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 mainly comprises 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:

- OMDC Film Fund recipient *Force of Nature: The David Suzuki Movie*, directed by Sturla Gunnarsson and produced by Laszlo Barna, won the Cadillac People's Choice Documentary Award at the 2010 Toronto International Film Festival.
- OMDC Film Fund-supported documentary *RUSH: Beyond The Lighted Stage*, directed by Sam Dunn and Scot McFayden and produced by Banger Productions, took home the 2010 Heineken Audience Award at the Tribeca Film Festival.
- *Cairo Time*, also supported by the OMDC Film Fund, directed by Rubba Nadda and produced by Foundry Films, won Best Feature Film at the 2010 Directors' Guild of Canada awards.
- Reginald Harkema, the director of *Leslie, My Name is Evil* was also awarded a 2010 DGC Award, for Best Direction, Feature Film.

Industry Size and Economic Impact

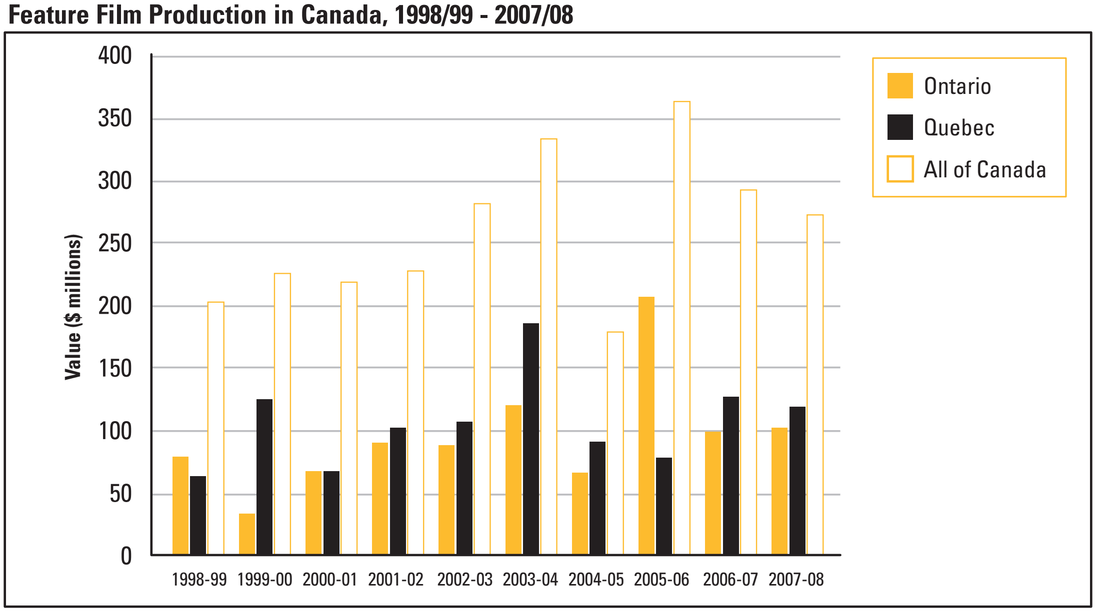
Employment and wages

- Statistics Canada figures show that Canadian film, television and video production companies provided $736.4 million in salaries, wages and benefits to workers in the sector in 2008. Ontario accounted for well over a third of those payments, disbursing $255.6 million in salaries—more than any other province.[2]
- Figures from the Canadian Film and Television Production Association's (CFTPA, now the Canadian Media Production Association [CMPA]) *Profile 2009*, show that 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 production, while 4,200 were indirect jobs created elsewhere in the Canadian economy.[3]
- The screen-based industry in Ontario (comprising film, television and interactive digital media production) led to the creation of 6,500 full-time equivalent jobs in 2007-08 according to a study conducted by the CFTPA which included a survey of its Ontario members.[4] The Computer Animation Studios of Ontario (CASO) report that within the wider screen-based industry, the computer animation and visual effects sector employed a total of 1,600-1,900 people in 2007.[5]

Production volume and budgets

- OMDC figures show that in 2009, both foreign and domestic feature film spending grew sharply in Ontario, by 147% from 2008, for a total foreign feature film spend of $161.8 million and a domestic feature film spend of $99 million.[6]

Feature Film Production in Canada, 1998/99 - 2007/08



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

- Foreign feature film spending of $161.8 million in Ontario includes many high-profile feature films that have recently chosen Ontario as a shooting location, including *The Thing, Red, Saw 7 3D* and *Dream House*. Another high profile feature film shot in Ontario is the Canada-Germany co-production *Resident Evil: Afterlife*, which recently became the most successful production in Canadian feature film history, surpassing $280 million at the box office.[7]

- Preliminary 2008-09 data from the CMPA suggests that Canadian theatrical film production has decreased by nearly 22% since 2007-08 levels, to $253 million.[8] The number of Canadian films produced for theatrical release during the 2007-08 period had fallen to 82, down from 105 in 2006-07.[9] 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).[10] As noted above, in Ontario this trend was reversed during calendar 2009 when domestic feature film production levels increased significantly.

