	--	1	x	--	--	3	\$347	4	\$20	7	\$266
Alberta	4	\$468	3	\$297	4	\$119	4	\$1,531	7	\$879	12	\$2,087
British Columbia, Yukon & Northwest Territories Columbia Britannique, Yukon et Territories Nord-Ouest	7	\$721	14	\$1,228	3	\$253	23	\$8,587	12	\$642	26	\$2,341
Canada	106	\$35,795	152	\$84,138	37	\$6,760	140	\$114,101	88	\$4,245	159	\$20,200

Province or Region	Industry		Other Production Company		Other		Unspecified		Total All Customers	
	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)	Number of firms	Revenue (\$'000)
Atlantic-Atlantique	13	\$1,471	3	\$77	4	\$621	1	x	21	\$4,650
Quebec - Quebec	42	\$9,723	22	\$2,127	9	\$1,216	2	x	116	\$94,189
Ontario	112	\$46,400	53	\$14,481	42	\$8,845	6	\$6,153	277	\$239,383
Manitoba	4	\$410	2	x	2	x	--	--	10	\$2,395
Saskatchewan	6	\$611	2	x	3	\$64	--	--	10	\$1,313
Alberta	13	\$3,139	5	\$194	9	\$1,347	1	x	22	\$10,112
British Columbia, Yukon & Northwest Territories Columbia Britannique, Yukon et Territories Nord-Ouest	30	\$3,854	13	\$8,423	9	\$345	2	\$305	63	\$26,700
Canada	220	\$65,608	100	\$25,346	77	\$13,446	12	\$9,102	519	\$378,742

TABLE 3

## EXPORT SALES, BY CLASS OF CUSTOMER AND PROVINCE OF THE PRODUCTION COMPANY: 1987-88

## CLASS OF CUSTOMER

Province	Distributors		Free Television		Pay/Cable Television		Advertising Institutions		Educational Institutions	
	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)
Quebec	7	\$871	9	859	--	--	--	--	2	x
Ontario	18	\$3,304	11	1,234	4	x	7	x	5	x
Other	2	x 1	5	65	2	x	1	x	--	--
Canada	27	\$4,278	25	2,158	6	188	8	7,019	7	15

## CLASS OF CUSTOMER

Province	Government		Industry		Other Production Company		Other		Total Export Revenue	
	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)	No. of Firms	Revenue '(\$000)
Quebec	--	--	--	--	1	x	--	--	16	2,001
Ontario	1	x	4	1,429	4	4,024	1	x	43	17,035
Other	1	x	--	--	3	x	1	x	10	439
Canada	2	14	4	1,429	8	4,338	2	x	69	19,495

1 For reasons of confidentiality, other province production revenue from foreign distributors has been included with Ontario.

of this revenue was received by companies specifically for feature film production. Of the 27 companies involved in this activity, virtually all were located in Quebec (7 firms) and Ontario (18 firms).

Data in Table 4<sup>7</sup> is presented to indicate the increase in total production revenues in B.C. between 1979 and 1983. However, this breakdown of production categories and data regarding revenue is used only as a general guide.<sup>8</sup> Production revenues in B.C. increased to \$8.1 million in 1983, up from \$3.0 million in 1979. Revenue from feature films was very insignificant compared to Ontario and Quebec, declining to \$15 thousand dollars from \$300 thousand in 1980 and increasing again to \$217 thousand in 1983. Approximately 80 per cent, or \$6.4 million of total production revenues, was earned from the production of television commercials, industrial, and educational films by B.C. producers in 1983.

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7. Government of Canada, "Culture Statistics," Statistics Canada Cat. 87-620, 1977-1979.

8. In these years, Statistics Canada data broke down revenues based on only four categories: feature films and shorts, television programs, television commercials, and industrial and educational programs. Respondents include only on-going production companies. However, the usual pattern for the production of feature films or television series is to incorporate a separate company through which to finance the production or productions involved. Thus, the data from Table Four does not reflect the production budgets (value) of these productions. Information concerning such productions will be examined in Chapter Three when information regarding government programs is looked at.

TABLE 4

**REVENUE FROM THE SALE OF PRODUCTIONS BY TYPE OF PRODUCTION AND REGION OF PRODUCTION COMPANY  
1979-83 (1)**

(\$000)

<u>Region and Type of Revenue</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>Percentage Change 1979-1983</u>
<u>British Columbia (2)</u>						
Theatrical Features	300	15	102	120	217	
Television Programs	240	166	209	1,150	1,516	
Television Commercials	1,740	1,747	2,075	2,755	3,706	
Industrial & Educational	672	743	906	4,180	2,659	
	2,952	2,671	3,292	8,205	8,098	174%
<u>Quebec</u>						
Theatrical Features	3,214	4,429	12,086	14,341	3,943	
Television Programs	7,014	11,971	11,259	5,666	13,089	
Television Commercials	9,350	13,599	16,256	14,250	17,685	
Industrial & Educational	2,014	3,340	3,307	6,107	5,612	
	21,592	33,339	42,908	40,364	40,329	87%
<u>Ontario</u>						
Theatrical Features	1,451	1,168	2,801	6,047	1,555	
Television Programs	17,657	19,466	18,781	28,360	24,653	
Television Commercials	27,626	227,813	31,389	34,374	37,666	
Industrial & Educational	9,393	9,663	12,659	25,331	29,375	
	56,127	58,110	65,630	94,112	93,249	66%
<u>Other Provinces</u>						
Theatrical Features	44	188	46	318	322	
Television Programs	176	946	762	1,088	1,518	
Television Commercials	701	1,147	1,352	1,500	1,791	
Industrial & Educational	10,717	12,210	15,648	7,249	3,508	
	11,638	14,491	17,808	10,155	7,139	-3%
<u>TOTAL: All Provinces</u>						
Theatrical Features	5,009	5,800	15,035	20,826	6,037	
Television Programs	25,087	32,549	31,011	36,264	40,776	
Television Commercials	39,417	44,306	51,072	52,879	60,848	
Industrial & Educational	22,796	25,956	32,520	42,867	41,154	
	92,309	108,611	129,638	152,836	148,815	61%

(1) Excludes revenue from the rental of production facilities and freelance work for other companies.

(2) Includes a small amount of revenue from Yukon and N.W.T. production companies.

Source: Statistics Canada, Education, Culture and Tourism Division

Statistics Canada data was again revamped in 1985-1986<sup>9</sup> and was broken down into eight categories. A ninth category (pay/cable-television) was added in 1987 (Table 5). Table 5 indicates that total production revenue for British Columbia increased to \$27 million dollars in 1988 from \$2.0 million in 1979. Of total production revenues, 32 percent or \$8.5 million, was received from the production of television commercials and 25 percent or \$6.8 million was received from educational, government, and industrial programs.

There were 34 feature films produced by 29 production companies in Canada between 1987-1988. This is an increase from 26 feature films a year earlier, and data from Statistics Canada<sup>10</sup> between 1985-1989 show a steady rise in feature film production, about 8 films per year (Table 6).

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9. Data for 1984 were not published that year.

10. Government of Canada, "Statistics on the Film Industry," Statistics Canada Reports for the years 1986-1989.



**TOTAL PRODUCTION REVENUE BY CLASS OF CUSTOMER AND  
BY PROVINCE OF PRODUCTION COMPANY 1985 - 1988**  
Revenue (\$000)

Province and Class of Customer	1985-1986	1986-1987	1987-1988
<b><u>British Columbia</u></b>			
Distributors	610	1,045	721
Television Programs	1,614	2,695	1,228
Pay/Cable Television	—	3,563	253
Advertising Agencies	6,397	8,321	8,587
Educations Institutions	465	311	642
Government Programs	2,342	3,072	2,341
Industrial Programs	4,924	3,867	3,854
Other Productions Co's	9,927	9,432	8,423
Other (Unspecified)	759	5,592	650
<b>TOTAL</b>	<b>27,039</b>	<b>38,638</b>	<b>26,700</b>
<b><u>Ontario</u></b>			
Distributors	13,006	13,670	17,047
Television Programs	50,490	50,845	44,468
Pay/Cable Television	—	3,340	5,529
Advertising Agencies	72,926	67,656	16,741
Educations Institutions	2,367	2,682	226
Government Programs	7,118	11,245	5,327
Industrial Programs	41,695	41,761	46,400
Other Productions Co's	15,122	9,475	14,481
Other (Unspecified)	12,734	18,801	14,998
<b>TOTAL</b>	<b>215,457</b>	<b>219,474</b>	<b>239,383</b>
<b><u>Quebec</u></b>			
Distributors	2,492	14,301	17,538
Television Programs	22,232	24,184	37,955
Pay/Cable Television	—	3,012	849
Advertising Agencies	16,959	14,591	16,741
Educations Institutions	1,720	325	226
Government Programs	6,835	8,669	5,327
Industrial Programs	4,871	9,509	9,723
Other Productions Co's	732	2,813	271
Other (Unspecified)	1,122	—	2,032
<b>TOTAL</b>	<b>66,112</b>	<b>77,658</b>	<b>94,189</b>
<b><u>Other Provinces</u></b>			
Distributors	129	399	488
Television Programs	939	497	472
Pay/Cable Television	—	—	119
Advertising Agencies	1,867	2,553	3,120
Educations Institutions	627	147	1,182
Government Programs	2,142	2,336	3,921
Industrial Programs	3,856	2,748	5,631
Other Productions Co's	732	2,723	271
Other (Unspecified)	1,122	—	2,032
<b>TOTAL</b>	<b>11,414</b>	<b>11,403</b>	<b>18,470</b>
	<b>320,022</b>	<b>349,212</b>	<b>378,742</b>

Of these 34 feature films, 12 were produced in Ontario, 13 were produced in Quebec, and one feature film was produced in British Columbia.<sup>11</sup>

TABLE 6

## NUMBER OF FEATURE FILMS PRODUCED IN CANADA BETWEEN 1983-1989

1983-1984	27
1984-1985	22
1985-1986	22
1986-1987	26
1987-1988	34
1988-1989*	46

\* Highlights for 1988-1989 were available from Ottawa only. There were no further breakdowns.

DISTRIBUTION

A distributor of feature films purchases rights from the producer to distribute a film in specified markets within defined territories<sup>12</sup> for a specified term. The rights purchased can include any, all, or part of the markets of theatrical exhibition (motion picture theatres), pay-television, home video, and conventional television (network and affiliate or independent stations). The term can range from six months to twenty-five years but is normally seven to fifteen years. International sales occur

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11. Government of Canada, "Statistics on the Film Industry," Statistics Canada, Cat. 87-204, Table 5, Annual, 1987-1988.

12. Examples of territories are: World, North America, Canada, Quebec, Canada excluding Quebec, English Canada, United States, any other country, or combination of the above.

where the distributor has acquired rights to territories outside Canada. These rights are sold off territory by territory and sales can occur at any time. As late as 1972, theatres still accounted for 70% of distributor revenues, but now optimum results from the distribution of any film is achieved through orderly exploitation in the theatrical and ancillary markets, usually in the following order<sup>13</sup>:

1. Theatrical
2. Video
3. Pay-television
4. Broadcast network television
5. Syndicated (station-by-station sales) television

It is difficult to estimate the proportion of revenues gained from each market; however, a 1984 study from the Film Canada Center offered the guide: theatrical 40% - 75%, video 20%, pay-television 25% - 30%, conventional television 10%. The timing of the revenues from these sources varies from film to film and revenues are spread over several years. The following broad sketch from a 1989 document from Mariah Film Investments<sup>14</sup> is an overview of when revenue can be expected to be received from these markets. Typically, approximately 90 percent of theatrical receipts from United States and Canadian distribution are received in the first twelve months after the film is first exhibited, with the remaining 10 percent in the second twelve months.

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13. Connie Ede, Producer's Workbook, (Vancouver: Women in Film Society, 1989), p. 67.

14. Mariah Film Investments, Producer's Workbook, (Vancouver: Women in Film Society, 1989), p. 71.

(Theatrical receipts from the rest of the world are typically received 40 percent in the first year following initial theatrical release, 50 percent in the second year and 10 percent in the third year.) Home video royalties are received 80 percent in the first year following theatrical release and 20 percent in later years. Pay and cable license fees are typically received in the second and third years following theatrical release.

If the distributor is selling to a theatrical exhibitor then she must secure the play-dates for the film in a given market, acquire the necessary number of prints of the film, and invest in advertising (print, radio, and television) to generate audience demand. These expenses, the distribution fee, are usually charged against the producer and, typically, the fee can be approximately 25 to 45 percent of revenues generated at the box office after deducting the exhibitors' expenses and profit (if any). The amount distributors spend on prints and advertising vary, and is left to the discretion of the distributor. However, expenses incurred in distributing feature films can be substantial and depend on many factors. These factors include the initial response by the public, the nature of its advertising campaign, and the pattern of its release (e.g. the number of theaters booked and the length of time that a motion picture is in release). For a major feature film produced and distributed by the studios, distribution expenses can range from \$4 - \$15 million. For a typical

feature film launch of a Canadian film in Canada, expenses can be between \$20,000 and \$100,000. These expenses include television and radio advertising, newspaper advertising, and costs in making posters.

Distributors acquire feature films at any point in the production process, but Canadian films are usually acquired by Canadian distributors before production has commenced. Called "pre-sales", the distributors advance money or invest in the film. Distributors invest to 1) guarantee a flow of product; 2) secure an equity position that guarantee returns from all markets; 3) earn a distribution rights fee, and to 4) produce films. This financial commitment, in turn, attracts government and private sources of financing. The distributor typically agrees to make a minimum payment against distribution proceeds, payable in stages throughout production, upon completion of the film and, sometimes, payments are made to the producer over a period of time. In addition to Canadian distributors, the producers may enter into joint ventures and seek financing from other sources such as foreign distributors and pay-television services. These joint ventures guarantee distribution to a wider market, spread risk, and assure market entry.

The distribution deals made by film producers and distributors are varied and in the case of the large American distributors "largely depend on the question of who exercises more power over whom".<sup>15</sup> In general, there are five types of distribution deals:

1. Flat Sale

A producer sells the rights to the feature film for a given sum in a given market. There is no risk because a producer obtains the money upfront but they do not share in any profits.

2. Profit Deal

This is the basic method used by the American majors when they acquire independently produced films for distribution in the United States and other markets. They pay for the negative cost of the film but deduct all launch costs from the rental revenues and charge a fee which ranges anywhere between 25 - 45 percent of the film's rental and the original advance to the producer.

3. Gross Deal

The distributor pays an advance to the producer, the receipts are shared between the distributor and the

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15. Manjunath Pendakur, "Economic Relations Between Selected Canadian Producers and American Major Distributors: Implications for Canada's National Film Policy," Canadian Journal of Communications, (Spring 1985): p. 173.

producer from first dollar (from all sources) with no deductions other than the producer's advance, and the distributor absorbs the launch costs.

#### 4. Straight Royalties Split

The producer receives no advance, but both parties split risk and profits.

#### 5. Non-Cross-collateralization

A producer may obtain all the necessary financing needed from a distributor and in turn sell only certain rights to market the film to that company. For example, the producer may sell home video or pay-television rights, separately, to a different company, therefore preventing the distributor from recouping losses from theatrical release with income from any of the other rights sold.

To reduce risk, the major American distributors usually insist on all the rights to certain territories so they can recoup some of their costs from television, home video, and pay-television. This advance is "cross-collateralized" by the distributor. That is, if money advanced to the producer and costs of distribution are unrecouped after theatrical exhibition, then the distributor retains the producer's share of the revenues gained from other rights such as home video. Independent Canadian distributors give small advance guarantees and a smaller financial commitment towards prints and advertising of the theatrical release.

