ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

FILM

Ontario

Ontario Media Development Corporation

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

www.omdc.on.ca

Introduction

The feature film sector includes a variety of players who perform a range of functions in the feature film supply chain. The film production community creates the content; distributors negotiate release patterns and promote the films; and theatrical exhibitors and DVD vendors make the content available to audiences. The Ontario film sector includes players operating in all three of these areas. A high concentration of Canada's film production companies, distribution firms and labour force is located in Ontario, specifically in the Greater Toronto Area.[1] Ontario's film production sector is mainly comprised of small- to medium-sized production companies, producing a combination of proprietary productions and service productions for international producers.

Ontario feature films continue to receive attention at home and abroad for their excellence. Ontario feature film *Victoria Day* was selected to screen at Sundance in 2009, and Ontario's *High Life* was featured as an opening Saturday night screening for the Panorama program at the 2009 Berlin Film Festival. David Cronenberg's *Eastern Promises* won five trophies at the 2008 Directors' Guild of Canada Awards, including Best Feature Film and Best Director.

INDUSTRY PROFILE FILM

INDUSTRY SIZE AND ECONOMIC IMPACT

Production volume and budget

- Canadian theatrical film production totaled $273 million in 2007-08. This represented a 7% decrease from the previous year. The number of Canadian films produced for theatrical release during that period also fell to 82, down from 105 in 2006-07.[2] Most of this decline was in English-language films, which dropped to 45 films (from 66 the previous year) valued at $181 million (down from $188 million).[3]

- The average budget of a Canadian feature film in the fiction genre rose slightly from $3.2 million in 2006-07 to $3.4 million in 2007-08. This increase was entirely in English-language films, as averages actually decreased for French-language films.[4]

- Film and television production in Ontario spent $671.2 million in the province in 2008. This represented a 15.1% drop, year over year. Both foreign and Ontario feature film spending fell by 64.9% from 2007, for a total foreign feature film spend of $79.0 million and an Ontario feature film spend of $26.6 million.[5]

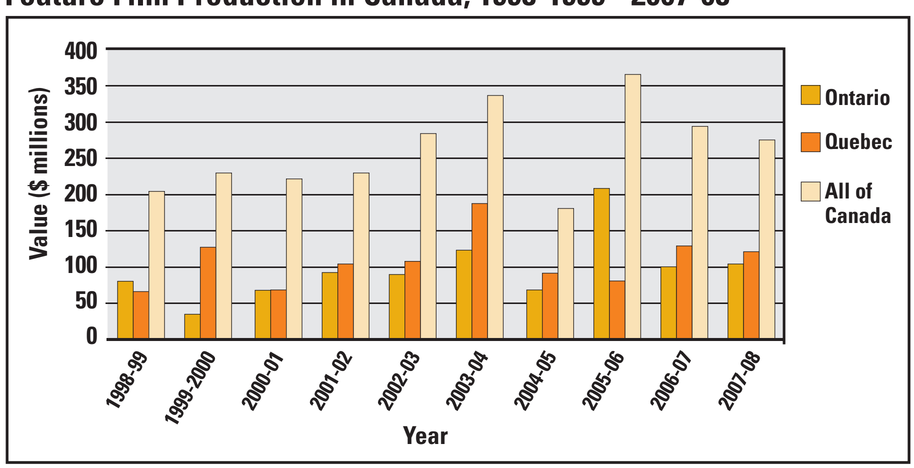
- With $102 million in theatrical film production volume in 2007-08, Ontario accounted for 38% of the total volume of Canadian theatrical film production in 2007-08. While this is still significantly lower than the 10-year high of $207 million in production volume achieved in 2005-06, it represents a slight increase over 2006-07. Quebec, on the other hand, saw a slight decline in its volume of theatrical film production in 2007-08 to $119 million, but it still retained its position as Canada's leading jurisdiction for this activity, with 43% of total Canadian theatrical production.[6]

- The number of Canadian treaty co-production projects in theatrical film dropped by almost half in 2008, from 27 to 14, while the value of these projects dropped even more substantially, by 82%, from $321 million in 2007 to $57 million in 2008. This marks a 10-year low in Canadian theatrical film treaty co-production activity, though it should be noted that the significant decreases in 2008 came after the 10-year high set in 2007. France continued to be Canada's largest treaty co-producing partner in 2008 with 5 feature films totaling $21.9 million in production volume.[7]

Employment and wages

- The production of Canadian theatrical films generated an estimated 6,900 jobs in Canada during the 2007-08 fiscal year. Two thousand seven hundred of these positions were direct jobs in feature film

