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:

- Ontario Media Development Corporation (OMDC) Film Fund recipient *Barney's Version*, directed by Richard J. Lewis and produced by Robert Lantos from the novel by Mordecai Richler, won seven 2011 Genie Awards including Best Lead Actor for Paul Giamatti. Giamatti also won a Golden Globe award for Best Performance by an Actor (Comedy or Musical) and the film also picked up an Oscar nomination for Best Makeup.

- 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 McFadyen and produced by Banger Productions, took home a 2011 Juno Award for Music DVD of the Year. The documentary also picked up the Heineken Audience Award at the Tribeca Film Festival and was nominated for a 2010 Grammy Award for Best Long Form Music Video.

- 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 $300 million in worldwide box-office receipts.

Industry Size and Economic Impact

Employment and wages

- Ontario's film and television industry contributed $964.3 million to the provincial economy in 2010—an increase of almost $18 million over 2009. This production activity accounted for more than 23,000 full-time direct and spin-off jobs. In addition, every million dollars of film and television production in Ontario generates 24 full-time direct and spin-off jobs.[2]

- Statistics Canada figures show that Canadian film, television and video production companies provided $643.6 million in salaries, wages and benefits to workers in the sector in 2009. Ontario accounted for well over a third of those payments, disbursing $252.9 million in salaries—more than any other province.[3]

- Figures from the Canadian Media Production Association's (CMPA) *Profile 2010* show that the production of Canadian theatrical films generated an estimated 7,300 jobs in Canada during the 2009-10 fiscal year. Two thousand, nine hundred of these positions were direct jobs in feature film production, while 4,400 were indirect jobs created elsewhere in the Canadian economy.[4]

- 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 Canadian Film and Television Production Association (CFTPA, the former name of the CMPA) which included a survey of its Ontario members.[5] 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.[6]

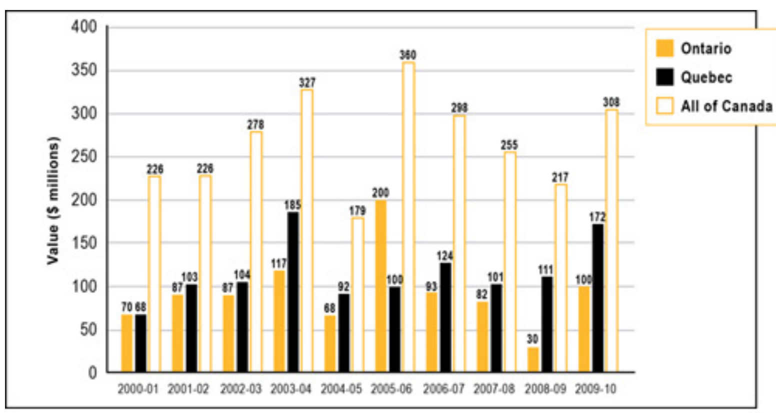
Production volume and budgets

- OMDC figures show that in 2010, feature film spending in Ontario totaled $221.9 million. The number of foreign feature film productions increased from 9 to 20 in 2010, however budgets dropped slightly reflecting a trend towards lower budgets for indie productions in the U.S., for a total foreign feature film spend of $159.3 million. Domestic feature film spending was $62.6 million, a decline of 36.8% from 2009 levels.[7]

- The 2010 foreign feature film spending in Ontario includes many high-profile feature films that chose Ontario as a shooting location, including *The Thing*, *Red*, *Saw 7 3D* and *Dream House*. The outlook for 2011 is promising, with a number of high profile productions shooting in Ontario, including *Total Recall* and *Silent Hill 2*.[8]

- Data from CMPA's *Profile 2010* shows that Canadian theatrical film production in 2009-10 has rebounded from 2008-09 levels, increasing by 41.8% to $308 million. The number of Canadian films produced for theatrical release during the 2009-10 period had fallen to 76, down from 87 in 2008-09. Most of this decline in number of projects was in English-language films, which dropped to 47 films (from 56 the previous year) valued at $232 million. The volume of English-language production in 2009-10 actually increased 64.5% from 2008-09 levels ($141 million).[9]

Feature Film Production in Canada, 2001-02 - 2009-10



Source: CMPA, *Profile 2010 - An Economic Report on the Canadian Film and Television Industry*, p. 66