- Figures from CFTPA's *Profile 2009* show that 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.[11]

- CFTPA figures show that 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.[12]

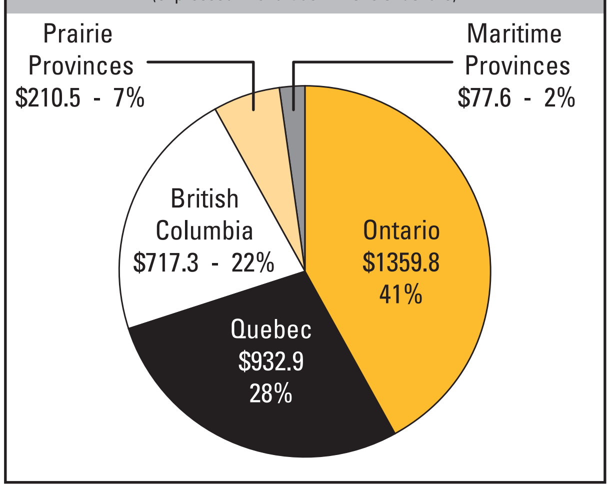
- Ontario producers were involved in about 50 inter-provincial co-productions in both 2007 and 2008, with an average annual production spend of $90 million on those projects.[13]

Revenues and related figures

- In 2008, Canadian film, television and video production businesses reported $3.29 billion in operating revenues, a 1% decrease from the previous year, according to Statistics Canada. Operating expenses decreased to $3.15 billion, resulting in an operating profit of 4.4%.[14] In 2008, the majority of Canadian production revenues—66%—were generated by television production, including both independent and broadcaster in-house production. Feature film production accounted for 12%, and commercial production for 11%, of production revenues during the year.[15]

Film, Television and Video Production, Operating Revenues, 2008

(expressed in chart as millions of dollars)



Source: Statistics Canada, Film, Television and Video Production , 2008, Catalogue no. 87010X, Table 1.

- Statistics Canada also confirms that Ontario is central to the Canadian film and television production sector. In 2008, Ontario film, television and video production companies accounted for 41% of Canada's overall film and video production operating revenues, surpassing Quebec (28%) and B.C. (22%). Furthermore, Ontario film, television and video production companies earned $1.36 billion in operating revenue in 2008. Lower operating expenses than in 2007 resulted in a profit margin of 9.3%.[16] Figures from CASO show that the computer animation and visual effects industry in Ontario alone earns estimated revenues between $170 million and $200 million on an annual basis.[17] (See chart on previous page.)

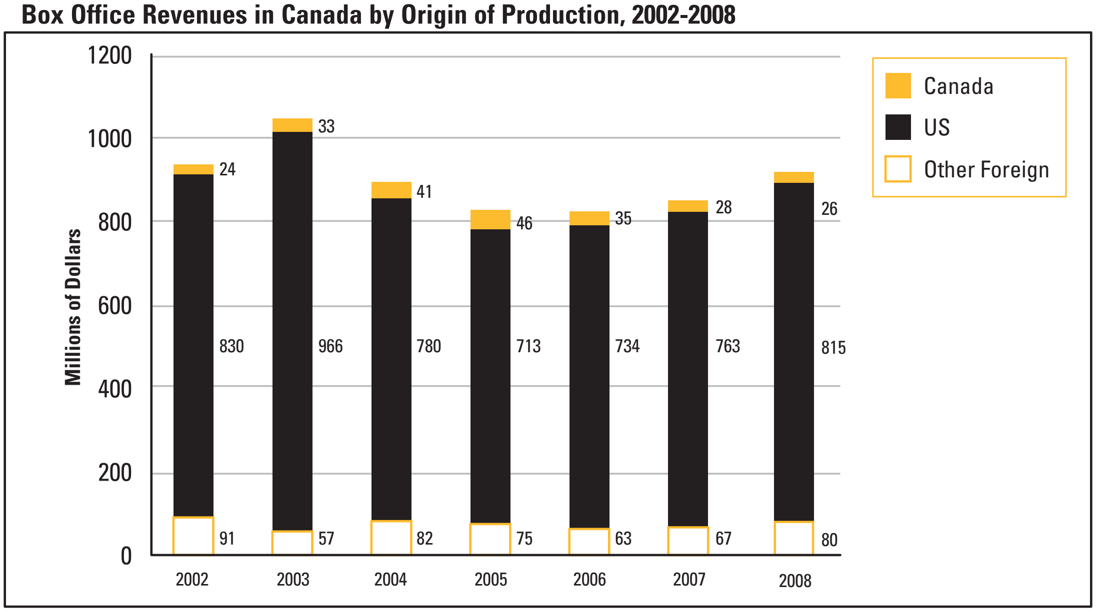
- According to the aforementioned member survey-based study by the CFTPA, the Ontario film, television and cross-platform interactive media industries generated over $696 million in provincial GDP in 2008. This total economic impact comprises $379 million directly from production activity and $318 million in spin-off economic impact.[18]