Feature Film Production in Canada, 1998-1999 - 2007-08



Source: CFTPA, *Profile 2009 - An Economic Report on the Canadian Film and Television Industry*, p. 67

production, while 4,200 were indirect jobs created elsewhere in the Canadian economy. These figures represented a 9% decline from 2006-07.[8]

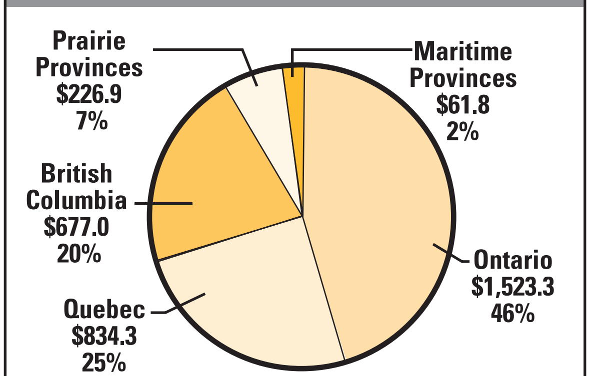
- Canadian film, television and video production companies provided $620.5 million in salaries, wages and benefits to workers in the sector in 2006. Ontario accounted for over a third of those payments, disbursing $217.2 million in salaries—more than any other province.[9]

Revenues and GDP

- In 2006, Canadian film, television and video production businesses reported $3.3 billion in operating revenues and generated a 2.3% profit margin. The majority of Canadian production revenues—56%—were generated by television production. Feature film production accounted for 15% and TV commercial production for 22% of production revenues during the year.[10]

- Ontario is a powerhouse in the Canadian film and television production sector. In 2006, Ontario film, television and video production companies accounted for 46% of Canada's overall film and video production operating revenues, surpassing Quebec (25%) and B.C. (20%). Furthermore, Ontario film, television and video production companies showed $1.5 billion in operating revenue in 2006, with a profit margin of 2.8% – higher than the national average of 2.2%.[11]

Film, Television and Video Production, Operating Revenues, 2006
(expressed in chart as millions of dollars)



Source: Statistics Canada, "CANSIM Results: Film, television and video production, summary statistics, 2006," Table 361-0016.

- The Canadian motion picture and video production, distribution and post-production industry, which includes feature film production, distribution and exhibition as well as television production, showed GDP growth at an average annual rate of 1.5% in the period between 1998 and 2006. This growth lagged behind the Canadian economy as a whole, whose GDP grew at an average annual rate of 3.3%.[12]

