



**THE ROLE OF FEDERAL GOVERNMENT SUPPORT IN
THE DEVELOPMENT OF THE CANADIAN FEATURE
FILM INDUSTRY:**

TELEFILM CANADA AS A GOVERNMENT POLICY TOOL

**Brief to the House of Commons
Standing Committee on Canadian Heritage**

February 18, 2005

INTRODUCTION

This document represents Telefilm Canada's ("Telefilm") submission to the Standing Committee's examination of the evolving role of the federal government in support of the Canadian feature film industry.

The goal of this submission is to provide the Committee with an overview of Telefilm Canada's unique role as an instrument of the Government of Canada's policy objectives in the development of a Canadian film industry and in building Canadian audiences for Canadian films. In 2000, the Government of Canada introduced, *From Script to Screen*, a new Canadian Feature Film Policy with the goal of offering more homegrown choices in local theatres. The policy refocused public investment in Canadian films by taking a comprehensive script to screen approach to funding.

This new policy orientation set an ambitious goal, aiming to capture 5% of the domestic box office in five years and identified four clear strategies to ensure this objective was met:

- Develop and retain talented creators;
- Foster the quality and diversity of Canadian feature films;
- Build larger audiences at home and abroad for Canadian feature films; and
- Preserve and disseminate our collection of Canadian feature films for audiences today and tomorrow.

Support to the industry provided by Telefilm, under the Canadian Feature Film Policy, reflects the entire value chain of production activities, from professional development to marketing and distribution, affording Telefilm an unmatched understanding of the interdependence each activity has in attaining the audience objective. As we approach the end of the fourth year of the Government's five year Canadian Feature Film Policy, domestic market share is at 4.5%.

This submission is divided into three parts:

1. Part I provides the Committee with a context to situate Telefilm Canada in the development of the Canadian independent feature film industry, focusing on its role and effectiveness in advancing the Government of Canada's policy objectives.
2. Part II describes Telefilm Canada's success in meeting the goals and objectives of the Canada Feature Film Fund and the overall feature film policy.
3. Part III provides an overview of emerging and future challenges to the continued growth of the Canadian feature film sector.

I. TELEFILM'S ROLE IN THE CANADIAN FEATURE FILM INDUSTRY: KEY MILESTONES

An Instrument of Public Policy

Telefilm Canada is a cultural agency with a mandate to support the development, production and marketing of Canadian feature films, television programs and new media products. Through four decentralized regional offices, Telefilm delivers a full range of services from financing for professional development, script development, and production, to marketing and distribution. As well, Telefilm certifies international co-productions and supports the representation of Canadian works in international festivals and markets¹.

As the Committee is aware, Telefilm is part of what the Department of Canadian Heritage refers to as its policy tool kit. Telefilm is the only instrument in this tool kit that works exclusively with the independent production community leveraging its investments to attract market support from around the world.

Since the late 1960s, the Government of Canada has sought to give Canadian audiences access to Canadian films on the big screen by promoting the development of a Canadian film industry. Policy objectives and programs were aimed at building an industry primarily by assisting in the production of Canadian films and on strengthening Canada's distribution sector.

Federal and provincial government support and Canada's creators and other talent have made it possible for a Canadian production and distribution film industry to emerge and develop, with many notable critical successes in Canada and internationally.

These programs support the federal government's objectives for the creation of Canadian content, sustainability of cultural expression and access by Canadians to Canada's cultural life.

By many accounts, Telefilm as an instrument of government policy has proven to be a vital link in the array of program and fiscal measures that stimulate the Canadian audio-visual sector. In an independent evaluation of Telefilm Canada done in 2003, it was noted:

"it was a historic move that led to the creation of Telefilm – the move out of the NFB. Ever since, the federal government has leveraged the existence of a separate agency to intervene in the financing of Canadian production. In doing so, the government has created an organization that is specialized in the intricacies of the industry and the financial structures of audio-visual projects."

Assesment of the Role of Telefilm Canada in the
Development of the Canadian Audio-visual Sector
Nordicity Group Ltd.

