

175 Bloor Street East
South Tower, Suite 501,
Toronto, Ontario M4W 3R8
Telephone (416) 314-6858
Fax (416) 314-6876

175 rue Bloor est
Edifice sud, bureau 501,
Toronto, Ontario M4W 3R8
Téléphone (416) 314-6858
Télécopieur (416) 314-6876



Ontario
Ontario Media
Development
Corporation

Société de
développement
de l'industrie
des médias
de l'Ontario

February 18, 2005

Via email to lahajj@parl.gc.ca

Mr. Jacques Lahaie
Clerk of the Committee
House of Commons Standing Committee on Canadian Heritage
Room 640, 180 Wellington Street
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Lahaie:

Re: Hearings on the Canadian Feature Film Industry

The attached submission of Ontario Media Development Corporation (OMDC) is made in response to the call made by the House of Commons Standing Committee on Canadian Heritage on December 22, 2004.

OMDC wishes to participate actively in the Committee's process and requests to appear before the Committee to elaborate on the matters contained herein.

Yours truly,

A handwritten signature in black ink, appearing to read "Michel Frappier".

Michel Frappier, C.E.O.
Ontario Media Development Corporation (OMDC)

A Submission to
The House of Commons Standing Committee on Canadian Heritage

With Respect To

**HEARINGS ON
THE CANADIAN FEATURE FILM INDUSTRY**

Submitted by:
Ontario Media Development Corporation
175 Bloor St. East., South Tower, Suite 501
Toronto, Ontario M4W 3R8
Tel: 416-314-6858

February 18, 2005

Introduction

Ontario Media Development Corporation (OMDC) welcomes the opportunity to participate in this important review by the Standing Committee on Canadian Heritage of the national feature film policy and would like to appear before the Committee during the public hearings to be held in Toronto.

OMDC is an agency of the Ontario Ministry of Culture that facilitates economic development opportunities for Ontario's cultural media industries, including the book publishing, film and television, interactive digital media, magazine publishing and music industries. As the central catalyst for Ontario's cultural media cluster, OMDC promotes, enhances and leverages investment, jobs, and original content creation through a variety of initiatives including co-administration of the provincial tax credits.

OMDC commends the federal government in its efforts to support the Canadian feature film industry. The Canadian Feature Film Fund, as well as other initiatives, has played a vital role in strengthening the industry. The comments in this submission are offered in the spirit of strengthening the government's work in this area.

Filmmaking is an expensive and risky form of storytelling, yet it remains a powerful medium that offers compelling images of people and places in a way that is unique to the motion picture format. The Canadian feature film industry faces a great many challenges, the largest of which is the ever-growing dominance of the American film industry – the world's largest exporter of filmed entertainment and a global magnet for writers, actors and directors. The federal government has had a role to play in reducing the risks faced by Canadian film producers and enhancing their opportunities for success. Since 2000, that role has been carried out mainly through the Canadian feature film policy.

This submission covers the following areas:

1. Need for a more integrated film policy
2. Need for investment in producers
3. Availability of scripts
4. Five percent box office target
5. Distribution and exhibition
6. Average production budget target
7. Performance-based envelopes
8. Financing and private investment
9. Tax credits
10. Integrated cultural policy

The views expressed in this submission are those of OMDC, they are not the views of the Government of Ontario. Where noted, the submission reflects the views of Ontario film producers whose opinions OMDC solicited in drafting the submission.

1. Need for More Integrated Film Policy

A coordinated film policy that considers all federal and provincial offerings is needed. The number of agencies that have or could have an impact on feature film, each of whom have a myriad of different programs, can be complicated for producers to navigate. In some instances the programs seem to be working at cross purposes, such as the deduction of government investment from the federal tax credit discussed later in this submission. All the funding agencies should be working together appropriately, with clearly defined, complementary roles and responsibilities, to ensure a funding process that is streamlined and effective.

In general, broadcasting policy should reflect and support feature film production. Conventional broadcasters could play an important role in the broadcast and promotion of Canadian films, and should be encouraged through the CRTC to be more involved in this activity. One way this could be accomplished would be to re-assess and re-formulate the role of the CBC in the Canadian feature film industry. Britain's Channel Four was key in revitalising the British film industry in the 1980s; the CBC could similarly play a much stronger role in the financing, broadcast and promotion of Canadian film.

2. Need for Investment in Producers

The Canadian Feature Film Policy states as a main objective the desire to "develop and retain talented creators." In the Policy, the term "creators" is not clearly defined; however, the Policy's focus on screenwriting and directors would seem to exclude producers from its definition of "creator." Producers, are, however, central to the process of feature film creation. Without producers, it is not possible to move a feature film forward. Producers play a leading role in acquiring the rights to a work, securing financing, and co-ordinating all aspects of a film's schedule from development through post-production and beyond in order to ensure that quality films make it on to the screen. Producers are responsible for selling a film at home and abroad and for working with distributors to ensure the widest possible audience for their projects. Producers are therefore a critical element in feature film creation and this importance should be reflected in the federal Feature Film Policy.

