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 mainly comprises 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. The province is also home to world-class animation and visual effects studios, such as Arc Productions (formally known as Starz Animation Toronto) and Mr. X.

Ontario's domestic television sector continues to perform well and Ontario producers continue to receive international recognition:

- Television production increased in 2010, with the biggest increase seen in foreign television series spending which spiked to $118.9 million in 2010 compared to $58 million in 2009—a 105.1% increase.[2]

- The high profile television series *Flashpoint* has completed a U.S. syndication deal which will see upcoming original episodes on both CBS and cable channel ION, and has been picked up by CTV for a fourth season of 18-episodes.[3] *Flashpoint* also received fifteen nominations for the 2010 Gemini Awards, including one for Best Drama. The debut episode of *Rookie Blue,* which aired on ABC in the U.S., was the network's best summer series opener in six years with over seven million viewers.[4] ABC has also reached a deal to acquire the Canadian medical drama *Combat Hospital* from Ontario-based Sienna Films.[5]

- Canadian co-produced dramas are currently attracting impressive audiences on U.S. cable television channels and selling widely internationally. For example Ontario-based Take 5 Productions recently had two strong debuts of co-produced series: *The Borgias* on Showtime drew 1.06 million viewers and *Camelot* on Starz drew 1.125 million viewers.[6] International distributor CBS Studios also announced during MIP-TV that it had sold *The Borgias* into territories around the world including Europe, Asia, Latin America, Africa and the Middle East.[7]

- Ontario producer Mark Bishop, partner in marblemedia, was honoured in 2009 at MIPCOM by *The Hollywood Reporter* as one of twenty television producers under the age of thirty-five who are redefining the world of international television.[8]

- Starz Animation Toronto, one of Canada's largest animation studios, was recently acquired by a local consortium and is being rebranded as Arc Productions. The new management will build on the current business model by adding indie productions, more intellectual property and international co-productions.[9] The studio continues to win international recognition, most recently for its animation work on the feature film *Gnomeo & Juliet* which has earned more than $100 million in worldwide box office since it was released in February 2011.[10] Starz was also nominated in 2010 for a Gemini Award for Best Visual Effects for their work on *The Tudors*.

Industry Size and Economic Impact

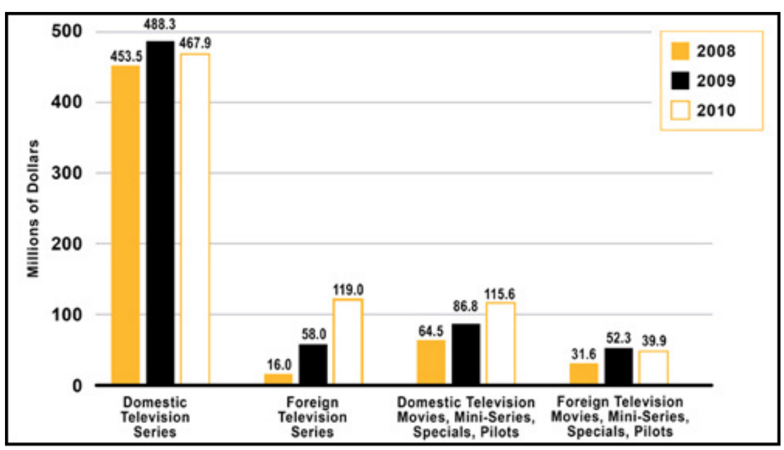
Employment and wages

- 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.[11]
- 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.[12]
- Figures from the Canadian Media Production Association's (CMPA) *Profile 2010* show that television production in Canada created an estimated 47,300 full-time equivalent jobs (FTEs) in Canada in 2009-10. Eighteen thousand, six hundred of these positions were direct jobs in television production, while 28,700 were indirect jobs created elsewhere in the Canadian economy.[13]
- 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, now the CMPA) which included a survey of its Ontario members. The same study also reported that there were 110 television production companies operating in Ontario in 2009.[14] 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.[15]

Production volume and budgets

- Ontario Media Development Corporation (OMDC) figures show that television producers spent $742.4 million filming in Ontario in calendar 2010 on television series, movies, mini-series, specials and pilots. Domestic television series production accounted for the majority of production activity in the province, for $467.9 million of the total expenditures. As noted earlier, there was a strong increase in foreign TV series spending to $119 million in 2010. Domestic TV movies, pilots, specials and mini-series also showed a strong increase from $86.8 in 2009 to $115.6 million in 2010.[16]

Television Production in Ontario by Format, Domestic and Foreign, 2008-2010



Source: OMDC Production Statistics

- The CMPA's *Profile 2010* reported that in fiscal 2009-10 Canadian television production decreased 3.4% to just under $2 billion, and the volume of television series production declined 1.6% to just over $1.5 billion. The decline in Canadian television production was largely confined to the English-language market where the volume of production was down 7.8%. Production in bilingual and other languages were also lower. The volume of French-language television production increased by 12.5%.[17]

- Contrary to the national trend, and as indicated by OMDC's figures, Ontario experienced a 2.2% increase in domestic television production by Ontario-based producers in 2009-10, raising production volume for Canadian television in the province to $897 million or 45% of the national total, according to *Profile 2010*. This enabled Ontario to maintain its position as the province with the highest volume of Canadian television production.[18]