¹ In 1985 the Department of Canadian Heritage transferred to Telefilm Canada the mandate of administering the Festivals bureau whose responsibility it is to coordinate Canadian efforts in circulating and promoting Canadian film.

Milestones in the Evolution of the Canadian Feature Film Industry

The Early Years: 1968 to 1980s

Telefilm Canada, as it is known today, began its life in 1968 as the Canadian Film Development Corporation (“CFDC”). Its original role was to foster the development of a feature film industry in Canada by investing in films with significant Canadian creative, artistic and technical content. The CFDC’s early efforts met with impressive results, and increased the number of feature films produced from four to five per year in the early 1960s to over twenty films a year in the period of 1968 to 1974.

In 1972, the federal government increased its statutory appropriation funding to the CFDC by \$10 million to a total of \$20 million. This was followed closely by the introduction of a fiscal incentive, in the form of a capital cost allowance, designed to assist the Canadian feature film industry in attracting private sector investment.

While it can be said that both measures were effective in stimulating a boom in Canadian production activity, the capital cost allowance incentive resulted in a significant number of films being produced by Canadian companies that had little to do with Canadian content.

Filmmaking is a costly and risky business. Unlike television programming, which can be simulcast across the nation, feature film exhibition is limited by the number of available prints and screens. In a country such as ours, which is geographically and linguistically dispersed, the domestic market is often too small to recover the cost of production. There is the added complication of the domination of the Canadian theatrical landscape by American interests.

Private sector investment is principally fuelled by market objectives and not cultural ones. Without federal assistance, the Canadian feature film industry would be hard pressed to raise the financing necessary for the creation of distinctly Canadian films and Canadians would have very little opportunity to see their own culture reflected in the films playing in local theatres. In the 1980s the capital cost allowance incentive was gradually phased out and public support for the Canadian film industry was increased.

Between 1982 and 1986, Canadian independent production shifted from feature film into television. In 1983, the CFDC was given responsibility for administering the Canadian Broadcast Program Development Fund, with a mandate to provide funding to independent producers of Canadian television programs. Accordingly, the Canadian Film Development Corporation was renamed Telefilm Canada.

National Film and Video Policy creates New Feature Film Fund in 1986 and Distribution Fund in 1988

Recognizing that the Canadian feature film industry had not yet reached its full economic and cultural potential, the Government of Canada introduced the Feature Film Fund in 1986, as part of its wider National Film and Video Policy, and entrusted its administration to Telefilm Canada. Whereas previously, public support to the industry was dedicated to the creation of films with significant Canadian creative elements, stories and themes, the

new policy integrated a key element of the production value chain, the need for Canadian films to have a guaranteed theatrical release.

The Feature Film Fund was originally allocated \$30 million. An additional \$11.4 million was added in 1988, with the supplementary resources being directed primarily to under-served communities, that is French-language production and feature films originating outside of Ontario and Quebec.

Eligibility to the Feature Film Fund reflected the government's desire to ensure Canadian film was available to the public and required that producers have a commitment from a Canadian distributor for the theatrical release of their film within one year of the film's delivery.

Then, as now, however, the film distribution and exhibition industry in Canada was largely controlled by vertically integrated subsidiaries of American-owned studios. These companies did not typically demonstrate an interest in marketing or exhibiting Canadian films, but rather focused their attention on their own inventory, and flowed all revenues earned back into the Hollywood machine.

By the late 1980s the Canadian theatrical market saw more than 97% of screen time going to American studio or foreign product. An estimated 85% of box office revenues earned in Canada were going towards the support of the U.S. film industry. To curb the flow of Canadian dollars south of the border and encourage better market access for Canadian productions, the Canadian government created the Feature Film Distribution Fund in 1988.

Administered by Telefilm Canada, the Distribution Fund was provided \$17 million per year to assist Canadian distributors both acquire the rights to Canadian and foreign films and to market and promote them. In addition, the Fund sought to augment the risk capital available to distributors, with the aim of increasing the share of Canadian market revenues earned by Canadian-controlled distribution entities for reinvestment in the domestic film industry.