A Feature Film Policy that treats producers as central to the process would recognise the need to stabilise the producing environment by ensuring a strong and stable production infrastructure. Producers have noted, for example, that the development funding that is currently available is for the most part project-based. As such it consistently leaves production companies under-capitalised and unable to do effective long-term strategic business planning. A slate funding program, similar to what is available in the United Kingdom, would be extremely beneficial to those producers who are attempting to achieve long-term fiscal stability. The UK program allows eligible companies to use a portion of their slate fund as working capital, as well as applying the funding toward individual projects. Making this type of funding available for Canadian producers would free up some of the money currently being used for overhead and other capital expenses to be used in the development of feature films.

3. Availability of Scripts

The Canadian Feature Film Policy has stated that it would like to develop and retain talented creators “by investing in screenwriting.” This is done mainly through Telefilm’s Screenwriter Assistance Program. According to Ontario producers, while this program has been successful in making more scripts available to producers, the scripts that come to them through this program are difficult to produce. If producers, as creators, were tied to scripts at an earlier stage in the production process, this would alleviate some of these difficulties and ensure that more scripts actually make it into production.

4. Five Percent Box Office Target

It is the opinion of producers that while audience development is important, a different way of measuring success than the five percent box office target is needed. A more appropriate measure of success would be a combination of factors such as: awards, performance in ancillary markets, and a box office measure that is pro-rated or takes into account the budget of a particular film. For example, a film with a \$2 million budget that earns \$1 million at the box office should be considered more successful than a film with a \$20 million budget that performs similarly well at the box office.

It is also the opinion of producers that diversity of Canadian films has suffered because the policy is box office-driven, and commercial goals may trump cultural policy goals. It has been suggested that the box-office target has become the primary focus of Telefilm’s funding decisions, at the expense of the creation of a variety of quality films.

The Telefilm Canada Feature Film Fund guidelines state that “Telefilm will encourage diversity in feature film production by supporting a range of genres, budgets, companies and regions.” (p. 2) It is the opinion of the Ontario producers consulted, however, that the objective of five percent of domestic box office has resulted in more uniformity of genres and budgets in the films produced.

5. Distribution and Exhibition

A major challenge in the Feature Film Policy identified by Ontario film producers is that it seeks to increase domestic box office sales without giving sufficient attention to the distribution and exhibition system in the Canadian market. The federal government should play a more active role in these areas, leading to greater success at the box office.

Currently the Telefilm guidelines state that “Telefilm Canada will seek to ensure that each production supported is marketed and distributed as enthusiastically and effectively as possible.” (p. 4) Distributors who receive funding from Telefilm are required to submit detailed marketing plans in order to receive their funds. Producers ask that more monitoring be done by Telefilm to ensure that marketing plans are executed appropriately.

Initiatives such as the Toronto International Film Festival’s Film Circuit have demonstrated that audiences have an appetite for Canadian films. Exhibition of Canadian films could be improved

through an expanded Film Circuit in Canada and financial incentives for exhibitors. Ancillary markets such as DVD sales are important revenue streams and key to reaching audiences; attention should be paid to developing these markets.

As noted above, conventional Canadian broadcasters, and the CBC in particular, should be encouraged to play a stronger role in the financing, broadcast, and promotion of Canadian film.

6. Average Production Budget Target

One of the means by which the five percent box office objective was to be reached was by increasing the average production budget of Canadian films to at least \$5 million. The numbers collected by OMDC and shown below show that for the first three years following the implementation of the Feature Film Policy, 2000 through 2002, average budgets for feature films produced in Ontario did not reach the \$5 million level. In the fourth year, 2003, average budgets did reach the \$5 million level, however, in that year there was at least one feature film that had a very high budget, thereby skewing the average production budget numbers. During the same period, the number of Canadian feature films produced in Ontario decreased. Figures for 2004 show a decline in Ontario feature film production – only thirteen films were produced in 2004, having budgets totalling \$39.8 million and average budgets of just \$3 million.

Feature Film Production by Ontario Producers			
Year	Number	Total budgets	Average budget
1998	23	\$58,212,995	\$2,531,000
1999	17	\$36,713,551	\$2,159,621
2000	22	\$63,330,802	\$2,878,673
2001	17	\$63,851,841	\$3,755,991
2002	15	\$62,279,294	\$4,151,953
2003	17	\$90,083,788	\$5,299,046
2004	13	\$39,763,315	\$3,058,717
Source: OMDC			
Note: 2003 and 2004 figures each include one very large budget production, skewing the average production budget figure upwards.			

