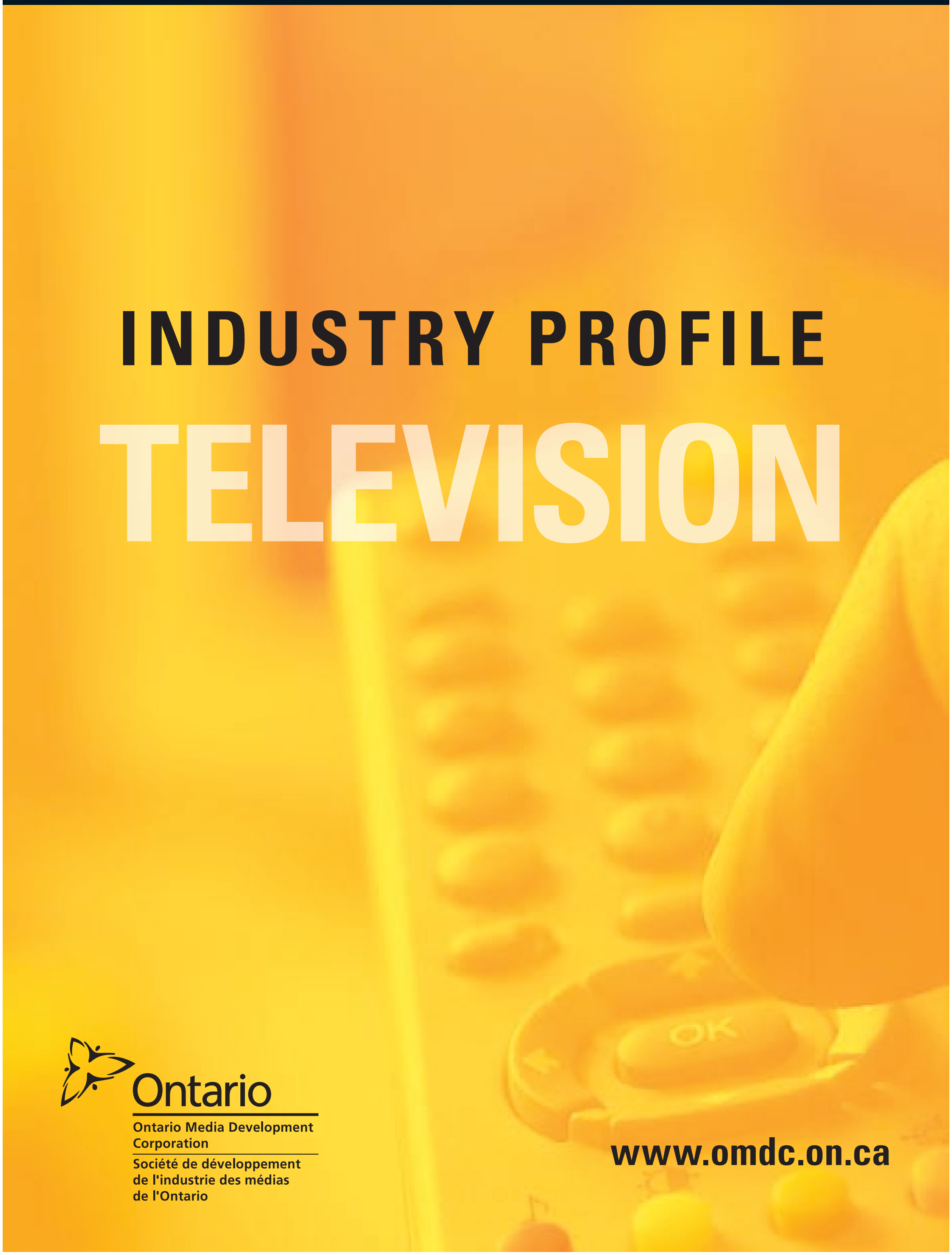
ONTARIO MEDIA DEVELOPMENT CORPORATION

INDUSTRY PROFILE

TELEVISION



Ontario

Ontario Media Development Corporation

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

www.omdc.on.ca

Introduction

Ontario's television production sector is mainly comprised of small to medium-sized production companies, producing a combination of their own proprietary productions and foreign service productions for international producers. A large concentration of Canada's TV production companies and labour force is located in Ontario (specifically in the Greater Toronto Area).[1] Ontario's television production sector is the largest in Canada.