But just as Canadian broadcasters could not survive if they broadcast only Canadian programs, the distribution of only Canadian films did not present a viable business model for the survival of Canada's distribution industry. As a complement to the Feature Film Distribution Fund, the federal government also implemented the Foreign Investment Guidelines in 1988, prohibiting the start up of new foreign owned subsidiaries in Canada and stabilizing Canada's independent distribution industry.

With these initiatives in place, Telefilm became Canada's second largest cultural institution.

The establishment of the Feature Film Fund and the Feature Film Distribution Fund established a solid financial base for Canada's feature film industry and effectively offset the limitations of the domestic production market. After a noticeable decline in feature film production in the early 1980s, the Feature Film Fund established a steady flow of production activity, resulting in 20 to 25 feature films during the early 1990s and 30 to 35 after the creation of the Canadian Television Fund ("CTF") in 1996. In addition, several Canadian films received critical acclaim. Among them were: *The Red Violin*, *Le Declin*

de l'empire americain, The Sweet Hereafter, Jesus de Montreal, Dead Ringers, Léolo, I've Heard the Mermaids Singing, but to name a few.

Despite these successes, virtually no improvement in the box office share earned by Canadian films was made in the decade following the establishment of the Feature Film Distribution Fund. Canada's success at its own box office hovered at between 1% and 2% market share.

With a view to setting a course of action where more Canadians could see a Canadian film at their local theatre, the Minister of Canadian Heritage launched a public consultation in February of 1998.

It is worth noting however, that in the decade between the launch of the Feature Film Fund and the call for public consultation, the federal government implemented a number of other policy initiatives that provided direct and indirect support to the financing of feature film productions.

In 1983, the Canadian Radio and Television Commission introduced the idea of using conditions of license when renewing the licenses of broadcasters to impose Canadian content obligations. Implemented over the course of the next decade, these requirements proved critical in the further development of the Canadian independent production industry with the introduction of minimum required broadcast hours of Canadian content during peak and off-peak times. As a result, television windows became an important and reliable ancillary market for Canadian feature films.

The licensing of specialty television services further stimulated the film industry by including commitments not only for the acquisition and exhibition of Canadian programming, but also for direct investment in the production of Canadian feature films.

In 1996 the Government announced the creation of the Canadian Television Fund. Of the Fund's \$200 million annual budget, \$15 million is targeted towards the production of feature films that will eventually be broadcast on television.

Then, in the late 1990s, the capital cost allowance was replaced by the Canadian Film or Video Production Tax Credit ("CPTC"), and the Film or Video Production Services Tax Credit ("PSTC"). Targeted at Canadian and foreign producers respectively, these initiatives provide a rebate to producers using Canadian labor and have become relied upon as a further source of production financing.

While the goal of the CPTC was to further develop the Canadian feature film industry, the PSTC had a deliberate industrial focus and single handedly developed Canada's production service industry. Production service work is a project in which the Canadian producer plays a secondary role on a project initiated and creatively controlled by a foreign producer. These productions provide a vital source of employment for Canadians, but have very little to do with reflecting Canada. Most service productions are American projects made in Canada for distribution to the U.S. market.

Telefilm applauds the employment and corporate revenue opportunities service productions have brought to the Canadian film industry, however it must be pointed out that these productions do not support the creation of distinctly Canadian content. In this domain, Telefilm Canada, in concert with the Government of Canada's overall cultural

policy toolkit, remains the most effective mechanism in supporting the creation of films with significant Canadian creative elements.

Despite the influx of new funding mechanisms for Canadian feature film, the industry actually witnessed a decline in its market competitiveness throughout the 1990s. Government cut backs to Telefilm Canada's parliamentary appropriation, in addition to the elimination of equity financing for feature films in several Canadian provinces, meant less money available for Canadian content productions. From the late 1980s to 1997-1998 the average production budgets of films receiving Telefilm Canada support were declining by an average of 10%.

Results of the Minister's call for comments in 1998 reflected the formidable challenge Canadian filmmakers continued to face in bringing their works to audiences. While three decades of federal government intervention had successfully built a Canadian feature film industry and even witnessed critical acclaim for filmmakers globally, the market share of Canadian films among Canadian audiences remained virtually unchanged.