Ontario producers also feel that due to the goal of increasing average production budgets, there is a smaller pool available for the production of low budget films. This means that while average production budgets may increase, there are fewer films being made overall. The fewer the films that are made with higher budgets, the greater the risk taken is for each individual film. Spreading the risk across more films with slightly lower budgets would mean that more Canadian films are being produced and increases the chance that one or more of them will be a hit. There is a general feeling that Telefilm should be equally responsive to a quality film no matter what the budget level.

7. Performance-Based Envelopes

An important component of the Feature Film Policy is the performance envelopes awarded to individual producers which are based on past performance.

Producers consulted by OMDC had concerns regarding the system of performance-based envelopes in its current form: the measures by which success is defined and envelopes awarded are thought to be inappropriate. In addition, the timelines for spending out the envelopes is resulting in projects which could benefit from additional time in development being rushed into production, resulting in finished products that are not as polished as they could be.

Slate funding for production companies that did not have the same kind of timelines as the performance envelopes would be more beneficial in assisting producers in achieving long-term financial stability. This type of funding would allow producers to invest appropriately in film development and not rush into production. Furthermore, allowing producers the time to spend their envelopes themselves will ensure that public funds are allocated to the types of companies and projects for which they were intended.

8. Financing and Private Investment

In the current funding environment, producers are always looking for new and innovative means of assembling financing for their projects. This type of innovation in the industry should be encouraged. It is the view of the producers consulted, however, that the current Telefilm policy inhibits that innovation by looking at projects through a narrow lens rather than looking at each film on its own merits.

Producers look for financing opportunities both at home and abroad. Because of this, international market activities are an extremely important financial resource for Canadian filmmakers. For both pre-sales financing and sales of finished product the activities of Telefilm's International Development and Promotion Division are critical to support the work of Canadian producers and distributors. Programs such as Immersion Europe, the annual financing forum for feature film coproductions designed to stimulate strategic alliances between the Canadian and European industries, provide Canadian filmmakers with invaluable opportunities to attract investment. Funding for these activities should be increased to allow for more branding and marketing of Canada, more strategic activities, and initiatives into developing markets such as those of the Pacific Rim.

Domestically, the financing options for producers tend to be limited to license fees, tax credits, and various government funds. Under the current system, there is little incentive for private investment in film production. The addition of a provision and/or incentive for private investment in feature film production should be considered. This could be done through changes to the tax credit system, as discussed below.

9. Tax Credits

Tax credits and Telefilm funding are two very important pieces of a feature film's financing structure. Unfortunately, the two programs often seem to be working at cross-purposes due to the fact that government investment in a feature film is deducted from the amount of the federal tax credit a producer is able to access. Removing this deduction from the tax credit legislation would ensure that producers are able to benefit from the full value of the government funding they have acquired for their project.

There are currently changes being made to the Canadian content tax credit regarding copyright ownership, acceptable share of revenues from exploitation, and producer control. The Standing Committee on Canadian Heritage should consider changes to the Feature Film Policy in conjunction with these changes in order to ensure that the two programs are complementary and help achieve the goals of the Feature Film Policy rather than make it more difficult for producers to produce the results expected under the Feature Film Policy.

For instance, the tax credit changes should encourage and allow more private investment in productions, including investment from Canadian and foreign distributors and broadcasters. As the existing regulations ensure that only productions by Canadian-controlled companies can access the tax credits and require that productions receive six out of 10 Canadian content points, there are sufficient safeguards in place to ensure that there is wealth retention and ongoing revenue streams for Canadian companies. In order to compete in the international marketplace and raise sufficient financing for Canadian films to match the average budget of international films, Canadian producers must be given the ability to seek financing from foreign sources.

Some of the most successful Canadian films in recent years have been international treaty coproductions. Productions with international involvement could be further supported by becoming more flexible on producer control and investment regulations.

10. Integrated Cultural Policy

The Canadian Feature Film Policy could also be of assistance in supporting other Canadian cultural industries through a series of financial incentives. The Policy already places importance on the telling of Canadian stories and offers assistance to filmmakers purchasing options to Canadian novels. The use of Canadian composers and musicians could be rewarded by giving financial bonuses to those films that use Canadian music and musicians on their soundtracks.

Conclusion

The Canadian feature film industry, in spite of the many challenges it faces, has great potential to be the hub of cultural expression where print, music and image come together. An integrated feature film policy that works to stabilise the industry is the only means of achieving this potential. Such a policy would include producers at its centre, would revitalise the distribution and exhibition systems in Canada and would re-evaluate the performance targets and financing mechanisms to better reflect the current feature film environment. Emphasis would be placed on streamlining government programs, on international sales opportunities, and finding ways to encourage more private investment in the feature film industry. This will ensure a strong and vibrant Canadian feature film industry for generations to come.

We look forward to appearing before the Committee to elaborate on the points in our submission and welcome any questions you may have.

Yours truly,

A handwritten signature in black ink, appearing to read 'Michel Frappier', written in a cursive style.

Michel Frappier, C.E.O.
Ontario Media Development Corporation (OMDC)