Consumer market

- According to PricewaterhouseCoopers, the global filmed entertainment market, which includes theatrical box office take for feature film, consumer spending on home video, purchases at online stores and film rental subscription services, was estimated to be valued at US $87.3 billion in 2010, up 2.6% from 2009. The Canadian portion of the market was valued at US $3.5 billion, up 3.8% from 2009.[19]

- Canadian theatres collected $920 million in box office revenues in 2008, an increase of 7% over 2007. Canadian English and French language features earned $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. Canadian English language features captured a 1.1% share of the Canadian market in the same time period. American films accounted for 88.5% of the box office during 2008. One hundred and twenty-two Canadian films screened in Canadian theatres that year, up from 112 in 2007.[20]

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

- 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.[21]

Trends and Issues

Growth rate and industry trends

- The Canadian filmed entertainment market is anticipated to grow at a compound annual growth rate of 4.4% through 2014. 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. The higher growth rate in Canada is mainly due to gains in online rental subscriptions and digital downloads, services which are earlier in their development stages in Canada than in the U.S. This growth is predicted to result in a US $4.1 billion Canadian market by 2014. Overall, the global filmed entertainment market is anticipated to increase at a compound annual rate of 4.8% through 2014, for a total projected value of US $108 billion.[22]

- Lack of access to screens has also been a long-term problem for the feature film industry in Canada. As indicated in the figures 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. French language Canadian films consistently perform better at the box office.[23]

- 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; for reasons of cashflow, producers sometimes choose to delay payment of their producer fees until receipt of the tax credits, which were designed to be received at the tail end of the process. In the interim, these credits are financed through bank loans with interest fees that further reduce producers' profits.[24] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[25] This keeps production budgets small, thereby decreasing production value. All of these factors diminish Canadian producers' ability to generate capital, which hampers growth and innovation in the sector.

- The French and English language markets in the feature film industry in Canada are markedly different. In Quebec, protection for French-language film is built into cultural policy, thereby protecting the industry from the dominance of U.S. entertainment. Quebec also has an internal, well established star system for its cultural industries. Other hurdles for the Ontario industry include corporate consolidation, the rising Canadian dollar and competition from other provinces and jurisdictions.[26]

- In Ontario, the key issue for ensuring growth of the film, television and interactive digital media production industry in the near future will be a focus on developing, investing in and exploiting intellectual property (IP) rights, rather than on continuing to operate on a project-by-project basis.

Global and domestic issues

- The CFTPA (now CMPA) undertook a study in early 2010 to build a framework for the evolving marketplace for the digital rights associated with film and television content in Canada. Recent technological disruption has upset the traditional orderly windows of exploitation for content such as theatrical release, home video and Pay TV; this study was conducted to provide the CFTPA's membership with information on how digital rights are being defined and valued in this new landscape.[27] The independent production community is also calling for Terms of Trade agreements with broadcasters in order to restore a measure of balance in negotiating power between the parties and give them more opportunity to benefit from the exploitation of digital rights.

- 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.[28]
- In recent years, growth in the global feature film theatrical and DVD market has been driven by box office returns, particularly in 2009, by far the strongest performance by any of the entertainment and media segments. In the coming years, Canadian box office numbers are projected to grow at a compounded rate of 5.8% through 2014, which is slightly slower than the global rate of 6.3%. The 3D market became a major factor in 2009, and conversion to digital is a big step in introducing 3D on screens. In Canada, Cineplex and National CineMedia are converting most of their theatres to digital, and it is anticipated that most theatres will be converted within the next few years.[29]
- After several years of a relatively flat global home video market, a 3.9% compound annual growth is anticipated through 2014. This will be primarily driven by increases in online rental subscriptions and digital downloads, which will counter the lower growth in in-store rentals. The Canadian market is anticipated to show even better growth, though it is worth noting that digital downloads (a newly emerging market in Canada) will outpace the rest of the world, growing an estimated 86.1% compounded through 2014. Canadian online rental subscriptions will also show higher than average growth, increasing 37.4% over the same period. In North America, the DVD sales and rental market will shrink, with Blu-ray technology contributing one bright spot; sales of Blu-ray discs in North America in 2009 jumped by 70% in the fourth quarter.[30]
- U.S.-based online video rental company Netflix launched in Canada in September 2010, offering subscription-based film and TV streaming. Unlike Netflix's U.S. service, in Canada the company is not currently offering DVD rental by mail. This marks the first time Netflix has offered its services outside of the U.S.[31]