From Script to Screen: New Feature Film Policy Launched in 2000

In 2000 the Minister of Canadian Heritage announced the creation of the Canadian Feature Film Policy. Like its predecessors, the policy's objective remained to support the production of Canadian stories for Canadian audiences. It's focus however shifted from developing a Canadian feature film industry to developing audiences for Canadian films.

To achieve this objective, the Government of Canada established a measurable audience target aiming to capture 5% of the domestic box office in a five-year period and set out four strategies to ensure this goal was met.

Two strategies directly addressed the need for increased production and marketing values if Canadian films were to be competitive in their own market. They aimed to foster the quality and diversity of Canadian films by restructuring support programs to reward ongoing performance and to build larger audiences for Canadian films at home and abroad through more effective support for marketing and promotion.

The low production budgets and limited marketing support for Canadian films throughout the 1990s impacted more than just box office however. Screenwriters and directors, faced with constraints on the type of production they could make and limited odds of ever seeing their efforts on screen, had either migrated to the more lucrative television market or left Canada for the U.S. and other countries in order to find more sustained work opportunities. To redress this, the policy aimed to develop and retain talented creators by investing in screenwriting and professional development for filmmakers.

Finally, the policy also sought to preserve and disseminate Canada's collection of Canadian films for audiences today and tomorrow, leading to a requirement that all Telefilm supported feature films deposit a print with the National Archives of Canada.

To support the achievement of these strategies, the Government of Canada increased available resources in support of Canadian feature film from the \$50 million available in the late 1990s to \$100 million, and introduced the Canada Feature Film Fund ("CFFF"),

administered by Telefilm Canada, as the key policy tool for the implementation and achievement of the policy's objectives.

The Canada Feature Film Fund consolidated Telefilm's activities in the Feature Film Fund and The Distribution Fund and integrated much needed professional development opportunities for up and coming creators to master the knowledge required to develop films for which a serious theatrical release in Canada could be obtained.

Where traditionally the strategies of public policy had failed to achieve audience break through, the current policy approach incorporated incentives to encourage producers and distributors to take a leadership role in the development of audiences for their own cultural product. Canadian films that reached Canadian audiences earned the producer and distributor automatic financial assistance, or Performance Envelopes, for their future development and production or marketing activities. Support for culturally relevant films by less experienced producers and distributors continued to be provided on a selective, project by project basis, through the Selective Component of the Fund.

The audience objective also led to a review of distribution support. Recognizing that feature films could not reach moviegoers without the market influence of a distribution company, subsidies for minimum guarantees were eliminated in favor of support to marketing costs for prints and advertising ("P&A").

A qualified labour force is key to a sustainable film industry in Canada. To ensure an integrated and proactive approach to the audience objective support to the industry through the CFFF further encouraged the creation of diverse content as well as talent development opportunities.

As a complement to the Government of Canada's support to national audio-visual training institutions offering hands-on production training, Telefilm Canada's administration of training funds was increased under the CFFF to include funds specifically targeted to screenwriters and directors.

To provide writers the flexibility to create stories uninhibited by the constraints of budget considerations, funding was made available to writers working independently of a producer through the Screenwriting Assistance Program ("SAP"). A national panel of industry professionals from the production and distribution sectors is charged with the responsibility of selecting projects that demonstrate strong market potential.

Directors were afforded a similar opportunity through the Low Budget Independent Feature Film Assistance Program ("LBIFFAP"), whereby support for the production or completion of a low budget feature film under the creative control of a director was made available. Although encouraged to work with a producer, directors are required to maintain full creative control, and therefore exercise full direction over the development of their craft.

Finally, Telefilm's support to the feature film industry under the CFFF sought to continue to encourage overall growth and diversity in the industry and targeted dedicated resources to support the production and distribution of Canadian film in both official languages across all regions of the country.