Ontario's domestic television sector continues to perform well. In 2008 Ontario domestic television series figures showed impressive growth, up 39.1% from the previous year.[2] And recently high profile television series *Flashpoint* and *The Listener* were picked up by U.S. networks.

INDUSTRY PROFILE TELEVISION

INDUSTRY SIZE AND ECONOMIC IMPACT

Production volume and budget

- The total volume of film and television production in Canada reached an all-time high of $5.2 billion in 2007-08. The Canadian television sector accounted for 39% of total production during the fiscal year.[3]

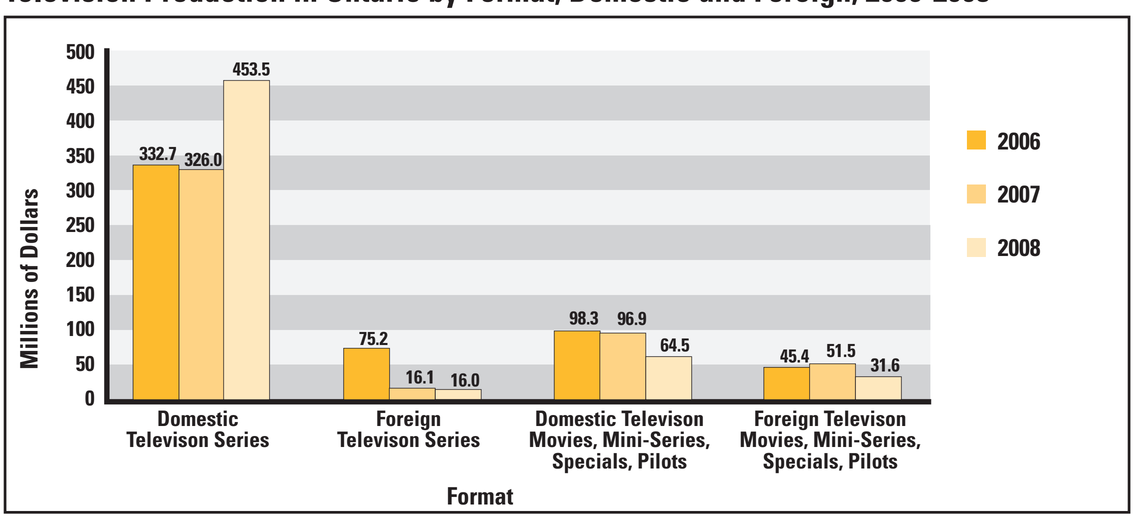
- Canadian television production decreased by 7% to just over $2 billion in 2007-08. While the variety and performing arts and magazine genres both experienced gains during the time period, these gains were not enough to offset the lower volumes of production in the children's and youth, documentary and fiction genres.[4]

- The decrease in Canadian television production was largely due to a drop in English-language production of approximately 10%. However, average production budgets in all genres in both English and French increased in 2007-08. The average budget for English-language fiction production for television rose to over $1.5 million per hour, an all-time high.[5]

- Since 1996-97, the majority of television productions made in Canada have been television series. Movies of the week (MOWs), short films for TV and mini-series have accounted for the smaller share of television production activity. In 2007-08, television series accounted for $1.4 billion of the activity in the sector.[6]