Many producers and distributors attend a combination of the annual film and video markets. Held at the same time each year, these markets are used not only to buy rights to television programs and feature films, but serve as an important venue to obtain production financing. The nine major markets are: the Monte Carlo market (television and cable), the Berlin Film Festival (theatrical), the American Film Market in Los Angeles (theatrical and television), MIP-TV in Cannes, France (television and cable), Cannes Film Festival (theatrical and video), MIPCOM (television), and MIFED in Milan, Italy (theatrical and video), the Banff Television Festival (television) and NAPTE in New Orleans (television).

#### Canadian Distribution Companies

The Canadian distribution sector has become complicated because there is no longer a single set of distributors negotiating with theatre exhibitors for the rights to feature films. Television has spawned made-for-television productions which frequently involves direct contracting between producers and networks while the advent of pay television and home video has created opportunities for new entrants. As a result, an understanding of the structure of the distribution and exhibition sectors involves an understanding of several entertainment industries which differ in organization.



The year 1986-1987 was the first year that Statistics Canada specified the five principal markets that distributors served and it was the first year that video wholesalers were included.<sup>16</sup> These five markets are feature film, conventional television, pay-television, home video, and the non theatrical market.<sup>17</sup> Statistics Canada reported that there were 180 distributors of film and videos operating in Canada in 1987-1988. Of these, 157 were Canadian-controlled and 23 were subsidiaries of U.S. production-distribution firms.<sup>18</sup> In addition, the principal activity of 47 of these 180 firms was video wholesaling. Distribution companies are concentrated in Ontario (101 firms) and Quebec (58 firms). In B.C., there are no theatrical distributors. The 13 distributors located in B.C. primarily serve the educational and television markets.

In 1987-1988, 833 feature films were distributed to the theatrical exhibition market in Canada. Of these, 43 Canadian firms distributed 669<sup>19</sup> feature films (264 English-language, 257 French-language, 148 foreign subtitled films)

16. Previous to 1987, Statistics Canada grouped all film and video distributors together without regard to the market in which they served.

17. The non-theatrical market includes showings at schools, universities, institutions such as prisons or hospitals, and commercial airplanes.

18. Government of Canada, "Statistics on The Film Industry," Statistics Canada Cat. 87-204, Table 13, Annual, 1987-1988.

19. These include new and re-issued titles. A title may be counted more than once if it is distributed by more than one distributor. It can also be counted twice if it is released in two languages.

while 10 foreign-owned companies distributed 164 feature films (142 English-language and 22 French-language films).<sup>20</sup>

Of total distribution revenues of \$622 million received from the five markets, \$149 million were received from theatrical exhibition in Canada. In this market, Canadian distributors accounted for only \$21 million or 14 per cent of total exhibition revenues, while the foreign firms accounted for \$128 million or 86 per cent of total revenues in this market.<sup>21</sup> The 23 Canadian companies received \$7.9 million from Canadian feature films.<sup>22</sup> Thus, it is estimated that close to 68 per cent of their films were foreign copyright material. Not only are revenues largely attributable to foreign enterprises, they are also concentrated in relatively few hands. Furthermore, it is obvious that the foreign companies are distributing the more commercial or blockbuster films.

In Canada, while both the American and Canadian sectors distribute foreign-copyright films, independent low-budget American or foreign films are more often acquired by Canadian distributors after production is completed. Major Hollywood and non-Hollywood feature films such as Platoon are almost always distributed in Canada by the major Hollywood distribution companies. These Canadian

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20. Government of Canada. "Statistics on the Film Industry," Statistics Canada Cat. 87-204, Table 22, Annual, 1987-1988.

21. Ibid., Table 12 and Table 17.

22. Ibid., Table 15.

distributors rarely acquire rights to distribute a major American film and find it difficult to buy rights to foreign films because the producers insist on treating Canada as part of the United States market, thereby including the rights to Canada as part of their negotiations. Although Canada is technically a foreign market, the majors treat Canada as part of their domestic market by retaining the distribution rights to their own films.<sup>23</sup> There is an estimated range of between ten to fifteen distributors in Canada capable of playing financial roles in the production and distribution of feature films. The others simply maintain inventories of productions and supply these to clients upon request.

Between 1983-1984, 184 Canadian feature films were distributed in Canada. No data is available as to their actual playing time; however in 1985, of three films given awards as box office hits, only two had box office receipts in excess of one million. In 1984, the number one film grossed only \$850,000 at the box office (Globerman, 1986, p. 94-95). This data has not changed in recent years. Of the major Canadian films released in 1986-1987, the three highest grossing films were David Cronenberg's DEAD RINGERS, which made approximately \$1.2 million in Canada; One Magic

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23. Manjunath Pendakur, "Economic Relations Between Selected Canadian Producers and American Major Distributors: Implications for Canada's National Film Policy," Canadian Journal of Communications, (Spring 1985): p. 167.

Christmas, which grossed \$1.5 million in Canada and \$15 million in the United States; and The Gate, which grossed \$1.85 million in Canada.

The range in playing time can be one week on one theatre screen (grossing only \$1,000) to four weeks initially on 16 theatre screens, dropping to one screen after one week. A B.C.-produced 1987 feature film, The Outside Chance of Maximillian Glick, distributed by Toronto-based Alliance Releasing, grossed \$250,000 from theatrical exhibition in Canada.

#### THEATRICAL EXHIBITION

The exhibitor leases the film from a distributor and sells it to the consumer. A standard agreement between distributor and exhibitor often provides for sharing the print media costs of advertising the film in a specific market; however, local print advertising is paid for by the exhibitor. The "box office gross" are revenues collected at the theatres from ticket sales. The "rental revenues" are the revenues shared with the distributor after the deduction of the exhibitor's operating costs. The distributor's share is either 90 percent of the balance, or an amount equal to a negotiated fixed percentage of the box office revenue, whichever is greater. Depending on the film's performance, the net revenues can be a substantial amount or possibly even a negative amount.

The distributor deducts all the launch costs related to print, publicity, shipping, etc., and it is from the remaining rental revenues that the producer may receive her share of the revenues.

"Generally, the net result of theatrical release will be a gross revenue return of less than 50 percent of the costs of prints and advertising. The remaining unrecouped costs are recovered from ancillary market sales" (Ede, Connie, 1988). Revenue potential in the ancillary markets is increased by theatrical release because exposure to the advertising and publicity results in heightened audience awareness of the film (Ellis, 1987). Where the video license agreement for a film is completed prior to release of the film, the terms of the agreement usually include requirements that the film be exhibited in a minimum number of designated markets and that the film receive a minimum of a certain dollar amount of advertising during the theatrical release. For these reasons, most independent distributors consider the theatrical release to simply be the necessary forerunner to the more lucrative ancillary market release (Phillips, 1982).

Theatrical exhibition is characterized by a very high level of concentration and foreign participation especially in the important urban markets. Two theatre chains, Famous Players and Cineplex-Odeon, dominate theatrical exhibition in Canada. Out of a total of 1,477 screens, Famous players operates 471 screens and Cineplex-Odeon operates 462

screens. Famous Players is 100 percent owned by the U.S. producer-distributor, Paramount Pictures, which is, in turn, a subsidiary of Famous Incorporated (formerly Gulf and Western) and Cineplex Odeon is 49 percent owned by MCA and 29 percent owned by the Bronfman group of Canada.

These screens are concentrated in the lucrative downtown, first-run (new films are open first in this market) theatre markets and in the nine principal urban centers, which account for approximately one-half the Canadian population. Films which appeal to specific limited segments of the marketplace but are felt to be too limited for the major chains are exhibited through a loosely affiliated independent circuit, often called "art houses."

Because of U.S. anti-trust laws<sup>24</sup>, the majors no longer own exhibition chains and exhibitors must now bid<sup>25</sup> for the right to exhibit films. However, in Canada, the majors enjoy a monopoly because bidding does not take place. Instead, exclusionary relationships developed between the majors and Canada's exhibition chains in the 1920's whereby both Famous Players and Cineplex-Odeon developed a policy of non-aggressive competition for films. Each circuit aligns itself

24. In 1948, the United States supreme court decided under the Sherman Act, later called the Paramount Decree, that it was contrary to the public interest for major producer-distributor combines to exercise direct or indirect control over American theatre chains.

25. Bidding is the practise exhibitors in competing geographical areas in the United States use to acquire films or packages of films from major distributors. They offer guarantees of film rental revenues in return for the exclusive right to exhibit the film.

with, and receives 100 percent of the product from specific distributors who block book<sup>26</sup> their films with that exhibitor. For example, Famous Players exhibits all the films from its parent company, Paramount, as well as MGM, Twentieth Century Fox, and Warner Brothers. Cineplex-Odeon exhibits all the films from Pan Canadian and MCA Universal. These two exhibition chains also have distribution divisions and distribute some Canadian films. However, when they commit to theatrical distribution, these organizations are usually interested in all domestic and sometimes foreign rights.

Because of their strong revenue potential, these exhibitors rely on distributors who hold rights to the American blockbusters such as Star Wars. These distributors have spent large amounts on publicity and advertising which, in turn, affects the availability of theatres because exhibitors prefer films which have been highly publicized. These guarantee profits to both exhibitor and distributor, reduce uncertainty of box office potential, and assure them of a dependable supply of popular films. In the period between 1980-86, the six highest grossing films had an average share of total North American theatrical revenues equal to around 30 percent (Motion Picture Association of

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26. Block booking is the practise whereby an exhibitor buys a package of films from a distributor no matter what the market value. This reduces risks by guaranteeing profits to both parties and helps write off any losses incurred by showing the many marginal films.

America, 1986). In effect, the market is divided between "block-buster" films and all others with the former generating the overwhelming majority of box office revenues (Globerman, 1985).

Canadian distributors' access to these major exhibition chains is limited because they obtain available play dates only after the American distributors have booked their productions. Canadian films have traditionally been given only 3 per cent screentime in Canadian theatres (Cinema Canada, January, 1986).

#### ANCILLARY MARKETS

##### Home Video

This market involves five sets of participants: producers, manufacturers (i.e., carriers of the home video label such as Paramount Home Video), duplicators, distributors<sup>27</sup>, and dealers (retailers). Manufacturers receive the distribution rights from the producer and generally contract out the duplication of the film onto cassette, and sell the cassette to the distributor who, in turn, sells to the retailer. The retailer may sell or rent the cassette to the consumer, although sales are limited (Ede, 1989). Gross retail revenues are shared roughly in the following proportions: manufacturers 30 percent (which is

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27. The term "distributor" is used differently than in other sectors of the film industry.



shared with the producer in royalty payments), duplicators 20 percent, distributors 25 percent and retailers 25 percent.

Home video exploitation generally begins six to nine months after the initial theatrical release and approximately six months to one year prior to release on pay or conventional television. Payment to the distributor is generally made by means of a non-refundable advance made against future royalties (a percentage of sales after costs) from video revenue.

The home video market has become the fastest growing market for distributors and producers of feature films. Between 1983 and 1988 distributors' and wholesalers' revenue from home video in the Canadian market rose from \$6 million to \$213 million to become the largest single source of reported revenue for the industry out of a total of \$622 million in sales and rental revenue (Statistics Canada, 1987-88). Highlights from 1988-89 Statistics Canada data state it generated \$341 million out of a total of \$769 million in sales and rental revenue (Statistics Canada Highlights, 1988-89). Since the contents of home video are the same as that of the theatrical market, the home video market is dominated by foreign-copyrighted material. One study estimates that the eleven major foreign manufacturers accounted for between 90 and 95 percent of revenues (Nordicity Group Ltd., July 1985).

In 1987, an average theatrically released film in the U.S. alone could be expected to sell between 75 thousand and 150 thousand video cassette copies, grossing a home video distributor between \$2.3 to \$4.3 million. A blockbuster like Top Gun can easily sell over 300 thousand copies which can result in a \$9.3 million return. Foreign sales for many titles can double these figures (Bruyere, 1985). Some say that it is more accessible than foreign theatrical release and estimate that it can increase revenues tenfold or more (Ellis, 1985). Although the Canadian home video market is very small, they have given Canadian producers small advances of between \$3 thousand to \$10 thousand against royalties (Bruyere, 1985). It is hoped that soon it will be important enough to generate pre-sales and substantial advances.

#### Pay-Television

Although films cannot be shown on pay-television until the completion of video exploitation, or by specific arrangement with the video distributor, sales to this market can be made at any time. Most of the programming on pay-television, including feature films, bypasses the distribution system to some extent because pay-television networks are becoming directly involved in the development of productions. Agreements are made between the pay-television services and the producers to ensure the pay services of getting the kind of programming they want.

## Canadian Pay Television

Canadian pay-television began operating in 1983. There are three English-language services<sup>28</sup>:

1. First Choice Canadian Communications Corporation (First Choice), serving 500,000 subscribers in Eastern Canada;
2. Allarcom Pay Television Limited (APT), serving 200,000 subscribers in Western Canada; and
3. The Family Channel which began operations in 1988.

Generally, for any film which has had a successful theatrical release, it can be expected that some or all of the Canadian pay television services will acquire up to one year's pay television rights. First Choice is often willing to license a film prior to production or theatrical release with a usual license fee of \$ .10 per production dollar. For example, a \$1,000,000 film will be licensed for \$100,000. Where films are acquired after production or release, the license fee is normally a fixed amount per subscriber, with fees being dependent on the number of subscribers at the time the film is shown. A percentage of this license fee is pre-sale financing, where they commit to make a minimum payment against license fees, payable in stages throughout the course of production, or, upon delivery of the completed film. This fixed amount per

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28. There are also the three specialty services: The Sports Network (TSN), CHUM Limited (MuchMusic) and Chinavision Canada Corporation (Chinavision).

subscriber is often dependent on the theatrical success and visibility of the film. Canadian pay-television services acquire highly visible and commercial American films.

#### Canadian Network Television

Feature films represent a very small proportion of the programming of conventional television which is largely represented by the two principal networks in Canada, the Canadian Broadcasting Corporation (CBC) and the Canadian Television Corporation (CTV), their privately owned affiliated stations, and the Global Television Network.

Besides news and current affairs, the content of television programming is comprised of made-for-television movies and mini-series. For acquisition of this type of programming, the majority are completed programs for which they have purchased, but they are beginning to co-produce more frequently with independent producers. Increased exposure of films in the video and pay television markets have contributed to the decreasing numbers of feature films purchased by networks. Until recently, prime time drama at the CBC was comprised of approximately 75 percent American content. The only CBC television series produced in British Columbia was The Beachcombers, which stopped production in 1990 after 17 years.

Licensing of Canadian feature-length films by network television is very limited. A distributor or broadcaster may make a firm contractual commitment that is not in cash

or will not be paid early enough to be available in cash during production. Therefore, pre-sale financing is primarily in the form of license fees from television networks and pay-television outlets. License fees from the CBC or CTV range from \$150,000 to \$250,000 (occasionally as high as \$500,000) for showing in prime time. Acquisition decisions are normally made at the network level in Toronto although regional offices have been involved in a number of projects at the development stage.

#### Canadian Syndicated Television Stations

The Canadian syndication market is still in its early stages of development, but it is possible to make station-by-station sales to network affiliates or independent stations. These sales may be concluded at any time, but the film may not be shown until the expiry of all exclusive windows. One of the largest Canadian groups is Western International Communications which owns Canwest Broadcasting and Global television. Groups of stations such as this have, in the past few years, established development funds. For example, in 1988 Canwest Broadcasting has made \$10 million available over 5 years for the development of television dramas.

#### U.S. Pay-Television

American pay-television has been the most lucrative market for Canadian programs so far. Three of the major pay

networks, Home Box Office (HBO), the Disney Channel, and the USA Network, have been involved in co-productions with Canadian producers and as of 1983, have purchased the pay-television rights for 60 Canadian productions, 22 of which were bought prior to production and 9 that were made specifically for HBO. For example, the Disney Channel has invested in two Canadian initiated co-productions, "Danger Bay" and "The Edison Twins". They have continued to partially finance these series with Telefilm Canada and the CBC for the past few seasons. American pay-television channels and the Public Broadcasting System (PBS) also make presale license or equity investment commitments in Canadian programs (Patterson, 1987).