II. TELEFILM'S SUCCESS IN MEETING FEATURE FILM POLICY OBJECTIVES

The objective of federal cultural policy is the production of Canadian stories, by Canadians, for Canadians. Since the late 1960s, government policy has effectively promoted the development of an independent Canadian production industry and has strengthened the position of Canadian distributors in Canada. The last hurdle to the development of a truly Canadian national cinema is bringing the works of these creators to Canadian audiences in all corners of the country.

There is no doubt that film remains one of the most influential forms of cultural expression. It is a powerful medium, bringing to life the history, values and issues that define a nation. It is able to transcend cultural and linguistic barriers in a way that no other media can. For Canadians, it has the potential to celebrate our cultural diversity, sharing stories from all regions and in both official languages.

More Canadians for Canadian Films: the 5% Goal

In 2001, before any projects financed through the CFFF had reached Canadian theatres, the domestic market share of Canadian films was 1.7%. In the three years since, Canadian films have witnessed steady growth at the domestic box office and attained a 4.5% market share at the end of 2004. This represents a threefold improvement in market share in just three years.

A significant portion of this overall growth can be attributed to the stellar performance of French language films, with box office numbers that have more than doubled since 2001. Since the late 1990s, market share for the French market has grown from a low of 4% to 21%.

English Canadian films, with their limited production and marketing budgets relative to American studio films, continued to be overshadowed by the branding power of Hollywood. Despite this, Canadian films share of this ultra competitive market has quintupled, from 0.3% in 2001 to 1.6% in 2004 demonstrating that there is a growing market for Canadian films.

The impressive gain in overall market share can be attributed to the increase in government funding to the feature film industry of \$50 million annually. This has not only enabled a greater number of films to be produced, but more importantly has significantly improved production and marketing values.

Average production budgets have seen a greater than 50% improvement from 2001 levels of \$2.5 million. English Canadian films now boast average budgets of \$6.9 million and French of \$5.2 million. Average marketing budgets have also increased substantially, from an estimated \$200,000 per film in 2001 to \$421,000 for English-language films and \$347,000 for French language films in 2004. It must be noted however that Telefilm Canada receives final marketing budget numbers for only those films that request marketing assistance from the CFFF. The recorded increase in average marketing budgets is therefore understated, as certain distributors elected not to ask Telefilm for support for substantial marketing campaigns on Canadian films that were a guaranteed hit among domestic audiences, such as *La Grande Seduction* and *Sur le seuil*.

In addition to increased box office performance, a net result of improved production and marketing values for Canadian films has been a higher box office return for each dollar of Telefilm investment and therefore additional revenues. Despite decreases in its parliamentary appropriation in 2003 and 2004, these additional revenues have allowed Telefilm to maintain the same level of CFFF production and distribution resources available to the industry.

Development of Talented Creators and a Portfolio of Diverse Films

As an industry partner Telefilm has two key responsibilities: to help creators and companies achieve their full potential, and to preserve an appropriate balance when it comes to funding. With this in mind, the Canada Feature Film Fund allocates funding envelopes to high-performing producers and distributors and provides selective assistance to a wide variety of projects. This helps to ensure that new and different voices are not neglected, and that diversity of voices and genres is fostered regionally and linguistically.

Telefilm also has support programs for directors and writers. Telefilm recognizes that the importance of developing Canada's key creative personnel in film production - the scriptwriters and directors - cannot be underestimated. Without their vision, Canadian stories that interpret our collective history could not be told and Canadian audiences would not see themselves reflected on screen.

The range of films that Telefilm has supported in the last few years demonstrates that there is no one formula for box office success. With the increase in available resources under the CFFF Telefilm has been able to diversify its support across a portfolio of budget sizes and genres that increasingly reflect the true diversity of Canada's population.

Each year, Telefilm invests in a portfolio of projects that demonstrate the diversity of feature film production. Telefilm now routinely supports bigger budget films that often involve international co-production partners, including the critically acclaimed *Les Invasions Barbares* and the inter-racial comedy love story *That Touch of Pink*. Films financed domestically at this budget level include the comedy box office smash *Mambo Italiano*, and the thriller trilogy *Ginger Snaps*. At a more mid-level production budget range, Telefilm has supported such films the critically acclaimed Aboriginal film *Fast Runner*, the indo-Canadian bollywood hit *Bollywood Hollywood* and the commercially and critically received *Gaz Bar Blues*. Telefilm has also supported low budget films, particularly at a regional level. These include films such as the documentary *Fubar*, and the action-adventure *La loi du cochon*.