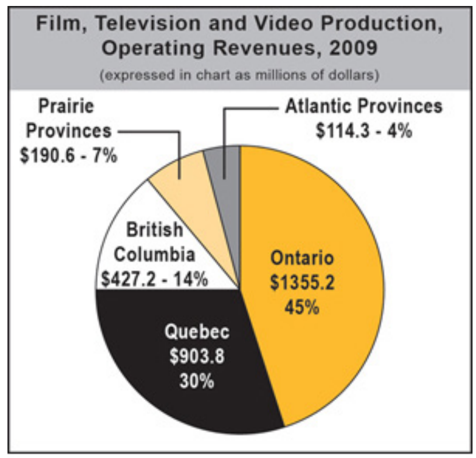
- *Profile 2010* shows that the average budget of a Canadian feature film in the fiction genre rose sharply from $2.7 million in 2008-09 to $6.1 million in 2009-10. This increase was entirely in English-language films, as averages stayed the same for French-language films.[10]

- CMPA figures show that the number of Canadian treaty co-production projects in theatrical film dropped in 2009, from 25 to 17, while the value of these projects grew by 58%, from $116 million in 2008 to $183 million in 2009. The volume level in 2008 had marked an 11 year low, and 2009 levels represent a moderate bounce back. France continued to be Canada's largest treaty co-producing partner in 2009 with 4 feature films totaling $45.5 million in production volume.[11]

Revenues and related figures

- In 2009, Canadian film, television and video production businesses reported $3.0 billion in operating revenues, reflecting a decline of 9.3% from 2008, and generated a 2.2% profit margin, according to Statistics Canada. The majority of Canadian production revenues—60.1%—were generated by television production, including both independent and broadcaster in-house production. Feature film production accounted for 10.6%, and commercial production for 14.7%, of production revenues during the year.[12]

- Statistics Canada also reports that Ontario is central to the Canadian film and television production sector. In 2009, Ontario film, television and video production companies accounted for 45.3% of Canada's overall film and video production operating revenues, followed by Quebec at 30.2% and B.C. at 14.3%. Ontario film, television and video production companies earned a similar $1.36 billion in operating revenues in 2009 as compared to 2008, but their profit margin decreased significantly from 9.3% in 2008 to 1.8% in 2009.[13]



Source: Statistics Canada, Film, Television and Video Production 2009, Catalogue no. 87010X, Table 1.

- 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.[14]

- According to the aforementioned member survey carried out 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.[15]

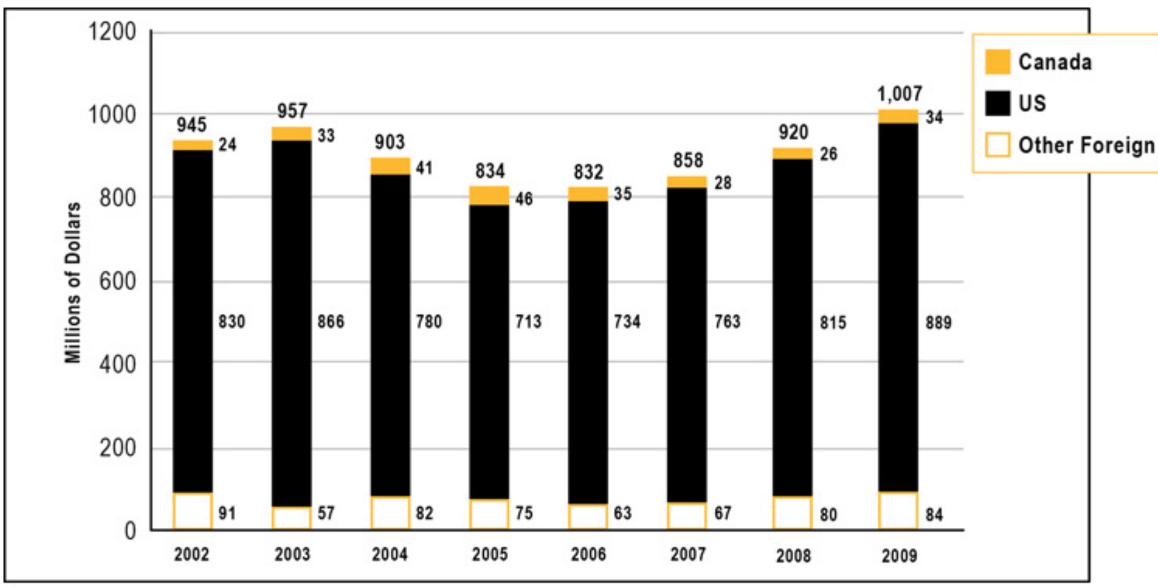
Consumer market

- 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.[16]