#### U.S. Network Broadcast Television

The U.S. television industry currently spends over \$6 billion a year on programming and is the largest television market in the world with 240 million domestic viewers compared to Canada's twenty million viewers (Playback, July 9, 1988). It consists of the four major broadcast networks, the American Broadcasting Corporation (ABC), the National Broadcasting Corporation (NBC), the Columbia Broadcasting System (CBS), and Fox TV, a division of 20th Century Fox. Their licensing fees for a primetime program range from \$800,000 million to \$1.5 million an hour compared to Canadian network fees of \$250,000 an hour. Each of the networks are extremely competitive with one another,

striving for substantial ratings from their programs for commercial advertising revenue. These networks buy very few imported programs but instead, work in close association with their own producers. Only a small percentage of feature films have been licensed to network television and the licensing fees have declined. This decline is attributed to the growth of the pay television and home video markets, and the ability of commercial networks to produce and acquire made-for-television movies at a lower cost than license fees previously paid for feature films.

Only two Canadian producers have been successful in obtaining co-production agreements with the U.S. networks. The first was R.S.L. Entertainment Corporation (Robert Lantos and Steven Roth) with Night Heat, a police drama. The second was the V.H. Production Incorporated (Robert Cooper) co-production, Adderly, a spy drama. Both were supported by Telefilm Canada and are broadcast on CTV television.

## International Markets

### Foreign Theatrical Exhibition

The international markets for feature films are complex and vary somewhat due to currency exchange rate fluctuations. Nevertheless, these markets provide a source of revenue for theatrical distribution, especially the major

European markets such as Britain, West Germany, France, and Australia. Sales can range from \$3,000 in Iceland to \$1 million in Great Britain.

Producers or distributors either attempt to sell each territory one by one, or find a sub-distributor who will buy all foreign rights for one lump sum. Many producers hire sales agents to represent their projects in the international marketplace. In Canada, there are several sales agents based in Eastern Canada experienced enough to know the international marketplace very well and who attend to all or most of the important film markets. There are approximately ten sales agents in Canada that could perform this role.

#### Foreign Pay and Broadcast Television

France and the U.K. have the most complex broadcast television networks outside of North America. However, pay television outside of North America is not a major market factor. Canadian producers have had the best success with the public broadcasters in the British, French, and West German markets.



## THE HOLLYWOOD EFFECT

### The American Majors

The historical control of the United States feature film industry by the studios<sup>29</sup>, often called the "majors", is well known. The majors are characterized by vertical operations of production and distribution through related entertainment conglomerates under common ownership and control. The eight U.S. "majors" generated average annual revenues in Canada of \$12.9 million compared to an average of \$725,000 generated by Canadian distributors through Canadian features films. Their combined production budgets are worth over \$2 billion dollars annually and they consistently receive ninety percent of film revenues in the U.S. market alone. They have worldwide distribution systems and may receive in the range of 38 per cent to 50 percent of additional revenues by gaining entry into major foreign markets such as the Britain, France, and Canada (Patterson, 1986).

Characteristic of the majors is their reliance on mass-merchandising techniques of saturation advertising through television, radio, and print to generate audience demand. The major American distributors of the blockbuster

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29. The eight leading studios which have production-distribution combinations of their own are: Buena Vista (Disney), Columbia Pictures, Twentieth-Century Fox, Orion Pictures, Paramount Pictures, MGM-United Artists, Universal Pictures, and Warner Brothers. Manjunath Pendakur, Ibid., p. 167.

films may spend between \$2 million and \$24 million for prints, negatives and advertising alone to market a film in the United States and Canada. Widely-read magazines devoted to the industry, such as Premiere, and nationally broadcast shows, such as Entertainment Tonight, highlighting newly released films have national exposure whereas in Canada there is no such national entertainment news coverage on indigenous production.

Although they are the largest source of investment for feature films, they only pay large advances on mass appeal properties that they feel can be successful in the American and world markets (Globerman, 1986). A 1985 study<sup>30</sup> on ten Canadian feature films which had obtained distribution deals in the early eighties with major American distributors revealed that profitability for Canadian producers remained at best, a "mixed picture". Of eight films for which the author could obtain reliable data, five were not in a profit position, which meant their Canadian investors were still waiting for returns on their investment.

Anti-trust laws and the advent of television resulted in the loss of a stable market for the majors, i.e., they began the process of becoming vertically-disintegrated. The large-scale production process of the major studios began to be carried out by large numbers of small and specialized companies which subcontracted their services and equipment

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30. Manjunath Pendakur, Ibid., p. 169.

to producers who organized the film project. The studios began a strategy of decreasing the number of their own productions and increasing production costs in search of blockbuster films. Between 1976 and 1984, the combined production budgets of American feature films increased more than five-fold, rising from \$482 million to \$2.5 billion. This increase reflects the higher budgets for individual films rather than an increase in the quantity of films produced. The studios also spread their risk by forming alliances with other industries, particularly those with the potential to control and develop technologies associated with visual media. The smaller companies serve a variety of clients, not only the production of feature film but every other market segment such as commercials, industrials, and educational films. Only a small minority of the small companies concentrate exclusively on television and theatrical film. Storper defines this complex as an "entertainment industry complex" in which the production and post production companies are committed to certain functions but not precisely to certain products.<sup>31</sup>

The studios also began to acquire more films after completion by independent producers in order to spread their risk. They increased their acquisition and distribution, in Canada, of independent American, European, and other

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31. Michael Storper, The Changing Organization and Location of the Motion Picture Industry: Interregional Shifts in the United States (California: University of California, 1985), p. 50-58.

productions. The result was a shortage of feature films in the visual entertainment industry. The total amount of films produced by the studios had fallen by 40% from the mid-70's to the 80's due to the strategy of restricting supply through increased production costs, i.e., from \$5 million to \$17 million in search of blockbuster hits. For example, in 1974 the majors produced 557 films, while ten years later they produced 311 films. The trend became the increasing participation of independent producers such that by 1984, 58% of feature films in the United States were produced by independents and 31% by the majors.

The studios have a guaranteed distribution of their first-run films and consistently secure the best locations, release dates, and committed playing time from the exhibitors in the maximum number of theatres. They block-book by selling a package of films to an exhibitor, supplying them with a consistent flow of high quality films annually. They may open in as many as 1500 theatres at once. They also have the advantage of achieving the maximum number of bookings to smaller independent theatres not associated with theatre chains. By virtue of the number of films they produce, finance, or distribute at any one time, the studios can cross-collateralize their films across different markets. Any distributor vertically-integrated with either of the major theatre chains or video chains can use this access to the main points of sale as a means to acquire all commercially valuable foreign or domestic films.

The theatrical market for Canadian films is the smallest revenue source for Canadian distribution and production companies. Because of the relatively few Canadian-produced films compared to the number of imported films, wild variations occur simply on the strength of one or two Canadian films at the box office. There is an upper limit to the Canadian marketplace's capacity to provide a return to the producer on a popular feature film aimed only at the domestic market.

Canadian producers need universal distribution of their films in order to achieve break even levels or profitability. In a study by Lyon and Trebilcock<sup>32</sup>, for the Canadian film industry to survive, Canadian independent filmmakers must count on 70% foreign sales. Assuming that an average Canadian feature film costs \$3.5 million dollars, it is estimated that the film must generate a box office of approximately \$16 million (film rental of approximately \$5.6 million) in order to recover its negative costs plus the costs of printing and advertising (The Canadian Motion Picture Distributors Association, 1986). At an acceptable average film rental (for Canada) of around \$800,000, it is obvious that the Canadian market is not sufficiently large for a film producer to recoup such costs. Nor is this helped by the ancillary markets in Canada. The combined film rentals from television and pay-television averaged \$500,000

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32. Daniel Lyon and Micheal Trebilcock, Public Strategy and Motion Pictures. (Ontario: Ontario Economic Council, 1982) p. 81-82.

for films released by CMPDA member companies in Canada. For those same films, net revenue from the home videocassette market averaged \$300,000.

For example, the 1983 Canadian feature, Meatballs estimated to have earned approximately \$4 million at the Canadian theatrical box office, twice what any previously Canadian film had earned. This level of box office gross receipts would net the producer \$750,000 - \$1 million after deducting costs and fees of theater, exhibitor, and distributor. Assuming a Canadian network sale in the range of \$250,000 - \$300,000, the maximum revenue generated for the producer in Canada would be about \$1.5 million. To break even, a popular Canadian movie would have to gross between \$400,000 and \$500,000 at the box office with about 1/3 to 1/2 that amount coming from Toronto.

#### FEATURE FILM FINANCING IN CANADA

##### Development Financing

Until very recently, there were few consistent outlets in Canada for scriptwriters or producers to receive development funding. However, the increase in general production levels has created more opportunities and interest in the craft. The importance of investing in script development is widely recognized and can be seen with the increase in private and public development monies available and by an increase in courses and workshops such as PRAXIS, in Vancouver and the increase in applicants to funding

agencies. In Canada, there is an estimated eleven million dollars available for development annually, coming from a variety of sources, which include the following:

1. Provincial funding agencies such as Film B.C. and provincial Arts Councils;
2. Federal agencies such as Telefilm Canada, the Department of Communications, the Canada Council, and the NFB;
3. Pay-television services such as the First Choice development fund, the Foundation to Underwrite New Drama for Pay-Television (FUND) and Superchannel; and,
4. Conventional television networks and their affiliates.

There is an important distinction between development and production financing: the development loans obtained by the producer are usually reimbursed or converted to equity when the project goes into production. However, if the project is not produced, funding agencies keep the loans on the books, and they can be assigned to the next production agreement. On the other hand, the first dollar of production financing does not flow until all financing required to complete the production is committed in a form acceptable to each financier (Patterson, 1987). To spread risk, the larger production companies have several projects in development, and utilize different sources of funding.

## Production Financing - The Patchwork Quilt Approach

Producers in Canada use a combination of several sources as a means of financing their feature films. As outlined in the section under distribution in this chapter, producers may receive a portion of their financing through distributor investment. Other portions may come from federal and provincial agencies, pay-television networks, conventional television networks, to a lesser degree, home video advances, and other production companies through co-productions. For example, the B.C.-produced feature film, The Outside Chance of Maximillian Glick, in addition to partial self-financing, received production financing from Telefilm Canada, B.C. Film, CBC, and BCTV, and a film investment company.

### 1. Co-production Financing

A co-production involves a film produced by two or more production companies, between public or private-sector filmmakers of different countries, or the international treaty co-productions administered by Telefilm Canada.

### 2. Equity financing

Since no studio system has ever existed in Canada, producers utilized tax shelters. Financing and investment or securities companies either raise money by providing investment opportunities for other investors or individual investors and investment companies acquire units or shares in the film, either through public prospectus or a private



memorandum. Some of these investment companies have up to three areas of corporate activity<sup>33</sup>: 1) interim and loan lending, 2) film distribution divisions, 3) a general partner of all limited partnerships that place film projects in brokerage houses. Investment companies usually offer entire packages of different entertainment categories from different companies: feature films, made-for-television movies, and television series. Most of these projects have a significant amount of pre-sales from pay-television services and distribution deals.

### 3. Joint ventures

When no formal co-production treaty exists between Canada and another country, or where the existing treaty is not being used, joint ventures can provide an independent producer with greater access to financing, markets, and creative talent. A producer may seek part of the investment in a film from distributors to boost investor confidence and to guarantee distribution upon its completion. If the financing is coming from more than one source, (for e.g., European distributors, pay-television, network television, etc.,) not only is the risk spread out among them but also market entry is assured.

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33. The Association of Canadian Film and Television Producers and Ryerson Polytechnical Institute, "A Conference for Investment Industry Professionals on Investment Opportunity in the New Canadian Entertainment Industry," meeting in Toronto, 1985, p. 11. (Typewritten.)

#### 4. Interim Financing

Federal and provincial agencies, private investors, investment and securities companies that specialize in bank financing, and cable companies through programs such as the Rogers Telefund may loan money to a producer until such time as a sale of equity units can occur, or until pre-sale commitments become due and payable.

#### 5. Venture Capital Programs

Many provinces, including British Columbia, offer venture capital programs which are available to the film production industry to encourage private investment. Provincial rules state that a venture capital corporation must provide an offering memorandum or prospectus for public investment, but if its soliciting only private investment, they may be exempt from the above criterion. A VCC must maintain an arms-length relationship with businesses it invest in and cannot have majority control in businesses it invests in. A VCC offers its investors a 30 per cent B.C. tax credit.

#### 6. Deferral Agreements

Although a minor proportion of the financing, production personnel and others may waive a portion (e.g. 10%) of their fees during principal photography and post production until the film has recouped its investment. Producers may also defer fees and the deferred amounts are

usually equal in proportion across the board. Post production services and laboratories may offer service discounts for a Canadian feature film.

### CONCLUSION

Production in Canada is a highly specialized activity as most companies limit their activity to one or two categories of production. Evidence indicates that in any given year, feature film production is a consistent production category for very few production companies. Feature film production is more often the result of a collaboration between various individuals who form partnerships for the benefit of a specific project. To date, this activity has been primarily centered in Ontario and Quebec.

Because of Canada's small domestic market and the "Hollywood effect", producers in Canada, and British Columbia in particular, rely on a patchwork approach of financing for their productions. This approach includes partial self-financing, loans and deferrals, federal and/or provincial funding agencies, limited partnership agreements, and to some extent, pre-sales with distributors, home video distributors, and pay and conventional television networks. To recover their investment, producers must have access to distributors who can secure foreign theatrical and ancillary rights. These distributors, in turn, must be capable of absorbing the considerable costs involved in mounting a successful film release because these costs are incurred

before any revenue is received and well before any revenue from the ancillary markets. Since theatrical distributors and broadcasters invest in a feature film projects before completion, they play a significant role in shaping the product they later sell to the public, and the product becomes part of the distribution network at a very early stage. Hence, not only must they be financially stable operations, with rights to both foreign and domestic titles, but they must be capable of understanding the worth of the project.

## FEDERAL AND PROVINCIAL FILM POLICIES AND PROGRAMS

### CHAPTER THREE

#### INTRODUCTION

This chapter briefly reviews the history and development of film policy in Canada, and, in particular British Columbia, and concludes with a look at current federal and provincial film policies and programs.

"Until the seventies, a feature film industry did not exist in Canada to any degree. Between 1943 and 1959, only 37 films were attempted in Canada, about 2 films a year" (Task Force on Broadcasting Policy, 1986). In 1967, for example, less than \$500,000 had been spent on the production of feature films, although Canadians had spent approximately \$103 million at the box office" (Task Force on Broadcasting Policy, 1986).

#### FEDERAL PROGRAMS 1968 - 1983

##### Canadian Film Development Corporation

Direct federal assistance for Canadian feature film production began in 1968, when the Canadian Film Development Corporation (CFDC) was established with an appropriation of \$10 million. The CFDC's objectives were to develop and strengthen the industry with regular sources of financing and to encourage the production of films that would be distinctly Canadian. CFDC programs consisted of development

financing, loans, and equity investments in selected films.

Between 1968 and 1974, the CFDC participated in the financing of 119 films (68 English-language and 51 French-language projects). However, "Most of the corporation's investments were, in effect grants since the films in which it participated returned little of their investment" (Tebilcock, 1983). Between 1969 and 1978, CFDC annual revenues from equity investments never exceeded 20 percent of its total film investments, and it twice exhausted its appropriation. Consequently, the CFDC's financial ceiling was increased to \$20 million in 1971, and \$25 million in 1974. In English Canada, because of strong foreign control of distribution, "the production sector hit a roadblock when Canadian distribution of these films were required (CFDC Annual Report 1974-1975)". These distribution and marketing problems severely reduced the profitability of Canadian feature films and their possibilities for financing. Consequently, the "solution" to this dilemma was the establishment of the Capital Cost Allowance (CCA) program, a financial incentive designed to encourage private investment in film production (Kelly, 1987).