Government assistance[32]

- 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.[33]
- Ontario feature film producers currently have access to provincial government funding through tax credits including the Ontario 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 Export Fund and the Entertainment and Creative Cluster Partnerships Fund. The pilot Intellectual Property Development Fund, announced by the provincial government in the March 2009 budget, launched in December 2009. OMDC also provides funding to trade and event organizations in the production sector through the Industry Development Program for events and activities that stimulate the growth of the industry.
- OMDC, in partnership with the City of Toronto, maintains a full time marketing presence in Los Angeles, providing on-the-ground marketing to attract production to Ontario and also provides support to Ontario screen-based content creators to access the L.A. marketplace. The L.A. Office continues to make a significant contribution to

Ontario's foreign production activity, building on 2009-10 results, when a total of 9 productions that received assistance through the office chose to shoot in Ontario, representing $70 million in economic activity.[34]

- Seven OMDC Film Fund recipients—*Score: A Hockey Musical, A Beginner's Guide to Endings, The Bang Bang Club, Barney's Version, Force of Nature: The David Suzuki Movie, Oliver Sherman* and *The Whistleblower*—screened at the 2010 Toronto International Film Festival.

Profile Current as of November 12, 2010

(Endnotes)

[1] Women in Film and Television – Toronto (WIFT-T), *Frame Work: Employment in Canadian Screen-Based Media – A National Profile*, June 2004, p. 13.

[2] Statistics Canada, “Film, Television and Video Production 2008,” Catalogue no. 87010X, Table 1.

[3] Canadian Film and Television Production Association (CFTPA), *Profile 2009 – An Economic Report on the Canadian Film and Television Production Industry*, p. 62.

[4] CFTPA, *Ontario Profile 2009: An Economic Profile of Domestic Film, Television and Cross-platform Interactive Media Production in Ontario*, October 2009, p. 7.

[5] Computer Animation Studios of Ontario (CASO), *Economic Profile of the Ontario Computer Animation and Visual Effects Industry*, September 2008, p. 7.

[6] OMDC, Production Statistics, 2009.

[7] OMDC, Production Statistics, 2009; Press Release, “OMDC Congratulates *Resident Evil: Afterlife* as Worldwide Box Office Tops $280 Million,” OMDC, November 8, 2010.

[8] Canadian Media Production Association (CMPA), *Statistical Indicators of Film and Television Production in Canada 2008-2009*.

[9] CFTPA *Profile 2009*, p. 60.

[10] ibid, p. 63.

[11] ibid, p. 65.

[12] ibid, p. 71.

[13] CFTPA *Ontario Profile 2009*, p. 36.

[14] Statistics Canada, “Film, Television and Video Production 2008,” Table 1.

[15] ibid, Table 2.

[16] ibid, Table 1.

[17] CASO, *Economic Profile of the Ontario Computer Animation and Visual Effects Industry*, 2008, p. 7.

[18] CFTPA *Ontario Profile 2009*, v.

[19] PricewaterhouseCoopers, (PwC), *Global Entertainment and Media Outlook 2010-2014*, pp. 36 and 332.

[20] CFTPA *Profile 2009*, pp. 72-3.

[21] ibid, p. 13.

[22] PwC, pp. 36 and 332. PwC groups Europe, the Middle East and Africa into a single group for statistical purposes.

[23] ibid, pp. 72-74.

[24] PwC, *Economic Study for the Film, Television and Digital Media Sector in Ontario*, October 4, 2006, p. 5.

[25] SECOR Consulting Ltd., *Ontario Media Development Corporation: Towards a Strategic Plan*, September 2008, pp. 9-11.

[26] CFTPA *Ontario Profile 2009*, pp. iii and 22.

[27] CFTPA, *Towards a Framework for Digital Rights*, June 2010, pp. 1 and 3.

[28] ibid.

[29] PwC, pp. 46 and 332-333.

[30] PwC, pp. 336-337.

[31] “Netflix video-on-demand to launch in Canada,” *cbc.ca*, July 19, 2010.

[32] 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.

[33] CFTPA *Profile 2009*, p. 68.

[34] OMDC, 2009-10 Internal Results.