- Contrary to the national trend, Ontario experienced a 9% increase in domestic television production in 2007-08, raising production volume for Canadian television in the province to $776 million or 38% of the national total. This enabled Ontario to regain its position as the province with the highest volume of Canadian television production, after falling behind Quebec in 2006-07. These levels of production came close to matching the $779 million in volume of Canadian television production during Ontario's high point, the 1999-2000 fiscal year.[7]

Television Production in Ontario by Format, Domestic and Foreign, 2006-2008



Source: OMDC Production Statistics

- One hundred ninety-nine television productions were filmed in Ontario in 2008—185 domestic and 14 foreign—for a total of $565.6 million spent in the province. Domestic television series production accounted for the majority of production activity in the province, with 127 productions and $453.5 million in Ontario expenditures. This spurt in activity led to a 39.1% rise in domestic TV series expenditures year over year. Growth in foreign TV series production remained flat, while both foreign and domestic TV movies, pilots, specials and mini-series showed declines. [8]

Employment and wages

- Television production in Canada created an estimated 51,200 full-time equivalent jobs (FTEs) in Canada in 2007-08. Twenty thousand one hundred of these positions were direct jobs in television production, while 31,100 were indirect jobs created elsewhere in the Canadian economy.[9]

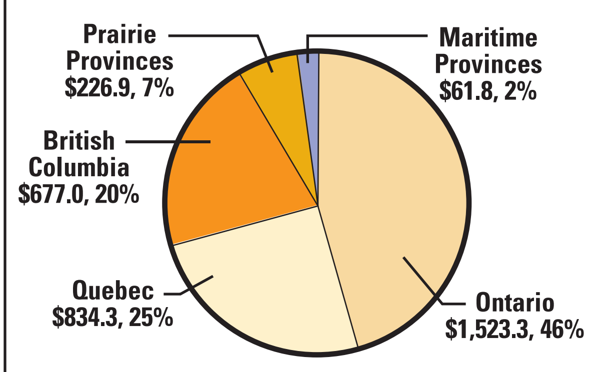
- Canadian film, television and video production companies provided $620.5 million in salaries, wages and benefits to workers in the sector in 2006. Ontario accounted for over a third of those payments, disbursing $217.2 million in salaries—more than any other province.[10]

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 commercial production for 22% of production revenues during the year.[11]

- 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%).[12] 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%.[13]

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 television production and distribution along with feature film production, distribution and exhibition, 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, which had annual average GDP growth of 3.3%.[14]

TRENDS AND ISSUES

General trends

- The past few years have proven tumultuous for the Canadian television production sector due to a number of factors, including broadcaster consolidation and uncertainty about the future of the Canadian Television Fund (CTF). The increased market concentration in the broadcasting industry reduces the leverage that the independent production sector has when negotiating license fees and rights retention. A terms of trade agreement to govern this relationship is a priority for the independent production sector.[15] These factors, combined with labour disputes in Canada and the U.S. in 2007-08 and the global economic recession, have contributed to the uncertainty in the sector.

- Companies operating in the independent Canadian television production sector find attracting investment capital a challenge. Canadian producers consistently struggle to raise sufficient capital to create productions. In doing so, they are forced to sell most if not all of the potentially lucrative intellectual property rights, 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.[16] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[17] This keeps production budgets small and decreases total production value. All of these factors diminish Canadian producers' ability to generate capital, which hampers growth and innovation in the sector.

- The English Canadian television 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. French-language production is protected to some degree from the competitive forces of the large, English-language U.S. production market, while English-language Canadian television must compete directly with Hollywood hits. 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,[18] which is 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 simultaneously preparing themselves to work with 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.[19]

- On a global scale, multi-channel advertising (advertising on networks accessible through cable, satellite and other similar services) is the fastest growing area in the TV advertising market, though the emergence of HD over-the-air broadcast will boost advertising revenues associated with free-to-air channels. The global TV advertising market is anticipated to grow at a compound annual growth rate of 5.9% through 2012, for an international market value of US $215.8 billion. Canada's TV advertising market is anticipated to grow at a compound annual growth rate of 3.6% through 2012, to a projected market value of US $3.4 billion. Forecasts show Canada's TV advertising growth rate falling behind that of the rest of the world.[20]