#### Capital Cost Allowance Program

Since 1954, private investment in film had been encouraged through a 60 per cent Capital Cost Allowance. No distinction was made, however, to the origin of the film. Therefore, there was no great incentive for Canadian

investors to invest in high risk, obscure Canadian productions in comparison to the lower risk box office successes produced in the United States. In 1974, as a complementary measure to the CFDC, the government amended the Income Tax Act to provide investors in certified<sup>1</sup> Canadian feature films with a 100 per cent capital cost allowance in the first year. In 1976, the program was expanded to cover short films and television programs. After 1976, the CFDC became more of an interim financier in which up to \$500,000 per film was loaned before permanent financing through the tax shelter was secured. Loans were repaid when the production funds were raised, and until 1981, the CFDC retained a profit participation. However, in 1983, the CCA was spread over two years and, in 1987, it was reduced to 30 per cent a year under the 1987 Tax Reforms (Department of Finance, Bulletin, 1986).

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1. Initially, the program required that a certified Canadian feature film be produced by a Canadian producer, and two-thirds of the individuals filling key creative positions (e.g. director and screenwriter) were Canadian. It was agreed that reviews be undertaken, and that the criteria would be tightened as the industry developed. For more precision over what constituted a Canadian film, a point system was established in 1976 to award points for each Canadian providing the services in creative positions. By 1982, it became mandatory that at least one of either the director or screenwriter, and one of the highest or second highest paid actors, be Canadians. Also, to encourage a greater use of Canadian themes and subject matter, extra points are awarded in instances where the author of the work on which the screenplay is based, and the principal screenwriter are Canadian. (Canadian Film and Videotape Certification Process, 1983).

## Official Co-production Treaties

The CFDC also administered the official co-production treaties with other countries for films which met the criteria for an official co-production.<sup>2</sup> Benefits to Canadian producers included collaboration with more experienced producers and creative personnel, access to foreign support programs, foreign markets, and distribution networks (Trebilcock, 1986). To date, Telefilm manages the treaty agreements between 18 countries (Telefilm Annual Report, 1988).

## Screen and Import Quota Program

Between 1967 and 1983, there was very little CFDC support for Canadian distributors and there was no regulation of exhibition. However, the CFDC would invest up to \$25,000 in a CFDC-financed film based on matching funds from a Canadian distributor. Nonetheless, "this program was not very attractive to Canadian distributors because they did not normally invest in the films they distributed" (Bergman, 1982). As regards the exhibition sector, the CFDC supervised a voluntary exhibitor quota program, whereby a portion of theatrical screen time was reserved for domestic films. This lasted only a very short period of time. Exhibitors Famous Players and Cineplex-Odeon undertook to

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2. Under the Income Tax Regulations, co-productions automatically qualify for the CCA, whether or not they meet all the criteria for certification (Canadian Film and Videotape Certification Office, Statistical Bulletin, 1985).



show Canadian feature films four weeks annually at each of their theatres across Canada but both Cineplex-Odeon and Famous Players declined further participation after two and a half years. Other countries use mandatory quotas or use an alternative strategy of a box office tax which is meant to create funds for domestic production by taxing distributors or exhibitors. There have been unsuccessful attempts to interest the provinces to participate (regulation of theatrical exhibition of films falls under provincial jurisdiction) in a co-ordinated quota or tax program<sup>3</sup>, but no federal-provincial agreement has been reached to date .

#### The "Boom Years" - Impact of the CCA

The years 1977 to 1980 are often referred to as the "boom" years of Canadian feature film production. The combination of direct CFDC support and the stimulus to private investment through the CCA resulted in a substantial growth in the production of Canadian feature films.

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3. Daniel Lyon and Micheal Trebilcock, Public Strategy and Motion Pictures - The Choice of Instruments to Promote the Development of the Canadian Film Industry. Toronto: Ontario Economic Council, 1982.

Production budgets of these feature films rose from \$1.3 million in 1974, for 2 features films, to a peak of \$175 million in 1979, for 67 features, before declining to \$21 million for 32 features, in 1983 (Table 7).<sup>4</sup>

The production budgets listed in Table 7 include the official co-productions produced with five other countries. The total productions budgets of these official co-productions were \$92.8 million. In 1979, when Canada's overall co-production activity was first examined, Canada was the majority partner in 17 of these productions, and equal partner in another 6, contributing 47 percent of the \$76 million in total budgets. Canada's co-production treaty with France has always been the most productive, co-producing 32 out of 44 of these. The CFDC- commissioned study found that imbalances favoured the foreign producer, in such ways as excluding Canadian writers, directors, and directors of photography (CFDC, 1980). As a result, new guidelines were established in 1981 for Canadian producers planning foreign co-productions.

Between 1974 and 1985, the percentage of certified productions being carried out by B.C.-based producers remained quite low in comparison to Alberta, Quebec, and Ontario. The value of certified production budgets in B.C.

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4. Canadian Film and Video Tape Office, Statistical Bulletin, 1974-1983.

TABLE 7

**NUMBER AND COST OF SHORT AND FEATURE PRODUCTION BY YEAR: 1974-1983**  
 (\$000)

<u>Year</u>	<u>Number Features</u>	<u>Total Cost (in thousands of \$)</u>	<u>Number Shorts</u>	<u>Total cost (in thousands of \$)</u>	<u>Total Number</u>	<u>Combines Cost (in thousands of \$)</u>
1974	2	1,361			2	1,361
1975	20	6,939			20	6,939
1976	23	19,068	35	6,179	58	25,247
1977	39	35,201	58	10,091	97	45,292
1978	35	47,162	73	9,755	106	56,917
1979	67	175,163	121	31,946	188	207,109
1980	53	154,872	136	50,653	189	205,525
1981	39	59,640	102	52,401	141	112,041
1982	34	42,950	92	33,793	126	76,743
1983	32	21,266	62	15,891	94	37,157
					<b>Total</b>	<b>774,331</b>

was worth only \$.9 million in 1985 after reaching a peak of \$8.7 million in 1981 (Table 8).<sup>5</sup> The poor performance of these "tax shelter" films is attested to by a 1980 CFDC survey of 33 productions financed during 1977 to 1979. The survey revealed that the fraction of the original investment returned to the unit holders was only about 25 percent (Lyon and Trebilcock, 1985)<sup>6</sup>, that "no more than one in twenty-five of those who purchased film units recovered the cost of their investment" (Wise, 1981), and more than half of these films were never released (Knelman, 1987). However, a limited number of these films became commercial successes, most notable being Prom Night, The Changeling, Ticket to Heaven, and Quest for Fire although with limited Canadian content. Furthermore, a limited number of the producers from this period are the principals behind Canada's largest production companies: Robert Lantos and Stephen Roth of Alliance Entertainment, Harold Greenburg, of Astral Bellevue Pathe, and Garth Drabinsky of Cineplex-Odeon.<sup>7</sup>

There were many reasons for this 1980 decline in production. The principal problems were inadequate marketing, distribution, and exhibition, reflecting the limited involvement of the major theatrical distribution companies as most of the films received little, if any,

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5. Canadian Film and Video Certification Office, 1985.

6. It is further noted by these authors that reliable statistics have never been compiled (and may never be).

7. Martin Knelman, Home Movies, (Toronto: Key Porter Books Ltd.) p. 128.

TABLE 8

**TOTAL VALUE OF CERTIFIED\* INDEPENDENT FILM AND VIDEO PRODUCTION,  
BY LOCATION OF PRODUCTION COMPANY 1984-1985  
(\$000)**

	Atlantic Provinces	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	TOTAL	B.C. as a % of total
1974	--	--	1,581	--	--	--	--	1,581	
1975	--	2,410	3,646	100	--	--	528	6,684	8.0%
1976	--	9,814	14,987	--	--	97	276	25,174	1.0%
1977	--	16,799	30,993	--	--	904	283	48,979	1.0%
1978	329	22,076	37,975	47	--	599	264	61,290	-
1979	422	72,796	120,703	362	125	10,849	3,627	208,884	2.0%
1980	310	68,092	107,739	564	245	21,812	7,136	205,898	3.0%
1981	2,436	41,421	47,264	--	--	28,751	8,740	128,612	7.0%
1982	285	23,660	20,847	5,340	--	1,835	5,528	57,495	10.0%
1983	1,470	10,280	24,991	516	24	682	1,426	39,389	4.0%
1984	150	29,780	39,752	43	134	827	1,171	71,857	2.0%
1985	1,800	38,722	59,670	30	28	228	952	101,430	1.0%

\* Production certified for purposes of the Capital Cost Allowance

distribution (Theisen, 1985). The production budgets were so high, they could only be recovered with worldwide distribution campaigns, and, a disproportionate part of the budget (as high as 35%) were paid in interest, fees, and commissions to investment brokers, lawyers, and accountants over and above that paid to crews and cast. This led to greatly increased production budgets, increased risk, and reliance on success outside Canada. Hence, in the following years, investors were less anxious to become involved in productions of this magnitude (Department of Communications, 1985).

Revenue Canada's legislation governing the CCA made it a illegal to pre-sell the film through distribution agreements specifying revenue guarantees, and the film was delivered finished, the most difficult time to sell it (Lantos, 1986). Knowledgeable Canadian distributors were precluded from influencing the type of project thus while there were more properties, many were totally unmarketable.<sup>8</sup> Investors were required to choose individual films and were unable to invest in production companies that "could spread their risk" over a number of projects. Lastly, private investment capital was organized by banks and investment companies, or non-industry individuals with little experience in film. The "risk free" nature of these private

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8. Stratavision Inc. The Impact of the Implementation of the Review Procedures of "The investment Canada Act" on the Competitiveness of the Canadian Film and Video Industry, Report prepared for the DOC, draft, ct. 24, 1985.

**TABLE 9**

**TELEFILM PRODUCTION SUPPORT, EXCLUDING THE BROADCAST FUND: 1983-1986**

(\$000)

	<u>Quebec</u>	<u>Ontario</u>	<u>B.C.</u>	<u>Other Regions</u>	<u>TOTAL</u>
83-84 Budget	17,000	736	--	--	17,746
Telefilm	4,015	136	--	--	4,151
84-85 Budget	4,464	3,574	61	--	8,099
Telefilm	855	1,088	20	--	1,963
85-86 Budget	403	875	--	--	1,278
Telefilm	168	300	--	--	468

Source: Telefilm Canada

and public offerings and the resulting abuses to the tax shelter led to the tax shelter reforms and the 1983 reduction to 30 percent.<sup>9</sup>

#### FEDERAL AND PROVINCIAL POLICIES AND PROGRAMS AFTER 1983

##### A SHIFT TO CANADIAN TELEVISION PRODUCTION

CFDC support for interim financing of feature film production declined between 1983 and 1986 (Table 9)<sup>10</sup> as the CCA failed to generate private investment for feature films. Instead, the federal government shifted its support to independent production of television programs. As part of the 1983 federal broadcasting strategy, the CFDC was renamed Telefilm Canada and given \$35 million annually (raised to \$60 million annually in 1987, and \$80 million annually in 1989)<sup>11</sup> to administer the Canadian Broadcast Program Development Fund. This fund, supported indirectly by taxes on cable services, provided producers with financing for television programs never before available. As a general rule, up to half of the broadcast fund was given to independent production for the CBC and the other half was for private broadcasters. This coincided with 1983 changes in the CBC's mandate which called for acquisition of 90

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9. Peter Grantham, *Television International*, September, 1988, p. 56.

10. Telefilm Canada, 1985-1986.

11. This \$18 million increase is designated for Quebec companies, resulting in a 50:50 ratio of Telefilm support between Quebec companies and other provinces.



percent of its programming, exclusive of news, sports, and current affairs, from independent producers by 1990 (Juneau, 1986). Previous to this, there had been very limited involvement by independent production companies in producing Canadian television programs. Instead, the broadcasting industry relied on foreign programming which could be acquired for less than the cost of acquiring or producing comparable Canadian programs. Further to this, recommendations from the 1986 Report of the Task Force on Broadcasting (The Caplan-Sauvageau Report) called for a substantial increase in Canadian content requirements throughout the broadcasting system. Hence, 1986 changes to the Broadcasting Act gave the Canadian Radio-television and Telecommunication Commission (CRTC)<sup>12</sup> authority, through "conditions of license," to enact more stringent regulatory policies. This resulted in decisions specifying increases in Canadian content, increased expenditures on Canadian programs, and increased acquisition of independent productions throughout the broadcasting sector. Private broadcasters were required to provide sixty percent Canadian content in prime-time.<sup>13</sup>

In 1981, CRTC began to regulate pay-television and specialty services. Based on the optimistic subscriber

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12. Consistent with its mandate under the Broadcasting Act of 1968, the CRTC regulates broadcasting under three sectors: television, radio, cable, and in 1987, pay and specialty services.

13. This amounts to approximately 90 Canadian broadcasts per year (Grantham, Television Business International, September, 1988).

projections filed in 1981, the CRTC set relatively stringent Canadian content conditions. Compliance, together with lower subscriber revenues and massive marketing expenditures, resulted in deficits for each of the services (Task Force on Broadcasting, 1985). The CRTC responded in 1986 by reducing the Canadian content requirements. Current regulations required each of the services to spend at least 20 percent of gross subscriber revenues on acquisition of, or investment in, Canadian programming. They will be required to increase their expenditures on Canadian programs as they further their subscriber bases.<sup>14</sup>

Development initiatives, by the pay television services, in turn, were spawned. In 1987, the Foundation to Underwrite New Drama for Pay Television (FUND) was established by First Choice Canadian Communications Corporation to foster the development of new scripts for feature films and made-for-pay television programming. They commit \$1 million annually in interest-free loans, payable on the first day of principle photography, to Canadian

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14. The CRTC also limits the importation of American services that directly affect the viability of comparable Canadian pay-television services. For example, they do not authorize services such as Home Box Office, The Movie Channel, and the Disney Channel for carriage by cable systems in Canada as such services have no Canadian content levels.

scriptwriters regardless of previous experience. They fund three levels of script development i.e., treatments, first and final drafts.<sup>15</sup> In 1989, FUND began a program for more experienced writers, committing a maximum of \$50,000 dollars.

The establishment of provincial film funding agencies began in the early eighties. Previous to this, there had been limited support available through provincial arts councils, the most notable being the Ontario Arts Council, or directly through specific grants from provincial ministries such as in B.C.. In 1982, The Ontario Film Development Corporation (OFDC) with an annual budget of \$8.2 million, the Societe generale du cinema du Quebec (SGCQ) with an annual budget of \$8.6 million, and the Alberta Film Development Corporation (AFDC) with an annual budget of \$4.5 million were established. In 1987, six years later, B.C. Film was created with an annual budget of \$10.5 million over three years. In 1989, Saskatchewan and Nova Scotia followed, with annual budgets of \$2.5 million each in both 1989 and 1990. All provincial funding agencies require that a minimum of 75 percent of the total production budget be spent on salaries, wages, and goods and services within the province.

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15. FUND Annual Report, 1987-1989.

## The Broadcast Fund

Broadcast fund programs were intended to promote an increase in high quality Canadian television productions in the categories of drama, children's programming, and variety. Telefilm's three objectives were to 1) increase financing for private production; 2) increase national and international distribution of Canadian programs; and, 3) to increase awareness and appreciation of Canadian television and film achievement in Canada and abroad. As stated in the 1983 Telefilm annual report, there was a growing awareness of both the necessity and the potential of international dealings.