- Canadian theatres surpassed the $1 billion threshold in box office revenues for the first time in 2009, as box office revenues rose for the third consecutive year. Canadian English- and French-language features earned $34 million of those revenues, for a 3.4% share of the national box office; this represented a rise from the 2.8% market share reported in 2008. Canadian English-language features captured a 0.8% share of the Canadian market in the same time period. American films accounted for 88.3% of the box office during 2009. One hundred and sixteen Canadian films screened in Canadian theatres that year, down from 122 in 2008.[17]

- The export value of Canadian theatrical film production, which takes into account foreign investment in the Canadian industry and foreign sales of Canadian productions, decreased by 37% in 2009-10 from the previous fiscal year, to $22 million.[18]

Box-Office Revenues in Canada by Origin of Production, 2002-2009



Source: CMPA, *Profile 2010 - An Economic Report on the Canadian Film and Television Industry*, p. 71-73.

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.[19]

- 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 88.3% share of box office revenue in 2009. This problem is particularly pronounced in English Canada. French-language Canadian films consistently perform better at the box office.[20]

- 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 cash flow, 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.[21] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[22] 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.[23]

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.[24] Negotiations on a Terms of Trade agreement in principle between broadcasters and independent producers were concluded in April 2011 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. As of April 2011 the agreement is still subject to final approval by the parties.[25]

- 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 and Apple's *iTunes*, which are beginning to carve out their own distinct niche in the audio-visual landscape.[26]

- 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.[27]

- 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, and 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.[28]

- Unregulated, over-the-top broadcasting services using the Internet to deliver low-cost or free content to consumers such as Netflix, Apple TV and Hulu may begin to pose a serious threat to producers of Canadian content. One such service, Netflix, entered the Canadian market in September 2010, offering movies and television shows via Internet streaming for a monthly subscription fee of $8. Although they are acquiring Canadian programming, these foreign providers also have the ability to acquire rights to the world's most popular content and broadcast it to Canadian audiences without any of the obligations to exhibit Canadian content or make financial contributions to the Canadian production industry that are part of the regulated broadcasting industry. If Canadian consumers turn to these over-the-top services in large numbers, reducing the revenue earned by regulated players, their financial contributions to the creation of Canadian programming could be negatively impacted. In May 2011 the Canadian Radio-television and Telecommunications Commission (CRTC) announced a fact-finding mission to collect data and comments on over-the-top services in Canada with a deadline for comments of July 5, 2011.[29]

Government assistance[30]

- At the federal level, feature film producers have access to government funding through tax credits and the Canada Feature Film Fund (CFFF). In 2009-10, CFFF funding accounted for $67 million, or 22% of the financing, for Canadian feature films.[31]

- 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.

- In January 2011, OMDC's Film Commission in partnership with the City of Toronto's Film and Television Office and the industry consortium FilmOntario conducted a Trade Mission to Los Angeles. The mission partners met with Hollywood Studios and U.S. indies to encourage production and post-production in Ontario. The key trade mission event was a Business Breakfast Forum that was attended by over 100 Hollywood decision makers and Ontario industry stakeholders[32].
- Through its Film Commission, OMDC markets the province as a preferred location for filming and provides complimentary location scouting and facilitation assistance to feature film producers, both domestic and service, who are considering Ontario for their productions. OMDC, through a financial partnership with the City of Toronto and with targeted marketing support provided by industry trade organization FilmOntario, maintains a full time marketing presence in Los Angeles. The office provides on-the-ground marketing to attract production to Ontario as well as support to Ontario screen-based content creators in accessing the L.A. marketplace. The L.A. office continues to make a significant contribution to Ontario's foreign production activity, building on 2010-11 results, when a total of 16 productions that received direct assistance through the office chose to shoot in Ontario, representing $210 million in economic activity[33].
- Ontario's Entertainment and Creative Cluster Partnerships Fund, co-administered by OMDC and the Ministry of Tourism and Culture, has enabled technological development and education in the field of film and television production. In February 2011 OMDC announced that the Fund in the current fiscal year is investing $2.9 million in 19 projects which will leverage an additional $7.6 million from 108 partners. Since its inception in 2006, the Fund has provided almost $12.7 million in support to 79 projects involving 487 partners with total budgets of $30.6 million[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 (TIFF). Many OMDC-supported films appear on TIFF's yearly top ten lists, including *Splice* (2010), *Cairo Time*, *Defendor* (2009) and *Adoration* (2008).

Profile current as of July 5, 2011

Endnotes

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30 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.
31 CMPA *Profile 2010*, p. 67.
32 Etan Vessing, "OMDC and FilmOntario report back from LA trade mission," *Playback Magazine*, January 20, 2011.
33 OMDC, 2010-11 Internal Results.
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