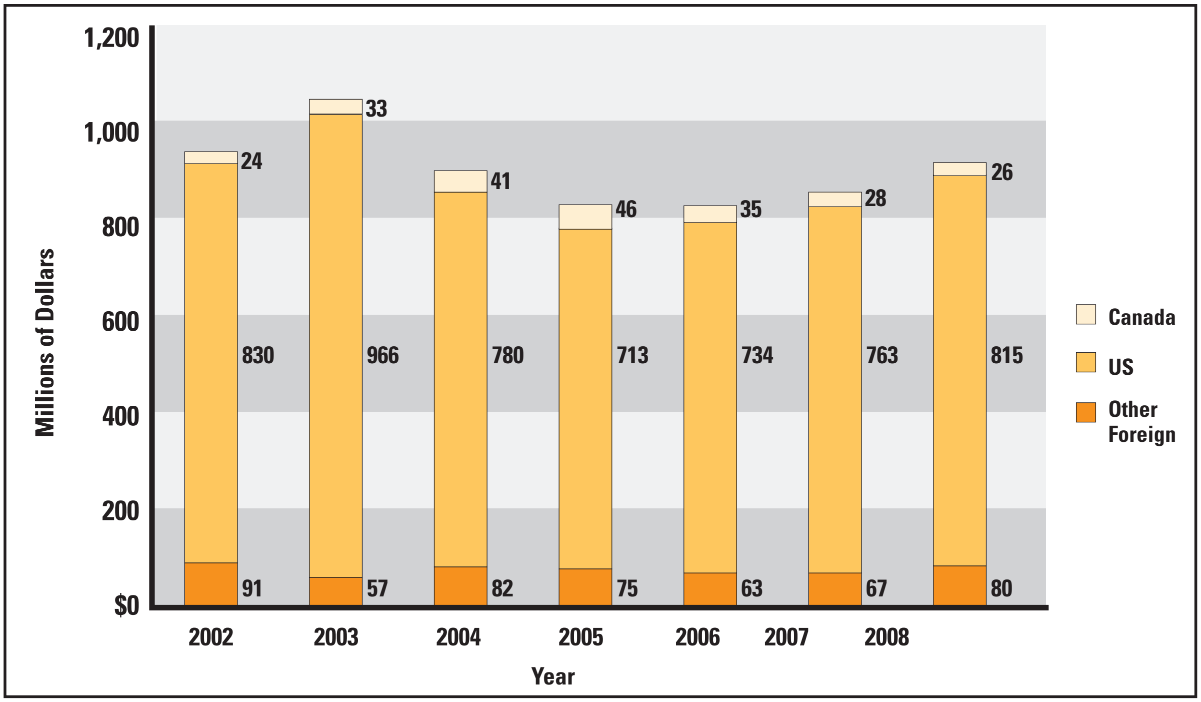
Box-office and DVD market

- The global filmed entertainment market, which includes theatrical box-office take for feature film and consumer spending on home video, was estimated to be valued at US $88.9 billion in 2008, up 3.5% from 2007. The Canadian portion of the market was valued at US $6.1 billion, up 2.8% from 2007.[13]

- Canadian theatres collected $920 million in box-office revenues in 2008, an increase of 7% over 2007. Canadian films garnered $26 million of those revenues, for a 2.8% share of the national box-office. This represented a drop from the 3.2% market share reported in 2007. American films accounted for 88.5% of the box-office during the same period. One hundred and twenty-two Canadian films screened in Canadian theatres in 2008, up from 112 in 2007.[14]

- The export value of Canadian theatrical film production, which takes into account foreign investment in the Canadian industry including foreign sales of Canadian productions, increased by 55% in 2007-08 from the previous fiscal year, to $31 million.[15]

Box Office Revenues in Canada by Origin of Production, 2002-2008



Source: CFTPA, *Profile 2009 - An Economic Report on the Canadian Film and Television Industry*, p. 72

TRENDS AND ISSUES

Growth rate and related trends

- The Canadian filmed entertainment market is anticipated to grow at a compound annual growth rate of 4.9% through 2012. This pace is slower than its Asian and Latin American counterparts. However, the Canadian growth rate outpaces predictions for the U.S. and Europe, the Middle East and Africa. This growth would result in a U.S. $7.5 billion Canadian market by 2012. Overall, the global filmed entertainment market is anticipated to increase at a compound annual rate of 5.3% through 2012, for a total projected value of US $111 billion.[16]

- The past few years have proven tumultuous for the Canadian feature film sector due to a number of factors. Toward the end of 2007, the sharp rise in the value of the Canadian dollar vis-à-vis the U.S. dollar had a negative effect on foreign service production in Canada. These levels bounced back in 2007-08, with an increase in foreign location and service production volume of 23% to $1.8 billion in 2007-08. This was mainly driven by higher levels of feature film production in British Columbia, which accounted for 67% of this production in the time period.[17]

- Lack of access to screens has also been a long-term problem for the feature film industry in Canada. As shown above, U.S. films have consistently dominated Canadian screens, with an 88.5% share of box office revenue in 2008. This problem is particularly pronounced in English Canada. English-language Canadian features accounted for 1.1% of Canadian market share in 2008. French language Canadian films consistently perform better at the box office.[18]

- Companies operating in the Canadian feature film sector find attracting investment capital a challenge. Canadian producers consistently struggle to raise sufficient capital to create feature films. In doing so, they are forced to sell most if not all of the potentially lucrative intellectual property rights to the productions, and often their producer fees are tied up in tax credits that take time to access. In the interim, these credits are financed through bank loans with interest fees that further reduce producers' profits.[19] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[20] This keeps production budgets small, thereby decreasing production value. All these factors diminish Canadian producers' ability generate capital, which hampers growth and innovation in the sector.

- The English Canadian feature film industry struggles with the lack of a star system. Where Quebec has an established star system, which has served its industry well, English Canada has no equivalent. Language plays a role in this. While French-language production is protected from the competitive forces of the large, English-language U.S. production market to some degree, English-language Canadian films must compete directly with Hollywood blockbusters. Creating and sustaining an English-language star system has proven a serious challenge, given the proximity of the U.S. market. Lack of capital in the Canadian system makes it difficult to retain Canadian talent,[21] drawn to the larger, more lucrative market to the south.