Broadcast fund programs include script development and production financing through interim loans and equity investments. The fund provides one third of the budget of a given production, and in exceptional circumstances, will provide up to 49 per cent of the budget. To attract investment from the broadcasting and business sectors, the other two thirds must be found from domestic and international sources. To access the fund, it is mandatory

for producers to have, in addition to meeting the Canadian content requirements,<sup>16</sup> a prior license or pre-sales commitment from a Canadian television broadcaster, up to 25 per cent of the budget, or a pay-television service guaranteeing that the production would be shown on television in prime-time within two years of completion.<sup>17</sup>

Telefilm began to support production in the regions by opening offices in Halifax and Vancouver in 1986. As well, the corporation continued to renegotiate the official co-production treaties amending them in many countries to include television. Telefilm encouraged foreign producers and pay television-services such as Home Box Office to consider co-ventures with Canadian producers. Representatives from Telefilm, for the first time, began regular attendance at the major international film and television markets covered in Chapter two. The three foreign offices of the National Film Board located in Paris, London, and Los Angeles were transferred to the auspices of Telefilm Canada to facilitate co-productions and co-ventures. Telefilm also continued to support the industry through grants to festivals and seminars.

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16. Telefilm Canada determines whether a production qualifies as "Canadian" by using both the CRTC definition and the certification criteria for Canadian features established under the Income Tax Act for the purposes of the Capital Cost Allowance. Assistance is given on a sliding scale depending on the number of Canadian content points the film has.

17. This removed the television sale, a traditional source of revenue, from the distributor.

Between the years 1983-1989, Telefilm invested a total of \$13.674 million for the development of scripts (Table 10).<sup>18</sup>

TABLE TEN

TELEFILM PARTICIPATION IN SCRIPTWRITING AND DEVELOPMENT  
1983-1989  
(\$000)

1983-1984	1,169
1984-1985	2,800
1985-1986	1,405
1986-1987	3,800
1987-1988	2,400
1988-1989	2,100
TOTAL	13,674

Total production budgets for television programs increased to a peak of \$198 million in 1987-1988 and declined slightly to \$172 million in 1988-1989 (Table 11).<sup>19</sup> Telefilm participation between 1983 and 1989 averaged out to approximately 32.1 per cent of total production budgets. British Columbia producers benefitted from the Broadcast Fund to some degree, but, in fact, the share of Broadcast Fund production carried out by producers in the province dropped from nine per cent in 1983-84 to one per cent in 1985-86 and increased to three per cent, or \$3 million in 1988-1989 (Table 11). In 1985-1986, \$6.9 million in Broadcast Fund production was carried out by Alberta

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18. Provincial breakdowns by province are not available (Telefilm Annual Reports, 1983-1989).

19. Telefilm Canada Report, 1986.

TABLE 11

## PROVINCIAL BREAKDOWN OF BUDGET AND TELEFILM PARTICIPATION SINCE THE INCEPTION OF THE BROADCAST FUND: 1983-1989

(\$000)

Provincial	Atlantic Provinces	Quebec	Ontario	Manitoba	Alberta	Saskatchewan	British Columbia	Total	% TC Participation	B.C. as % of Total
83-84 Budget	-	36,514	11,081	141	-	143	4,857	52,736	21.2%	9.0%
Telefilm	-	6,438	3,656	44	-	40	1,024	11,202		9.0%
84-85 Budget	266	68,146	62,786	421	1,767	263	5,923	139,572	30.6%	4.0%
Telefilm	88	20,780	19,548	130	410	88	1,694	42,738		4.0%
85-86 Budget	3,030	83,163	82,885	-	6,927	-	2,140	178,145	37.1%	1.0%
Telefilm	1,362	29,239	31,626	-	3,110	-	782	66,119		1.0%
86-87 Budget	1,656	87,548	77,581	-	-	-	3,164	171,571	30.6%	2.0%
Telefilm	656	24,226	25,799	-	-	-	1,234	52,541		2.0%
87-88 *Budget	6,396	85,661	-	-	-	-	931	198,244	38.4%	5.0%
Telefilm	3,105	37,961	37,464	-	-	-	436	76,180		5.0%
88-89 *Budget	3,333	62,949	97,424	1,695	548	387	6,327	172,664	34.8%	3.0%
Telefilm	1,278	24,062	30,400	813	259	190	2,935	60,137		5.0%
									32.1% as avg.	
										4.3% as avg.

1987-88\* Does not include the foreign share (\$10,526,499) of co-productions in which Canada is an equal or minority partner.

1988-89\* Does not include the foreign share (\$18,106,430) of co-productions in which Canada is a minority partner

TABLE 12

**SOURCES AND PERCENTAGE OF FINANCING FOR PROG  
SUPPORTED BY THE BROADCAST FUND:  
1988-1989**

(\$000)

**Total Production Budget \$172,664**

	Contribution	%
Telefilm Contribution	60,136	35%
Canadian Broadcasters	38,318	22%
Private Sector	24,751	14%
Producers/Producer Related	9,652	6%
Canadian Distributors	5,201	3%
Other Government Sources	6,182	4%
Foreign Participants	28,421	16%
<b>TOTAL</b>	<b>172,664</b>	<b>100%</b>



producers compared to \$2 million by B.C. producers. However, this is due to Alberta's provincial film fund which allowed producers to lever funds from Telefilm. Film B.C. was not established until 1987.

Although it is beyond the scope of this chapter to list the contribution to production financing from other sources for the years between 1983-1989 inclusive, Table Twelve lists the breakdowns for 1988-1989.

It is important to note that of the \$38 million Canadian broadcasters contributed in the form of broadcast rights, an additional \$9.2 million not shown above was in the form of investments. As explained in the 1988-1989 Telefilm annual report, the above financing structure illustrates that producers use a large proportion of the pre-sale of rights, \$38 million to cover production costs while the remaining \$9.2 is retained by producers as guaranteed revenue. Similarly, the foreign participants' contribution of \$28.4 was applied to production costs; however, an additional \$2.2 million not shown above constituted guaranteed returns.

As of 1988, there has been ninety co-productions; sixty-three have been between Canada and France, and fourteen have been with the United Kingdom (The Canadian Film and Television Association, 1988). Since 1980, there

was also increasing numbers of Canadians in key creative positions which reflected the regulatory changes enacted in 1980 and 1982 concerning Canadian involvement.<sup>20</sup>

Between 1983 and 1986, there had been no impetus for the financing of Canadian feature films.<sup>21</sup> The CCA had been lowered to 30 per cent by the federal government and, despite the infusion of funds from the broadcast fund, feature films remained a low priority to broadcasters. It wasn't until 1985 that the structural weaknesses in the industry were outlined by the federal government.<sup>22</sup> These were:

1. the foreign domination of film distribution in Canada and lack of access to the revenues generated;
2. the under-capitalization of production companies due to the limited size of the domestic market, and
3. the concentration of theatre ownership and the vertical integration of distribution and exhibition.

#### Feature Film Fund

The report's recommendations resulted in the establishment in 1986 of an annual \$33 million feature film fund administered by Telefilm Canada. This fund was to

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20. For data pertaining to the increase in Canadians in specific creative positions, see data from the Canadian Film and Video Certifications Process, 1986.

21. It must be noted that some feature films were produced utilizing the broadcast fund, including B.C.-based productions, My Kind of Town, Samuel Lount, and Sandy Wilson's My American Cousin in 1984-1985.

22. Government of Canada, "Report of Film Industry Task Force, Canadian Cinema, A Solid Base", November 1985.

promote the production of culturally relevant Canadian feature films.<sup>23</sup> Financing programs consist of equity investment, interim financing, loans, and non-interest bearing advances. To enable producers to reach a wider market, \$3 million is designated for dubbing and subtitling of productions, and to distributors, to enable them to dub foreign films for which they have acquired rights.

In addition to the initiatives already undertaken through the Broadcast fund, Telefilm coordinates Canada's participation in the three international Canadian film festivals and provides a portion of the funding for the Canadian Centre for Advanced Film Studies in Toronto, Canada's only major film school. Programs under the Feature Film Fund include:

1. Non-interest bearing advances for script and project development;
2. Development financing up to a maximum of \$100,000 per project and \$250,000 per production company;
3. Production financing in the form of equity investments not exceeding 40% of the production budget up to a maximum of \$1.5 million and distribution of the same film up to a combined total maximum of \$2 million;
4. Secured loans to production companies on a project-by-project basis and to production companies on a corporate basis to a maximum of \$250,000; and

To establish a relationship between production and distribution, producers require a guarantee or advance from a Canadian-owned distribution company guaranteeing the

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23. One third is designated to Quebec production companies.

film's theatrical release in Canada within one year of completion. All distribution and sub-distribution agreements which touch the Canadian market in all media must be directly through Canadian-owned companies. Any non-Canadian rights not negotiated at the time funds are released will be offered to a Canadian export sales agent.

#### The Feature Film Distribution Fund

In October 1988, the Feature Film Distribution Fund, with an annual budget of \$17 million over five years, came into effect. It is divided into two parts: 1) a Principal Fund of \$13.8 million to help established Canadian distribution companies acquire distribution rights, primarily to Canadian films but also to foreign films, and to contribute towards marketing Canadian productions; 2) and a Contingency Fund of \$1.8 million available to distribution companies with less experience in distributing Canadian films, to enable them to acquire rights to Canadian films only. These are long-term corporate loans can serve as a revolving line of credit, up to a maximum of \$500,000.

To be eligible, distributors must have at least 24 months of recognized experience and are required to have distributed at least 12 films in Canada in the 24 months immediately preceding the application. At least 2 of the 12 eligible films must be certified Canadian. Moreover, applications between separate eligible producers and distributors are allowed as joint applications.

## Film Importation Act - Bill C-134

The 1985 task report on the feature film industry also recommended that the federal government "make a clear policy statement that Canadian-ownership and control over distribution in Canada is essential" and further, "take the appropriate legislative and regulatory measures to ensure that this policy is carried out".<sup>24</sup> This reflects the current view of the federal government's that a stronger distribution sector in Canada would thereby lead to more investment in Canadian films by distributors. As a result, legislation entitled, the Film Importation Act, was introduced to license the importation of feature films for distribution. This was to provide Canadian distributors with equitable opportunity to import and distribute films to the Canadian market (Telefilm Annual Report, 1987). The legislation would require film importers to prove that the rights for a film had been negotiated under a separate agreement unless the foreign distributor could show it had invested more than 50% of the cost of production. The law would establish Canada as a separate distribution market instead of an adjunct to Hollywood's North American system. Canadian distribution companies would also gain the right to distribute the films not produced by the Hollywood studios, which could be either foreign or independent American

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24. Government of Canada, "Report of Film Industry Task Force, Canadian Cinema, A Solid Base", November 1985.

feature films. Thus, a Canadian-owned distributor would be able to handle popular foreign films in Canada, regardless of who controlled the film rights in the United States. In Quebec, since 1986, the majors have been able to distribute films for which they hold world rights, but independent American feature films have beendistributed by Quebec distributors. As well, the Quebec Cinema Act prohibits independent foreign and Canadian distributors from distributing in Quebec if they are not based in the province (Globe and Mail, October, 1986).

As most American distributors either own world rights in a film or they are the major investor, it is unlikely that the new rules will prevent a proliferation of new foreign investment in the future. Distributors such as Victor Loewry from Alliance/Vivafilm say, "hollywood studios will be able to outbid Canadian companies and continue their domination of the Canadian market" (Kelly, 1987). His company recently bid \$2 million for the Canadian rights to RAMBO 111 a non Hollywood U.S. film but that bid was turned down in favor of one from Tristar, a U.S. distributor owned by a Columbia/Coca-cola conglomerate. They also bought up Quebec rights to a french film despite a 1986 agreement with the Quebec government to leave those films to Quebec companies. Criticisms are that the major distributors will

enter into sublicensing contracts (Astral with 20th Century) and be able to use government money to help the major's distribute foreign and non-hollywood movies in Canada, giving only a small percentage of profits to their Canadian partners.

#### B.C. FILM

B.C. Film provides support for script development, pre-production (to a maximum of \$35,000), production financing through equity investments or interest-bearing loans for feature films, television dramas, documentaries, and television series. Support for script development was raised to a maximum of \$15,000 in 1990 from a maximum of \$10,000. To be eligible for script development, writers require a letter of support from a broadcaster or distributor. B.C. Film differentiates between "low budget" feature films which have budgets of less than \$2.4 million and those which are higher. Low budget films are eligible for up to \$500,000 to a maximum of 50 per cent of the budget (up from 25 per cent) and the others are eligible for up to \$600,000, to a maximum of 25 per cent of the production budget. B.C. Film only invests in those projects that have financial guarantees and release commitments from theatrical distributors, broadcasters, or pay-television services, and normally, a guarantee from Telefilm for production financing. The agency provides loans up to \$5,000 per film to B.C.-based distribution companies for costs associated

with participation at international or domestic markets, and producers, for assistance in pre-selling their development packages at these markets.

B.C. film also assists with professional development for producers and screenwriters, provides support to industry associations and provides support for business seminars.

Throughout the first three years, there have been additional changes to B.C. Film's funding programs. A financing program has been added for television series to a maximum of \$750,000 and, as of 1990, B.C. Film will participate financially in the development, production and marketing of international co-productions. This participation will be calculated as a percentage on the proportion of the budget that is to be spent in Canada and 75 per cent of the Canadian portion must be spent in B.C.. Foreign producers can not apply to B.C. Film directly, and they must work in collaboration with a B.C.-based production company. In September 1990, B.C. Film's original allotment of \$10 million was increased to \$15 million over three years.

#### IMPACT OF THE FEATURE FILM FUND, THE DISTRIBUTION FUND, AND FILM B.C.

It wasn't until the establishment of B.C. Film in 1987, which allowed producers receiving support from the provincial agency to lever funds from Telefilm Canada, that a substantial increase of Telefilm support went to B.C.



producers. This increase went to support feature film production in B.C. rather than broadcast fund support for television production as shown in Table 11. The percentage of Telefilm support to B.C. jumped to 20 percent in 1988-1989 or \$7 million for seven feature films (Table 13). Furthermore, Telefilm invested a total of \$14.9 million in productions originating outside Ontario and Quebec. This sum represents a dramatic increase of \$12 million in Telefilm's participation to the regions from Telefilm's investment of \$2.6 million to the regions the previous year. This increase in total investment from Telefilm was due to an additional allotment of approximately \$11.4 million allocated by the Canadian government in May 1988 for aid in the production of films made outside Ontario and Quebec (Telefilm Canada, 1988-1989). It is not known if this additional funding will continue.

In 1986-1987, the first year of the feature film fund, there were no investments made in the production financing of B.C. feature films. Of the \$16.2 million invested that year, \$6 million went to French-language projects and \$10.2 million went to 14 English-language projects located in Montreal and Toronto and 1 in Halifax (Table 13).<sup>25</sup>

In 1987-1988, out of a total \$20.2 million, Telefilm invested \$12.4 million in the production of 15 English-language feature films and invested \$7.2 million to eight French-language feature films. Of these 23 feature films,

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25. Telefilm Annual Reports, 1986-1987, 1987-1988, 1988-89.

TABLE 13

**PROVINCIAL BREAKDOWN OF BUDGET, NUMBER OF PROJECTS, AND TELEFILM PARTICIPATION  
SINCE THE INCEPTION OF THE FEATURE FILM FUND: 1986-1989**

(\$000)

<u>Broadcast Fund Production</u>	<u>Atlantic Provinces</u>	<u>Quebec</u>	<u>Ontario</u>	<u>Manitoba</u>	<u>Alberta</u>	<u>Saskatchewan</u>	<u>British Columbia</u>	<u>Total Number of Projects</u>	<u>Total</u>	<u>B.C. as % of Total</u>
86-87 Budget*				--	--	-			40,300	
Telefilm	1,100	6,000	8,100	--	--	-			16,200	
								22		
87-88 Budget*		18,143	39,000	--	--	-			56,700	
Telefilm	1,300	7,800	11,100	--	--	-		23	20,200	
88-89 Budget*	4,845	35,197	11,159	4,877	7,167	-	17,792	34	81,037	22%
Telefilm	2,365	15,478	4,945	2,341	3,307	-	6,928		35,365	20%

\* Excludes foreign contributions to co-productions where Canada has a minority interest.