Global financial crisis

- As with other cultural sectors, the television sector has been hit by the global economic downturn. Canwest Global Communications, affected by a shrinking advertising market as well as the costs of carrying a $3.9 billion debt, is renegotiating its credit arrangements and attempting to sell assets such as the E! channels in an effort to trim costs and remain solvent.[21] CTV, facing similar losses in revenue, has announced the closing of its A-channel stations in Windsor and Wingham.[22] In similar news, Rogers Communications made a December 2008 announcement that as many as 100 jobs had been eliminated, including eight from broadcaster CityTV.[23] Instability in world markets suggests this trend will continue in Ontario and internationally.

- In light of the financial difficulties being faced by conventional over-the-air (OTA) broadcasters, the Canadian Radio-television and Telecommunications Commission (CRTC) has announced that it will grant the OTA stations one-year licence renewals, instead of the usual seven, which will allow it to consider several important issues currently facing the OTA sector. The CRTC is also considering granting licence renewals by corporate group rather than by sector. Licence renewal proceedings will be held in April 2009, and a further public process will take place during the summer of 2009.[24] The decisions made during these proceedings will have a substantial impact on the domestic market for Canadian television programming and the role of independent producers in the system. The Standing Committee on Canadian Heritage is also currently looking into the future of television broadcasting.[25]

Government assistance[26]

- At the federal level, television producers currently have access to government funding through tax credits and the aforementioned Canadian Television Fund (CTF). In 2007-08, CTF funding accounted for $242 million, or 12% of the financing, for Canadian television production.[27]

- In March 2009, the federal government announced major changes to the CTF. Beginning in the 2010-11 fiscal year, the CTF will be amalgamated with the Canada New Media Fund to create a new fund called the Canada Media Fund (CMF). While guidelines have yet to be established, some details were provided. Major changes to the existing structures include a new, smaller board that will be nominated by the funders—major cable companies and the Department of Canadian Heritage (DCH). The CBC's guaranteed envelope of one-third of the Fund will be removed, meaning the size of their envelope will be determined by the same criteria as other broadcasters. The new Fund will require that projects are available across a minimum of two distribution platforms and will favour projects produced in high definition and those that have demonstrated the most potential to achieve audience success and return on investment. Broadcaster in-house production will also be eligible for the Fund. DCH will work with its partners over the coming months to develop guidelines for the new Fund; existing CTF guidelines will remain in place for the 2009-10 fiscal year.[28]

- Ontario television producers have 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.

- 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 by the office, representing $124 million in economic activity.[29]

- Ontario's Entertainment and Creative Cluster Partnership Fund, co-administered by OMDC and the Ministry of Culture, has enabled technological development and education in the field of film and television production. Recent recipients Seneca College and Fast Motion Media Group were able to launch a fully outfitted motion-capture studio, Animating Motion-Capture Capacity and Training (AMCaT) in Toronto.

Profile current as of March 31, 2009.

(Endnotes)

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2 OMDC, Production Statistics, 2008.
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5 ibid.
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24 Canadian Radio-television and Telecommunications Commission, Broadcasting Notice of Consultation CRTC 2009-70, *Scope of licence renewal hearings for private conventional television stations*, 13 February 2009.
25 Press Release, "Terms of Reference on the Study of the Evolution of the Television Industry in Canada and its Impact on Local Communities," Standing Committee on Canadian Heritage, April 2, 2009.
26 The information included in this section is an overview of some of the government assistance to the television sector. This is not intended to be a comprehensive list of government assistance available.
27 CFTPA, *Profile 2009*, p. 46.
28 Press Release, "Minister Moore announces Canada Media Fund to give viewers what they want, when they want it," Department of Canadian Heritage, March 9, 2009.
29 OMDC, 2007-08 Internal results.