Technological development

- While online video distribution is growing, particularly among younger age groups, the traditional platforms of televisions, movie theatres and DVDs are still the dominant revenue-generating media for audio-visual content. Therefore producers must continue to work with these distribution systems while also preparing themselves to work with the online distribution platforms, such as YouTube, MySpace and Apple's *iTunes*, which are beginning to carve out their own distinct niche in the audio-visual landscape.[22]

- In recent years, growth in the global feature film theatrical and DVD market has been driven by box office returns, which have countered a relatively flat home video rental market. This pattern did not extend to Canada, where box office returns have remained relatively flat.[23] Canadian in-store rentals matched the international trend by showing no real growth in recent years. That said, it is anticipated that internationally, box office growth will be spurred by the conversion to digital cinemas, upgrades to 3-D screening technologies and an increase in the number of screens outside of North America. High definition DVDs will enhance DVD sales and rentals, though piracy will continue to hold down spending, particularly in Asia Pacific and Latin America.[24]

Government assistance[25]

- At the federal level, feature film producers have access to government funding through tax credits and the Canada Feature Film Fund (CFFF). In 2007-08, CFFF funding accounted for $68 million, or 25% of the financing, for Canadian feature films.[26]

- In 2008-09, Ontario feature film producers had access to provincial government funding through tax credits including the Ontario Feature Film and Television Tax

Credit, the Ontario Computer Animation and Special Effects tax credit and the Ontario Production Services Tax Credit as well as the OMDC Film Fund, the OMDC Screen-based Content Initiative, the OMDC Export Fund and the Entertainment and Creative Cluster Partnerships Fund.

- OMDC, in partnership with the City of Toronto and FilmOntario, is currently in the fifth year of operation of the jointly funded L.A. Marketing Office. The office provides on-the-ground marketing to attract production to Ontario, as well as assisting domestic producers in accessing the L.A. marketplace. The L.A. Office continues to make a significant contribution to Ontario's foreign production activity, building on 2007-08 results, when a total of 16 productions were assisted through the office, representing $124 million in economic activity.[27]

- Seven OMDC Film Fund recipients—*Blindness*, *Adoration*, *Examined Life*, *Heaven on Earth*, *One Week*, *Real Time* and *Toronto Stories*—screened at the 2008 Toronto International Film Festival.

- OMDC Film Fund recipient *Breakfast with Scot* was recognized as Best Family Feature Film at the 2008 Directors' Guild of Canada Awards.

Profile current as of March 31, 2009.

(Endnotes)

[1] Women in Film and Television – Toronto (WIFT-T), *Frame Work: Employment in Canadian Screen-Based Media – A National Profile*, June 2004, p. 4.
[2] Canadian Film and Television Production Association (CFTPA), *Profile 2009 - An Economic Report on the Canadian Film and Television Production Industry,* p. 60.
[3] ibid, p. 63.
[4] ibid, p. 65.
[5] OMDC, Production Statistics, 2008.
[6] CFTPA, p. 67.
[7] ibid, p. 71.
[8] ibid, p. 62.
[9] Statistics Canada, "CANSIM Results: Film, television and video production, summary statistics, 2006," Table 361-0016, October 16, 2008.
[10] Statistics Canada, *The Daily: Film Television and Video Production 2006,* October 16, 2008.
[11] Statistics Canada, "CANSIM Results: Film, television and video production, summary statistics, 2006," Table 361-0016.
[12] CFTPA, *Profile 2008 - An Economic Report on the Canadian Film and Television Production Industry,* p. 17.
[13] PricewaterhouseCoopers, (PwC), *Global Entertainment and Media Outlook 2008-2012,* p. 42.
[14] CFTPA, *Profile 2009*, pp. 72-3.
[15] ibid, p. 13.
[16] PwC, p. 42. PwC groups Europe, the Middle East and Africa into a single group for statistical purposes.
[17] CFTPA, *Profile 2009*, p. 76.
[18] ibid, pp. 72-74.
[19] PwC, p. 5.
[20] SECOR Consulting Ltd., *Ontario Media Development Corporation: Towards a Strategic Plan,* September 2008, pp. 9-11.
[21] ibid.
[22] CFTPA, *Profile 2009*, p. 5.
[23] PwC, p. 399.
[24] ibid, p. 42.
[25] The information included in this section is an overview of some of the government assistance to the film industry. This is not intended to be a comprehensive list of government assistance available.
[26] CFTPA, *Profile 2009*, p. 68.
[27] OMDC, 2007-08 Internal Results.