	<u>% of TC Participation</u>
1986-87	40.1%
1987-88	35.6%
1988-89	44.0%

TABLE 14

**SOURCES AND PERCENTAGE OF FINANCING FOR FEATURE  
SUPPORTED BY THE FEATURE FILM FUND: 1988-198**

'(\$000)

<b>Total Production Budgets</b>		<b>\$81,037</b>	
		<u>Contribution</u>	<u>%</u>
1	Telefilm Participation	\$35,365	44%
2	Private Investors	\$7,237	9%
3	Producers/Producer-Related	\$11,886	15%
4	Distributors	\$4,154	5%
5	Broadcasters	\$4,388	5%
6	Other Government Sources	\$14,730	18%
7	Foreign Participants	\$3,277	4%
	<b>Total</b>	<b>\$81,037</b>	<b>100%</b>

11 originated in Montreal, 9 in Toronto, and 2 in British Columbia. A total of \$2.2 million out of the total \$22.6 million went to films originating in areas other than Montreal and Toronto. It must be noted that in this year, Telefilm invested 10 per cent, or \$1.4 million, in David Cronenberg's Dead Ringers, which had a budget of \$14.2 million. This resulted in lowering Telefilm's overall participation in feature film budgets to 31 per cent. If this film is excluded, Telefilm's participation would rise to 44 per cent.

Table 14 breaks down the 1988-1989 sources of financing for feature films into seven categories.<sup>26</sup> It is interesting to note that the contribution of private investors decreased to 9 per cent from 34 per cent in 1986-1987 (not shown below) which reflects the reduction in tax shelters. Contributions from producers, productions teams, and service companies in category three is very significant, worth \$11 million, and is the third highest category for contributions. In the Canadian distribution category, \$4.2 million was used to finance Canadian feature films; however as Telefilm explains, "a further \$8.9 million (not shown) was set aside by producers as revenue guarantees" (Telefilm, 1988-1989). This represents a total of \$13.1 million contributed by Canadian distributors to the 34 feature films financed in 1988-1989 which increased from the \$6.3 million

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26. Telefilm Annual Report, 1988-1989.

contributed by distributors in 1987-1988. This increase in distributors' financial assistance to Canadian feature films was "largely due to Telefilm's new distribution fund which began in 1988-1989" (Telefilm, 1988-1989).

In the fifth category, Canadian Broadcasters have doubled their contribution from \$2.7 million in 1987-1988 to \$4.4 million in 1989. "This \$4.4 million was from licenses from pay-television, while a further \$700,000 was set aside by producers as revenue" (Telefilm, 1988-1989). The sixth category, other government sources is the second most significant category, worth \$14.8 million. This was due to the contribution of the NFB, which, like Telefilm Canada was allocated extra funding for production in 1988 (\$4.4 million).

The remaining \$10.4 million came from the provincial funding agencies including Film B.C. The seventh category, foreign participants, contributed \$3.3 million for production costs. However, an additional \$1.4 million (not shown) was retained by producers as guaranteed revenues (Telefilm, 1988-1989). It is also important to note that of the \$3.2 million contributed by foreign participants, \$2.3 million went towards 8 french-language films and only \$895,000 went towards 2 english-language feature films (Telefilm, 1988-1989).

## CONCLUSION

Government attempts to promote the development of a feature film industry in Canada are relatively new and have had to overcome major obstacles and involved much learning. . In the seventies, the federal government focused its policies on production through direct support to producers through the CFDC and through the CCA program. This combination resulted in a tremendous increase in private investment and feature film production. However, since producers must be able to recoup their investment through distribution and exhibition networks both domestically and internationally, this focus by the federal government on production to the exclusion of distribution proved unsuccessful.

In the early eighties, development in support for feature films shifted from feature film production, where United States interests controlled distribution and made it difficult to secure exhibition of Canadian-produced films, to television production, where Canada had exerted more control over distribution channels for broadcasting to assure exhibition. The broadcast fund, through its eligibility requirements was effective in linking production financing to distribution or exhibition. The results have been considerably better in generating productions aimed primarily at Canadian audiences and in developing a domestic production industry. This had an advantage over the earlier

reliance on the CCA, since producers did not receive financing unless their television programs were to be aired on Canadian television. The CRTC, through conditions of license for broadcasters and pay-television services, encouraged demand for Canadian programs and a substantial increase in Canadian content throughout the broadcasting system. CRTC regulations also ensured the exhibition of most Canadian feature films on Canadian pay-television. The remaining difficulty is that producers still receive only a small amount of money when they license their television programs to a Canadian broadcaster or a pay-television network.

In 1986, the federal government, recognizing that the under-capitalization of most Canadian production companies resulted in an inability to finance feature films, established the feature film fund. However, the federal government, through the fund's eligibility rules, took care to establish a relationship between Canadian distributors and producers by requiring producers to obtain a guarantee or advance from a Canadian-owned distribution company. The federal government also focussed attention on the distribution sector by establishing the distribution fund in 1988.

The establishment of provincial agencies such as B.C. Film, Telefilm's commitment to allocate more funding to the regions, and regional initiatives undertaken by the NFB resulted in increases in regional production, in particular, in British Columbia.

Effective as these developments have been, Telefilm's contribution to production budgets remains a significant 49% of total production budgets. Furthermore, it is not certain that Telefilm's commitment to provinces other than Ontario and Quebec will continue. Ontario and Quebec still receive a substantial percentage of total Telefilm spending, in both feature film and broadcast funds. Private investment in feature films is decreasing, which in turn will result in a high demand for development and production financing from government agencies and increased competition for financing with the larger, more established companies in Toronto and Montreal.

The contribution of Canadian distributors towards financing Canadian feature films is increasing; but, at present is more significant in terms of marketing. Furthermore, it is difficult to predict whether \$17 million a year Telefilm provides to Canadian distributors will result in significant increases in financing Canadian feature films or increase their ability to acquire rights to commercially successful foreign films. These Canadian



distributors must compete with the Hollywood majors as well as foreign distributors. Since legislation through the Film Importation Act has not yet been passed, the control by the major Hollywood distributors on Canada's theatrical exhibition market will be expected to continue for many years to come.

SURVEY OF  
B.C. FEATURE FILM PRODUCTION COMPANIES

CHAPTER FOUR

INTRODUCTION

The following chapter outlines the current stage of development of an indigenous feature film production sector in British Columbia. Information was collected to illustrate its present characteristics and capabilities and to determine the extent to which the factors necessary for an indigenous industry are present. To this end, a questionnaire (Appendix One) was designed and personally administered to executives and producers of eighteen production companies developing feature film projects in 1988. Identification of the production companies was facilitated by discussions with the current chairman of B.C. Film, one member from the British Columbia Motion Picture Association (BCMPA) and a government official within the Ministry of Tourism, Recreation, and Culture.

The questionnaire was structured to obtain data for each company regarding:

1. the nature of the company and the particular categories of production engaged in;
2. the current (1988) film project;
3. the sources and extent of financing of the current project, and;
4. the concerns of the industry.

## LIMITATIONS OF METHODOLOGY

### 1. Production Infrastructure

Feature filmmaking is dependent on a production infrastructure that consists of facilities (studios, stages, labs, equipment), and technical expertise in production and post production. Because of the level of foreign production in the province, B.C. is recognised as being very well equipped in these facilities and technical expertise. A 1986 study on the development of the B.C. production industry<sup>1</sup> indicated that the pattern of location shooting in B.C. has resulted in a substantial volume of post production services being carried out by companies in the province. With respect to facilities, and apart from commercial and community television facilities, there are eight studios in Vancouver. Furthermore, issues related to adequate film production facilities were examined in two studies prepared for the British Columbia Development Corporation in 1985.<sup>2</sup>, and there have been several articles in the trade journal, Playback, which lists the major film, television, and commercial studios in Canada. Of these, the Bridge Stages: B.C. Film Centre, and the North Shore Studios are considered two of the leading studios in Canada.<sup>3</sup> Therefore, the

1 Paul Audely and Associates Ltd., The Development of the Film Industry in British Columbia, 1986.

2 Quantalytics Inc., The Film and Video Industry in British Columbia: Industry Structure and Market Survey, August, 1985. Urbanics Consultants Ltd., British Columbia Film Production Facilities Study, October, 1985.

3 Playback, July 10, 1989; Playback, January 8, 1990.

present level of operations of production studios and post production labs and services in B.C. is not considered further.

## 2. The Production Nucleus

Previous to 1987, there were only a limited number of low-budget feature films produced in the province. Since there has been very little opportunity for producers in the past, the precise number of producers who wish to produce feature films is impossible to determine. Twenty-three producers were originally identified, but four could not be reached at the time the survey took place.<sup>4</sup> These four producers are significant, because each has produced or written feature films before and therefore have a "track record" with funding agencies. In fact, three of these producers went on to produce features in 1988.<sup>5</sup> However, the majority of all other producers, presently residing in British Columbia, who produced feature films in the seventies and early eighties were identified. Because of the capital requirements of feature filmmaking, and the eligibility rules of federal and provincial funding agencies

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4. These were: Sandy Wilson, writer and director of My American Cousin; Christian Bruyere, an independent television producer and scriptwriter; Robert Frederick, current line producer for the television series, McGuyver, and Charles Wilkinson, director and writer of the 1984 feature film, My Kind of Town. The feature film, My American Cousin, was actually produced by Ontario-based producer, Peter O'Brien.

5. Sandy Wilson went on to produce and write the feature, American Boyfriends in 1988; Robert Frederick produced The First Season in 1988; and Charles Wilkinson produced the feature, Quarantine in 1988.

which require experienced producers, the survey does include all of the larger ongoing B.C.-based companies who have expressed interest in developing feature films.

### 3. Limitations of Questionnaire

Data gained from several questions are not able to be used. In particular, a question was asked whether the company had been set up for the sole purpose of completing a project. Although all companies answered no, in the B.C. Film Annual Report, three out of the seven companies who completed feature films and were involved in the questionnaire had different company names, and, in two cases involved additional producers other than those interviewed.

Questions directed towards the kinds and number of projects these companies had in development proved problematic because "development" was not sufficiently defined. However, data about the nature of these projects were included to illustrate the direction (i.e., television production, documentary production, etc.) the companies were taking.

Question thirteen regarding the category of market (domestic or international) their previous features were sold in was not relevant as very few has produced features before. Questions 16 and 17 were directed towards the types of skills they and their employees possessed. This was not particularly useful as virtually all companies listed a wide selection of production and financial skills, particularly the companies who primarily produce television commercials.

This field study was administered in June 1988, nine months after the establishment of B.C. Film and its release

of funds to eligible producers. At the time the survey took place, financing arrangements for many projects had not been completed and very few feature films had finished either principal photography or post production. Furthermore, only a small number of these films had made arrangements with distributors, and none of the companies were receiving revenues from these films. Because of these factors, questions were directed towards the sources of development and production financing rather than specific domestic or international markets that these films, in the last year, possibly gained entry into.

Twelve feature films obtained production financing as a result of funding from B.C. Film and Telefilm Canada between September 1987 and April 1989. Ten have finished principal photography and have been in distribution throughout 1989. Seven of these producers were interviewed in the field study. In addition to very limited mentions about these films in newspaper and trade magazine articles, there are B.C. Film annual reports covering 1987-1989. These reports simply list the production company and the amount of production financing received through B.C. Film. Hence, a brief addendum has been added as part of this chapter.

#### COMPOSITION OF FEATURE FILM COMPANIES IN BRITISH COLUMBIA

The composition of indigenous production companies in British Columbia fall into five production categories (Table 15). This table indicates that feature films, to date, have not been produced by companies whose revenue

TABLE 15

**COMPANIES INVOLVED IN FEATURE FILM PRODUCTION  
IN BRITISH COLUMBIA: 1986-1988**

No. of Firms	Major Production Activity*	FEATURE FILMS Number	
		Completed	In Development
2	Television Commercials	--	1
4	Government and Corporate Sponsored	--	4
7	Television Dramas and Documentaries	1	14
5	Feature Films	1	15
18		2	34
		<u>Television Dramas    Documentaries</u> Number in Development	
Television Commercials		2	--
Government and Corporate Sponsored		5	4
Television Dramas and Documentaries		13	6
Feature Films		5	--
TOTAL		25	10

SOURCE: Field Survey, 1988 \*comprises companies with revenues  
>50% from this production category

comes from television commercials. Of the eighteen companies, five companies reported that all of their revenue came from feature film production although a percentage of their time was devoted to developing television programs as well. The remaining thirteen companies reported that more than 50% of their revenues came from producing government and corporate sponsored films, television dramas, and documentaries. Interest in developing feature film projects is on the rise in British Columbia both in regard to those devoting most of their time to feature film-making and those involved in other categories of film production. These eighteen companies had a total of 34 feature film projects and 25 television dramas in development. Companies involved primarily in feature film production reported the highest number of feature film projects in development with an average of 3 films per company (Table 15).

The production background of the individuals and their staff ranged from creative: directing, acting, writing, cinematography, sound recording - to business: finance, banking, business management, administration and market research. When asked the percentage of time each respondent spent in particular production areas (i.e., scriptwriting, producing etc.) on their current feature film project, all respondents claimed that more than 50 per cent of their time was spent as producer. Three respondents claimed that 30 per cent of their time was spent script writing.

Between 1986 and 1988, two of the eighteen companies had completed two feature length films. One of these films was produced by a company whose revenue came from the



production of television dramas and documentaries. This feature film was produced with financing funds from B.C. Film and Telefilm Canada and other sources. At the time of the survey, this company had received a distribution agreement with an Ontario-based distribution company. The second feature film was low-budget film produced by a company whose total revenues came from feature film production. This film was 100 per cent financed in a partnership with an American-based company.

The producers were generally reluctant to reveal their average annual revenues; however, data were obtained for 4 companies for 1986 and 6 companies for 1987 and these figures reveal a range of \$20,000 - \$3 million (Table 16).

#### CATEGORIES OF PRODUCTION COMPANIES/PRODUCERS

##### 1. Television Commercials

These companies have been in existence for an average of nine years and employ between 10 and 13 permanent staff, the highest number of full time employees of all the production categories. Of the four production categories, they are the largest employer of freelancers, employing up to 200 freelancers as technicians, production assistants, make-up artists, editors, art directors, actors and actresses, script supervisors, sound engineers, craft service personnel, camera assistants, and directors of photography in 1987. Both companies stated that for the years 1986 and 1987, 100% of revenues came were from the production of television commercials. Only one of the companies reported having one feature film and two television projects in

TABLE 16

**CHARACTERISTICS OF COMPANIES INVOLVED IN  
FEATURE FILM PRODUCTION IN BRITISH COLUMBIA**

	<b>AVERAGE NUMBER OF Years In Business</b>	<b>Full time Staff</b>	<b>Gross Revenues From Production</b>
Television Commercials	9 (5-13)	11 (10-13)	---
Government and Corporate Sponsored	10 (2-23)	3 (1-4)	\$25,000
Television dramas and Documentaries	7 (2-15)	2 (1-14)	\$50,000 - \$3,000,000
Feature Films	4 (1-6)	2 (1-4)	\$22,000

Field Survey, 1988

development (Table 15). This company reported spending up to 20% of its time in this area in 1988. Both companies plan to shift into feature film and television production in the next five years. No revenues or salary costs were given.