In addition, a number of screenplays developed through the Screenwriting Assistance Program are finding market interest among producers, with 68 scripts having secured option agreements. While the majority of these are still in development, 4 have been produced. Of the 44 films supported through the Low Budget Independent Feature Film Program, the majority have secured broadcast licenses and many have been selected for festival screenings and released theatrically in Canada and abroad. Although building audiences was not the primary goal of the program, these films have been important contributors to the overall audience objective.

III. EMERGING AND FUTURE CHALLENGES

Since the reorientation of the Government of Canada's support to the feature film industry in 2000, Canada has witnessed the best performance of its domestic cinema in twenty years. Despite this momentum, a combination of factors is challenging the industry's capacity to enjoy continued performance at the box office.

Like Canada, other advanced industrial countries have placed renewed emphasis on building audiences for domestic feature films. Consequently, the level of foreign financing traditionally available to Canadian productions, in the form of equity, pre-sales or co-productions has declined sharply. Despite this downturn in overall international financing, there is a steady if not growing appetite for Canadian product abroad. As such, there remain important opportunities internationally for the development of true creative synergies, or natural co-productions, whereby Canadian producers and their foreign counterparts work in partnership to develop stories that will reflect both cultures on screen.

For the Canadian film industry to continue to reach its full economic and cultural potential, increased and stable long-term funding is necessary. The Government of Canada must continue to make a substantial financial investment in Canadian productions and the CFFF must be renewed, at least at its current financial levels.

The Government must also be responsive to the arrival of new technologies, which will increasingly force the industry to reconsider its approach to the production, distribution and exhibition of Canadian films.

In 2004, it was estimated that only 18% of Hollywood revenues came from box office receipts. Feature films have multiple distribution channels and revenue streams, including DVD, video on demand, and the more traditional cable opportunities. With multiple points of access now available to audiences in their homes, the question of how audience success is measured for Canadian films must be revisited.

As an example, *Men with Brooms* earned almost \$4 million in domestic box office receipts, with an additional \$1.7 million in DVD/VHS sales. A further 1 million viewers watched its primetime screening on CBC.

Audience demand for genre or type of content is also changing. The recent popularity of feature film documentaries, such as *The Corporation*, *Fahrenheit 911* and *Super Size Me*, and the rapid increase in IMAX motion projection systems in theatres offers a new opportunity for the further development of Canada's feature film industry.

New technologies will impact more than just what and how audiences choose to see a movie. Telefilm Canada recognizes that the rise of digital technologies will require training for creators, new standards for content delivery and updated requirements for the exhibition sector. It further raises complex questions about copyright, piracy and the nature of tracking Canadian content.

CONCLUSION

In the almost forty years since the Government of Canada began investing in the Canadian feature film industry, tremendous strides have been made. With the support of Telefilm Canada and other government policy tools, the industry has grown and matured at a rate more rapid than the overall Canadian economy. Telefilm has been an integral component of this success, working with the industry to promote the creation of films that reflect Canadian themes and employ Canadian creative and technical talent. The first step was to develop an industry, and in this we have succeeded. We are now on the path to building an audience for our films among Canadians.

Even as we enter into this new era in Canada's feature film history – audience building – we are already facing the challenges of a changing market environment in which our producers must operate and the emergence of new technologies which will forever change the way films are made and seen. Some of these challenges will be easier to address than others, but all have exciting possibilities for the future of Canada's industry.

In the coming years the growing audience interest in feature film documentaries, the IMAX format and the increasing number of home viewing opportunities will need to be integrated into the government's overall policy, as will the emergence of digital technologies as an alternative to more traditional production and distribution formats. Telefilm Canada recognized these challenges and looks forward to working with the Department of Canadian Heritage as the government looks to address these challenges in the future.