## 2. Government and Corporate Sponsored Videos

These are small companies which are either single ownerships or limited partnerships of between 2 and 4 persons and they do not employ permanent staff. They have been in existence between five to twenty-three years. They employ freelancers, primarily in the areas of scriptwriting, production assistants, researchers, directors, technicians, editors, and production managers. Their revenues primarily came from corporate and government sponsored films; however, a percentage came from such production categories as commercials, educational films, equipment rentals, and supplying post production facilities. Only one company reported annual revenues of approximately \$25,000.

## 3. Television Dramas and Documentaries

This production category contains the largest number of companies. These companies have been in existence an average of seven years and range from two to fifteen years. With one exception, all companies are either single ownerships or partnerships of between one and three partners and only one of these has a permanent employee. Three of these companies reported losing one partner or permanent employee between

1986 and 1987. These companies reported a total of 14 feature films in development, an average of two per company, 13 television dramas, and six documentaries.

At the time of this survey, one company had finished principal photography, with financing from B.C. Film and Telefilm. This company had raised the remaining portion of its financing through the sale of public issues the preceding year. This company has 14 permanent employees and reported that ninety per cent of its 1986 and 1987 revenues came from the production of documentary films. Of all the production companies in this survey, this company has the highest number of feature films and television dramas in development: four features, six dramas, and two documentaries (Table 15).

#### 4. Feature Films

These companies have been in existence for an average of four years and, with one exception, are characterized by single ownerships or limited partnerships of two people. The exception is a private investment company with two divisions; 1) a private financial investment division that functions as a managing general partner in two film investment limited partnerships; and, 2) a private Canadian-controlled film production company whose four principals act as executive producers on selected projects. Their film investment division primarily invests in certified Canadian television and feature films. The production division reported having five feature films and two television dramas in development. For reasons of confidentiality, very

limited information could be obtained as to its operations. However, unofficial sources suggest that this company is recognized by the Canadian Employment and Immigration Commission (the CEIC) as a "privately administered investment syndicate" and, accordingly, is able to attract Asian investors through B.C.'s Immigrant Investor Program. This company is estimated to be worth over \$35 million dollars.

#### CURRENT FEATURE FILM PROJECT

For those companies that received either development or production financing for their feature films, information was gathered concerning their sources of financing (Table 17 and 19). The production budgets of those feature films which has completed production financing are set out in Table 18.

#### Development Funding

Eleven companies received development funding from various sources. In addition to a significant amount of producer involvement in the development of their projects, the highest level (32 per cent) was received from Telefilm Canada and private investors (29 per cent). There was very limited involvement by Film B.C. (3 per cent) at the development stage (Table 17). The remaining nine per cent of development monies were obtained from distributors, the NFB, the CBC, the Canada Council, private television

TABLE 17

**DEVELOPMENT FUNDING FROM VARIOUS SOURCES  
FOR CURRENT FEATURE FILM PROJECT**

Personal/Producer Investment	32%	
Private Investment	29%	
Federal (Telefilm)	27%	
Other Federal Programs	2%	
Provincial (B.C. Film)	3%	
Distributor	1%	
Broadcaster		
- CBC	1%	
- Private	1%	
Pay-Television	4%	
<hr/>		
TOTAL	100%	(N=11)

Field Survey, 1988

stations, Canadian pay- television services, the Federal Department of Supply and Service (DSS), and the Provincial Ministry of Industry and Small Business Development.

### Production Budgets

Eight companies had completed production financing for their feature films. Total production budgets were \$14,872,000 and comprised several low budget films (Table 18).

One script was based on a Canadian novel and another was based on a radio play. In both cases, the options were purchased and the script writing was done by B.C. writers. The remaining six screenplays were original concepts and were written by the producer.

### Production Financing

Producers received the highest proportion of their production financing from Telefilm Canada's Feature Film Fund (29 per cent) and B.C. Film (25 per cent). These companies received the majority of their development funding from Telefilm with relatively limited involvement by B.C. Film at this stage (only three per cent). A significant amount (22 per cent) came from private equity investment, through public sale, and a small proportion from crew, cast, and service deferrals. The remaining 26 per cent came from distributors in the form of revenue guarantees, technical services from another province, license fees from the CBC and Canadian pay-television, and a small amount from the Telefilm's Broadcast Fund (Table 19).

TABLE 18

## BUDGET OF FEATURE FILMS RECEIVING PRODUCTION FINANCING

2	Government and Corporate Sponsored	\$3,000,000 \$550,000
1	Television Dramas and Documentaries	\$2,300,000
5	Feature Films	\$882,000 \$2,800,000 \$3,000,000 \$2,000,000 <u>\$340,000</u>
TOTAL		\$14,872,000

Field Survey, 1988



TABLE 19

**PRODUCTION FINANCING FROM VARIOUS SOURCES:  
% OF CURRENT BUDGET FROM VARIOUS SOURCES**

Personal Investment	12%	
Private Investment	22%	
Federal Sources		
Broadcast Fund	3%	
Feature Film Fund	29%	
NFB	1%	
Provincial (Film B.C.)	25%	
Other	2%	
Distributor	4%	
Broadcaster		
- CBC	2%	
- Private		
Pay-Television	2%	
<hr/>		
TOTAL	100%	(N=8)

Field Survey, 1988

## FACTORS AFFECTING PRODUCTION IN BRITISH COLUMBIA

The respondents were asked to list the areas of most concern to them as a producer/company in British Columbia. Their concerns were ranked into the following general categories and summarized below.

### MAJOR CONCERNS

#### Rank

- 1 Weak broadcast/distribution outlets
- 2 Lack of good screenplays
- 3 Lack of mature producers/expertise
- 4 Inadequate government funding
- 5 Lack of Capital

#### 1. Weak broadcast/distribution outlets

The location of distribution outlets in Ontario and Quebec and the corresponding lack of any main distribution companies in British Columbia was, by far, the major concern of these producers. There is only one distribution company capable of distributing feature length films located in B.C.. as compared to a dozen located in Toronto. Since Telefilm requires distribution guarantees in the development stage, large travel costs to Toronto or to the United States in search of distribution is incurred. Producers pointed out that they had limited U.S. and international contacts and no "track record" for approaching them.

The CBC was perceived to be a major obstacle to production opportunities because of centralized decision-making and the absence of regional television productions originating in B.C.

## 2. Lack of good screenplays

All producers pointed out that there was a lack of quality scripts. They stressed the importance of developing writers and advised that provincial programs should focus on the creative aspects (writers and producers) over the technical aspects of filmmaking. They linked "continuity of production" to a availability and volume of scripts and projects in all phases of development. Furthermore, the successful development of producers, writers, and directors in the United States was linked to the frequent and regular opportunities available to these people for work in television where credibility can be established.

## 3. Lack of Mature Producers/Expertise

For a production industry to be viable in B.C., mature and proven producers are needed. Support for creating producers and companies with strong "corporate bases" was mentioned frequently to attract corporate and development funding. For the smaller budget films to succeed, large "ongoing production entities" are required with sophisticated executive producers who can arrange the financing necessary to produce the smaller films.

## 4. Government Funding Mechanisms

Concern was shown for policy to develop slowly in accordance with the level of capacity within the province.

The federal tax structure was pointed out to be neither useful nor supportive. There was a mixed attitude towards Telefilm ranging from a perception that Telefilm possessed a "limited sense of the capacities of the Western provinces" to the perception that Telefilm had "funded every B.C.-based project they possibly could have". Some felt that federal policies lagged behind other countries in promoting culturally relevant films because of the tremendous pressure in Canada to make films similiar to American films.

Suggestions regarding B.C. Film's programs were that the agency's financial interest should be relative to the amount of money that they initially invested in a project and that too much of the producer's profits were required. Furthermore, B.C. Film's maximum grant for a one-half hour television drama is \$25,000, whereas a one-half hour series like Danger Bay costs \$400 thousand per episode. B.C. Film's development loans should be forgivable, as in Telefilm Canada's.

The producers noted that indigenous film making does not seem to rank very high in the province. Other provincial ministers should talk about film as being a vital part of the community. They also pointed out that there were no consistent venues in British Columbia, as in Quebec, for public viewing.

#### 5. Lack of Capital

Raising capital was a time-consuming and arduous process which frequently involved approaching three to six government agencies as well as private investors.

TRAINING

This section of the questionnaire sought information concerning the areas of training that would be most beneficial to producers in British Columbia. The areas judged most in need of education were knowledge of financing arrangements, market research, accounting, business plan preparation, and the distribution industry. Because there are few opportunities for B.C. filmmakers to gain experience, workable mechanisms for training needed to take place. Although Film B.C. has a small apprenticeship program for producers, the producers felt that the Canadian television networks should become more involved in training programs aimed at directing and producing.

ADDENDUM

A total of \$5,482,280 was spent by Film B.C. in the period from September 1987 to April 1989 and allotted to the areas listed below.

CATEGORIES	Number of Projects	B.C. Film Investment
Feature Film	11	\$4,561,647
Script Development	35	\$ 233,382
Pre-production	4	\$ 71,500
Short Production	12	\$ 344,868
Non-theatrical	5	\$ 47,348
<b>SUBTOTAL</b>	<b>67</b>	<b>\$5,258,745</b>
Distribution		\$ 35,525
Professional Development		\$ 46,600
Bursaries/grants		\$ 141,410
<b>TOTAL</b>		<b>5,482,280</b>

B.C. Film's total spending of \$5.2 million in 1988 went towards the direct financing of 67 projects, and \$4.6 million, or 83 per cent, of B.C. Film's budget was directed towards the financing of 11 feature films. Other significant sources came from the CBC (\$1,364,111), independent broadcasters and distributors (\$3,514,150), and the private investment community (\$5,722,841). Another significant financing source for these producers was received from public sale of equity units.

B.C.'s dramatic increase in feature film production (from one feature film in 1987 to 11 out of a total of 34 Canadian features produced in 1988-1989) reflects Telefilm's 1988 commitment to regional production that year as well as the several low budget films that received financing. A focus by B.C. Film on production financing rather than development monies possibly reflects the fact that B.C. Film was established six years after most other provincial agencies and that the majority of these projects, with previous aid from Telefilm, were prepared for production. The establishment of B.C. Film has enabled producers in the province to complete a portion of their financing, to lever funds from Telefilm Canada, and to establish credibility and experience. In 1990, B.C. was allotted \$15 million in funding (raised from \$10 million) for another three year period.

This subsequent allotment of funds to B.C., from Telefilm was worth \$12.7 million dollars as illustrated in Chapter three. Telefilm's B.C. spending increased from \$2 million in 1987 to more than \$12 million in 1988.

Evidence gained through recent newspaper articles indicate that the opportunity afforded to producers by B.C. Film and Telefilm has led to further developments in 1990. A B.C. production company produced and completed a 22 episode television series currently airing on CTV. An Ontario-based company is currently co-producing a television series with a B.C. production company interviewed in this survey. This series is based on a feature film completed by a company interviewed in this survey. Two additional companies interviewed in this survey have formed venture capital funds and one of these companies have made bids on Burnaby's Bridge studios, now owned by B.C. Pavilion Corporation.

#### CONCLUSION

Though there has been some modest development in B.C.'s production sector in the last two years, few companies in B.C. are producing or concentrating exclusively on feature films but serve other markets such as industrial and government sponsored production. The few companies developing feature films are small, short-term companies (have been in existence less than four years) and are comprised of either individuals or partnerships of one or two people who apply for funding on a project-by-project basis. These producers have been attracted to feature film production primarily because of the opportunities afforded by B.C. Film and Telefilm. As compared to the large Eastern-based companies like Alliance Entertainment with annual revenues of \$100 million, whose principals have produced 50 feature films, five mini-series, and the on-going television

series, Night Heat, B.C. companies do not have a large and diversified volume of both television and feature film productions from which to gain a cash flow. Since B.C. companies rely heavily on government funding, the two most significant factors for further feature film production have been the opportunities afforded by B.C. Film and Telefilm.



## CHAPTER FIVE

### SUMMARY AND RECOMMENDATIONS

#### CANADIAN CONTEXT OF FEATURE FILMMAKING

To make a feature film in Canada, producers must obtain financing, bring together artistic and technical skills, obtain access to production facilities, and arrange for distribution and sales.

Although there has been some critically acclaimed and financial successes such as The Decline of the American Empire (grossing \$20 million in sales), very few Canadian feature films have attained the volume in sales needed to incur a self-sustaining feature film industry. Because of Hollywood's control of Canada's exhibition market (only 3-5 per cent of screen time is accorded to Canadian feature films) and because of our nation's small domestic market, Canadian producers must rely on international sales to break even. Moreover, feature filmmaking in Canada, like in most other countries, is characterized by great risk and little chance of profitability.

Canadian producers are dependent on access to federal and provincial sources of financing for as much as 62 per cent of their financing. The balance is provided by broadcasters, private investors, and deferral agreements, or through co-productions with other countries. To obtain this government funding, producers must first secure a commitment from a Canadian-owned distribution company and distribution plans for international territories must be in place. The

Canadian government is now supporting a nucleus of Canadian-owned distributors with subsidies to help them establish both a capital base and contacts in the international marketplace. While the retail home video market in Canada is expanding rapidly, it is not yet a significant source of financing or revenue for Canadian feature films. As it matures and integrated chains develop, it is hoped that a new source of financing for Canadian feature films will emerge.

Domestic television production has also been a factor in Canada's feature film development. The Canadian Broadcasting corporation has played a major role in invigorating the industry by training writers, directors, producers, and technicians, giving them the experience of working in the broadcast medium. The CBC is still the lifeline for the independent producer, being by far the biggest buyer of Canadian productions. Successful production companies produce a mixture of both television and feature films. As well, these companies have established relationships with companies in other countries, thereby providing them with an expanded market and opportunities for co-productions. Investors are attracted to ongoing production entities which are capable of producing a consistent output of both television and feature films.

Concern for support and development of the arts, including film, have been on the national agenda since the 1930's when the Massey Commission recommended the establishment of an endowment fund for the arts. We are in many ways and to an unacceptably high degree, a culturally

occupied country. The books and periodicals we read, the films we watch, the radio and television programs to which we are exposed, are overwhelmingly foreign and predominantly American and the Canadian component is marginal at best. The Canadian market for feature films is dominated by the United States. Unless matched by support at home, the net effect of no support would be to lose all of our options while gaining none we don't already have. It is important that Canadians have access to the works of Canadian creators, works that reflect Canadian experiences and aspirations from a Canadian perspective. Given the nature and pace of technological development, the small control we currently exert will only dwindle unless appropriate measures are taken to enhance the Canadian cultural infrastructure and provide a stronger Canadian alternative to an all-pervasive foreign culture.

They are concerned, as they should be, that as means of communication remain in Canadian hands, the better to reflect the Canadian reality, however that may be perceived by our filmmakers. Since enormous sums of money can be spent to make a film, the governments also use less costly devices whenever possible. New laws, regulations, licensing, and low cost support in areas like marketing, distribution, training and promotion.

#### B.C.'S FEATURE FILM SECTOR

Previous to 1987, there were only a limited number of feature films produced in the province. Chapter four outlined the current stage of development of the indigenous feature film sector in British Columbia. Information based

on a self-designed questionnaire was collected to illustrate the present characteristics and capabilities of the production nucleus and to determine the extent to which the factors necessary for an indigenous industry are present. This questionnaire was personally administered to executives and producers of eighteen production companies developing feature film projects in 1988. Information was sought regarding the nature of the production company, categories of production engaged in, the current (1988) feature film, sources and extent of financing of the current feature film, and the concerns of the industry.

Table 16 from the field survey illustrates that B.C.'s feature film sector is comprised of small production companies. They are either single ownerships or limited partnerships of between 2 and 4 persons and do not employ permanent staff. The average gross revenues from production for these companies were approximately \$30,000. Therefore, these companies do not have enough capital to plan and manage substantial feature film or television production. The field survey examined the sources of financing from these 18 production companies and showed that most companies rely on, and compete for, financial support from Telefilm and B.C. Film (table 17 and 18). Increases in B.C. feature film production are a direct result of success in getting this support. However, Telefilm's funding to the province's filmmakers is unreliable, evidenced by the production of eleven films in 1988 and only one in 1990 (Table 15).

Table 15 from the field survey shows that the majority of production revenues of B.C. companies is still garnered from industrial and government films and television commercials. Television and feature film production produces only a minority of their income. A major drawback for B.C. producers is the geographic distance from head offices of existing Canadian broadcasting networks and major feature film distribution companies in Eastern Canada. However, B.C. producers have access to a strong local base of crews, studio facilities, and substantial post production, facilitated by the breadth of American location shooting and commercial production being done in our province.

The reality is that, at present, B.C. has small production companies with limited revenues who produce feature films on a project-by-project basis through the opportunities provided by B.C. Film and Telefilm. Currently, B.C. Film has an allotment of \$15 million dollars which is to be spread over the next three years, but their mandate includes funding television and documentaries, thereby reducing the share for feature films. Other factors, such as B.C. producers' annual competition with other provinces for their share of Telefilm's \$35 million dollar feature film fund reduces our annual output to between one and six feature films per year.

#### The Ontario Experience

By comparison, Ontario's feature film production equals 10-15 films per year. This level of output has been consistent in the last ten years. Ontario companies have

been the primary beneficiaries of federal assistance programs and have garnered the majority of this funding since the development of the Canadian Film Development Corporation in 1968 and the Capital Cost Allowance program in 1974. Ontario also has a longer history of funding film activity through the Ontario Arts Council and the Cultural Industries Branch in the sixties and seventies. Currently, the Ontario Film Development Corporation with an annual budget of \$20 million continues this tradition. Telefilm has also been aiding feature film distribution companies, and these are presently located in Ontario. The province also provides provincial tax credits worth \$20 million. Thus, Canadian theatrical distributors are investing in Ontario-based feature films, thereby helping a well-established nucleus of reputable international and domestical producers.

The broadcast fund still gives major support to Ontario companies. Five or six of the largest feature film and television production companies are located in Ontario. Some of these companies began as small industrial film companies. by marketing their productions to, and developing international contacts with, European and American cable broadcasters and distributors. In Canada, they have co-produced with the CBC, Global, and Canadian pay-television. As well, independent broadcasters such as Global and TV Ontario, the educational broadcaster, has provides significant development financing and enters into co-productions with Ontario-based producers.

## PROSPECTS FOR FEATURE FILM MAKING IN B.C.

Given the above conditions, what are the prospects of establishing a viable film industry in B.C.? The three main factors in achieving this will be:

- a) the development of several medium-size companies;
- b) the provision of adequate and consistent funds from federal and provincial sources;
- c) the promotion of the supply of good quality scripts.

The present B.C. feature film sector has no large or medium-size companies. This has led to the inability to utilize extensive funding on a continuous basis. For example, the number of feature films produced annually since 1986 varies from one to eleven. This erratic pattern means that resources cannot be planned and local script writers cannot be assured of a regular market. The need is, thus, to establish a new, realistic level of operation for feature filmmaking in B.C. and to provide long term and consistent support. The threshold level would, therefore, require the following:

- a) that there be scope for 2-4 firms to develop to medium-size (e.g., \$5-10 million per year).
- b) that federal and provincial funding be available for 2-5 productions per year (e.g., total production budgets \$3 million each); and,
- c) that an adequate supply of scripts be available (e.g., 20- 50 scripts per year).

As stated in Chapter two, the conventional wisdom of the film industry is that one in ten screenplays are put into serious development. There needs to be a pool of scripts written B.C. in the range of 10 to 20 scripts per

year. B.C. Film currently provides up to a maximum of \$15,000 for the development of a feature film screenplay. At this funding level, it would cost B.C. Film approximately \$300,000 to \$1 million dollars annually in direct funding. B.C. writers can also access the programs available through Telefilm and FUND. Telefilm currently provides up to a maximum of \$25,000 per screenplay. FUND commits \$1 million dollars annually in interest-free loans, payable on the first day of principal photography and have a program for more experienced writers, committing a maximum of \$50,000 dollars.

An average Canadian feature film costs approximately \$1 - \$3 million to produce. For production financing, current federal feature film programs provide up to 49 percent of the financing (or \$1.5 million) and B.C. Film provides up to \$600,000, to a maximum of 25 per cent of the budget for higher budget films. At this level of government funding, B.C. Film would have to commit \$1 - 2 million annually for the production of two films per year.

It's very difficult to ascertain the level of development monies needed and for how long a period in order for stable production companies to develop. However certain factors are necessary: long term policies from federal and provincial agencies, regulation, and a healthy broadcasting industry.



In order to create these conditions, there will be a need for action by both the federal and provincial governments and their film development agencies, Telefilm and B.C. Film. The minimum steps each will have to take are set out below.

### RECOMMENDATIONS

#### B.C. Provincial Government

1. The province should provide sufficient funding to B.C. Film (e.g. \$4-5 million per year) over the next 5 years for production financing. Other aspects of B.C. Film's mandate will require additional funds.
2. British Columbia should consider offering investment incentives in the form of tax credits comparable to those available in Ontario and Quebec.
3. British Columbia should provide additional seed money to the Knowledge Network to encourage co-productions and development.
4. The province should actively and publicly market the indigenous film industry to B.C. people.

#### B.C. Film

5. B.C. Film should be mandated to consult with Telefilm, the NFB, CBC, and the CRTC on film-related issues.
6. B.C. Film should promote strong production entities and cultivate B.C. filmmakers, writers, and other industry professionals, both those that are proven and unproven.

7. B.C. Film should promote and maintain Canadian and foreign distribution and broadcast through co-productions.
8. B.C. Film should promote initiatives that focus on developing relationships between producers in other provinces.
9. B.C. Film should design programs to encourage new producers and the development of low-budget films.
10. B.C. Film should establish a script-writing fund and a program to promote the development of 20-50 scripts per year.

#### Telefilm Canada

11. Telefilm should allot \$2-5 million per year to B.C. feature films.
12. The support program for distributors should be continued, concentrating on the established companies in the east.

#### Federal Government

13. The Film Importation Act should now be passed to give Canadian distributors the opportunity to obtain foreign distribution (including video retail) rights.
14. An advisory committee should be established to advise and report on industry compliance.
15. The CBC should be funded to ensure that their mandate (95 per cent Canadian content) is reached.

16. CRTC should continue to monitor Canadian content requirements by pay-television services thus ensuring that as revenues increase, Canadian content also increases.



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APPENDIXQUESTIONNAIRE: FEATURE FILM PRODUCTION COMPANIES IN B.C.

## PART ONE

THE PRODUCTION COMPANY/PRODUCER

1. How long has your company been in existence?  
       \_\_\_\_\_ years                      \_\_\_\_\_ date established
2. Was the company set up to complete one project?  
       \_\_\_\_\_ no  
       \_\_\_\_\_ yes
3. What is the form of your company?  
       \_\_\_\_\_ single ownership  
       \_\_\_\_\_ limited partnership  
           no. of general partners \_\_\_\_\_.  
       \_\_\_\_\_ other  
           describe \_\_\_\_\_  
       \_\_\_\_\_
4. Is the company a division of some other company?  
       \_\_\_\_\_ no            \_\_\_\_\_ yes      location of head office \_\_\_\_\_
5. At the present time, do you have any feature-length projects in development?  
       \_\_\_\_\_ no  
       \_\_\_\_\_ yes      How many? \_\_\_\_\_      Budget \_\_\_\_\_  
       Describe \_\_\_\_\_  
       \_\_\_\_\_
6. What other kinds of projects do you have in development? Please specify project category:  
       \_\_\_\_\_  
       \_\_\_\_\_
7. How many?  
       \_\_\_\_\_ number

8. Have these received committed development funding?

\_\_\_\_\_ no  
 \_\_\_\_\_ yes

9. How many productions was your company involved in 1986 and 1987?

	1986	1987	1988
Development	_____	_____	_____
Completed	_____	_____	_____
Total	_____	_____	_____

10. For the years, 1986 and 1987, please list as percentage the amount of revenue your company received from each kind of production:

1986

_____ % Feature Film	_____ % TV Commercials
_____ % Theatrical Shorts	_____ % TV Series
_____ % Documentaries	_____ % Others
_____ % Animation	_____ (specify)
_____ % News/Journalism	

1987

_____ % Feature Film	_____ % TV Commercials
_____ % Theatrical Shorts	_____ % TV Series
_____ % Documentaries	_____ % Others
_____ % Animation	_____ (specify)
_____ % News/Journalism	

11. What was your gross revenue from production?

1986 \$ \_\_\_\_\_ 1987 \$ \_\_\_\_\_

12. For your production staff, what were your salary expenses?

1986 \$ \_\_\_\_\_ 1987 \$ \_\_\_\_\_

13. If you sold feature films, to whom were they sold to?

	CAN	U.S.	OTHER
Film/video distributors	_____	_____	_____
Television Networks/stations	_____	_____	_____
Pay T.V.	_____	_____	_____
Other	_____	_____	_____
(specify) _____			
_____			
_____			

14. What is the company's goal in the next five years?

\_\_\_\_\_ feature films  
 \_\_\_\_\_ television  
 \_\_\_\_\_ other

## PART B

### KEY PRODUCTION PERSONNEL/ STAFFING

15. Of key production personnel, how many did you employ

	1986	1987
on a permanent basis?	_____	_____
On a temporary basis?	_____	_____

16. Among your permanent staff, what kinds of skills do they have? Please specify:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

17. If you employ freelancers; what is their function? (e.g. researcher, script supervisor, writer, etc.)

_____	_____	_____
_____	_____	_____
_____	_____	_____

18. List the organizations that you and your permanent staff are members of in the industry.

1. \_\_\_\_\_ 2. \_\_\_\_\_ 3. \_\_\_\_\_

## TRAINING

19. What type of training do you feel would be useful for the temporary and permanent employees in your company? (e.g. production/market research, accounting, prospectus preparation, etc.)
- \_\_\_\_\_
- \_\_\_\_\_
20. Do any of the industry organizations provide assistance to the employees of your company?
- \_\_\_\_\_ no
- \_\_\_\_\_ yes Nature of assistance \_\_\_\_\_
- \_\_\_\_\_
21. In your most recent project, (choose a representative f.f. project) what percentage of your time did you spend working in the following categories?
- \_\_\_\_\_ % Producer (packaging and preselling)
- \_\_\_\_\_ % Executive producer
- \_\_\_\_\_ % Line producer/Production Manager
- \_\_\_\_\_ % Location Manager
- \_\_\_\_\_ % Director
- \_\_\_\_\_ % Screenwriter/script editor
- \_\_\_\_\_ % Researcher
- \_\_\_\_\_ % Accounting
- \_\_\_\_\_ % Casting/Agent
22. If your business is less than 100% for feature films in the industry and is supplemented by other employment, what percentage of time is in the film industry and what percentage of income?
- \_\_\_\_\_ % Time
- \_\_\_\_\_ % Income

## PART C

The following section is devoted to the current feature film project that your company has completed. If there are no completed projects, then please choose one that is in development.

CURRENT FEATURE FILM PROJECT

23. What is the budget of the film?

\$ \_\_\_\_\_

DEVELOPMENTPROPERTY/SCRIPT

24. Source of Property \_\_\_\_\_ original screenplay  
\_\_\_\_\_ based on another work  
\_\_\_\_\_ other specify

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25. Did your company or the writer receive any funding  
for script development?

\_\_\_\_ yes Source: \_\_\_\_\_  
\_\_\_\_ no

26. What was the form of the property when you began  
development?

\_\_\_\_ final draft  
\_\_\_\_ outline  
\_\_\_\_ treatment  
\_\_\_\_ other (specify) \_\_\_\_\_

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27. Did the originator remain involved in the process until  
production?

\_\_\_\_ no (describe) \_\_\_\_\_  
\_\_\_\_ yes (describe) \_\_\_\_\_

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## DEVELOPMENT FINANCING FOR THE PROPERTY

28. What means did you use to finance the development of the property? Please list as a percentage.

Personal/Producer Investment  
Private Investment

## FEDERAL

\_\_\_\_ National Film Board  
\_\_\_\_ Telefilm  
\_\_\_\_ broadcast fund  
\_\_\_\_ program(s) \_\_\_\_\_  
\_\_\_\_ feature film fund  
\_\_\_\_ program(s) \_\_\_\_\_  
\_\_\_\_ Other Federal Programs

## PROVINCIAL (B.C.)

Cultural Services Branch  
British Columbia Development Corporation  
Ministry of Industry and Small Business Devel.  
  
Film B.C.

## OTHER

\_\_\_ Industry Organizations  
 \_\_\_ Coproduction with another province  
 (describe) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_ Coproduction with another company  
 \_\_\_\_\_ location  
 \_\_\_ Coproduction with another country  
 \_\_\_\_\_ location  
 \_\_\_ Distributor/Sales Agent: (Can) \_\_\_\_\_ location  
 (Foreign) \_\_\_\_\_ location  
 \_\_\_ Broadcaster  
 \_\_\_ Pay-TV  
 \_\_\_ Other describe: \_\_\_\_\_

## PRODUCTION FINANCING

29. What means have you used to finance the production, post production or distribution of your work?

\_\_\_\_\_ % Personal Investment  
\_\_\_\_\_ % Private Investment  
\_\_\_\_\_ % Deferrals

## PUBLIC

\_\_\_\_\_ % Broadcast fund  
\_\_\_\_\_ % Feature film fund

\_\_\_\_\_ % B.C. Film Fund

## Other Provinces

\_\_\_\_\_ % Co-production

\_\_\_\_\_ % Theatrical distributors/Sales Agents

\_\_\_\_\_ % Advance

\_\_\_\_\_ % Equity investment

\_\_\_\_\_ % Distribution guarantee

\_\_\_\_\_ % Broadcasters

\_\_\_\_\_ % Pay-TV

\_\_\_\_\_ % Home video

## DISTRIBUTION/MARKETING

30. Did you participate in the film's marketing efforts?

\_\_\_\_\_ no

\_\_\_\_\_ yes

Describe \_\_\_\_\_

\_\_\_\_\_

31. Do you have any plans to attend any of the major festivals or trade shows?:

☐ no ☐ yes

If you have a distributor, are they participating?

☐ no ☐ yes

☐ Montreal Film Festival  
☐ Festival of Festivals (Toronto)  
☐ MIP-TV -Cannes, France  
☐ London Market  
☐ NAPTE - New Orleans, U.S.A.  
☐ Berlin Film Festival  
☐ Cannes International Film Festival  
☐ American Film Market - Los Angeles  
☐ other (specify) \_\_\_\_\_

32. What percentage of your budget was used for advertising? \_\_\_\_\_ %

#### DISTRIBUTION

33. Can you describe the process you went through to seek distributor involvement in your project. Was there travel involved? Was this a large portion of your development or production budget?

34. Have you ever received any distribution financing?

☐ no  
☐ yes

35. At what stage did the distributor get involved?

☐ script  
☐ development/preproduction  
☐ production  
☐ post production

FACTORS AFFECTING PRODUCERS IN BRITISH COLUMBIA

In recognition of the fact that feature filmmaking in Canada is a fact of life - despite: immense "structural" constraints regarding distribution and exhibition, lukewarm federal and at times, (when they're even aware) provincial policies, and of course, our small domestic market; please answer the following from your own standpoint as a producer in British Columbia:

36. Indicate in descending order, the areas of most concern to you as a producer in B.C. (I've offered the following as a starting point).

     quality of scripts  
     lack of scripts  
     travel costs (in preproduction stage)  
     training/expertise  
        (in what areas?)  
     marketing  
     administrative costs  
     other (please list in order of importance)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_