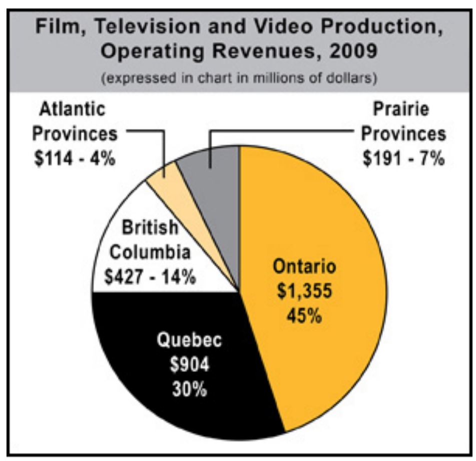
- *Profile 2010* also states that all genres in the English-language had increases to their average per-hour budget. Fiction genre productions only had a slight increase to $1.5 million per hour, but all other genres marked a 10 year high in their average per-hour budgets: documentaries at $359,000, children's and youth at $946,000, and variety and performing arts at $632,000.[19]

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.[20]

- 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.[21]

- 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.[22]



Source: Statistics Canada, ' Film, Television and Video Production, 2009, ' Table 1.

- 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.[23]

Trends and Issues

Growth rate and industry trends

- The Canadian television market, as of December 2009, consists of 704 available television services of which 512 were Canadian and 192 were non-Canadian, and an estimated 11.3 million cable and satellite subscribers, or 90% of the nation's households.[24]
- Overall viewing of Canadian programs on Canadian English-language television services decreased 2% from 2008 to 2009 to 74% according to the Canadian Radio-television and Telecommunications Commission's (CRTC) *Communications Monitoring Report* for 2010. Drama and comedy programming continued to be the most popular in 2009, although viewing is predominantly of non-Canadian programming.[25] This trend may change in 2010, as homegrown shows such as *Rookie Blue* break records—the show is the highest rated Canadian TV show in two decades, besting the 1990's police drama *Due South*.[26]
- Despite experiencing a modest decrease in volume, Canadian television production remained the largest segment of the film and television production industry in 2009-10, accounting for 40% of the total volume of production.[27]
- Currently there is a high level of media consolidation occurring in the Canadian broadcasting system, and is causing a realignment of the national broadcast media landscape. Shaw Communications Inc. acquired 100% of the over-the-air and specialty television business of CanWest Global in October 2010, and in March 2011 CRTC approved BCE's purchase of CTVglobemedia.[28] In June 2011 CRTC will be holding a public proceeding to review its regulatory framework relating to vertical integration.[29]
- According to figures from PricewaterhouseCoopers' *Global Entertainment and Media Outlook 2010-2014*, on a global scale, multi-channel advertising (advertising on networks accessible through cable, satellite and other similar services) is a fast growing area in the TV advertising market, buoyed by large increases in digital households and viewing share gains for cable, satellite channels and digital terrestrial television channels. Experiencing even larger growth is the online TV advertising market, which is projected to increase at a 20.4% compound annual rate to 2014. The terrestrial advertising market is currently the dominant component of total TV advertising, and will increase by 2014 to $124.6 billion, a 4.1% compound annual increase. Forecasts show Canada's TV advertising growth rate faring worse than that of the U.S. in terms of growth; it is anticipated to grow at a compound annual growth rate of 3.8% through 2014, to a projected market value of US $3.4 billion.[30]

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.[31] 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.[32]

- 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.[33]

- 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 and Apple's *iTunes* which are beginning to carve out their own distinct niche in the audio-visual landscape.[34]

- The CRTC is currently considering license renewal applications for CTVglobemedia (BCE), Shaw Media Inc., Rogers Broadcasting Ltd. and Corus Entertainment Inc. on a corporate basis, as per the group-based policy the Commission announced in March of 2012.[35] The group-based policy gathers all television services of a corporate group under a single license, and this new policy will have a far reaching effect on how Canadian programming expenditure levels, the definition of priority programming and required levels of independent production are treated by both the Commission and broadcasters in the future.

- As part of the group-based licensing policy, the CRTC in March 2010 decided in favour of implementing a compensation regime for local TV signals, but immediately referred the issue of whether it has the jurisdiction to do so to the Federal Court of Appeal. The Court ruled on February 28, 2011 that the Commission was within its rights to approve a system for value for signal negotiations. However, Rogers Communications Inc. has asked the Supreme Court of Canada to hear its appeal of that decision.[36]

- 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, some of these credits are often financed through bank loans with interest fees that further reduce producers' profits.[37] Project or hit-based revenues make it difficult to leverage loans and attract private investors.[38] 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 French and English language markets in the television industry in Canada are markedly different. In Quebec, protection for French-language television 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.[39]

Government assistance[40]

- At the federal level, television producers currently have access to government funding through tax credits and the Canada Media Fund (CMF), formerly the Canadian Television Fund (CTF). In 2009-10, CMF funding accounted for $307 million, or 11.9% of the financing, for Canadian television production. Other financing contributed an additional $749 million, and for the first time ever CMF-supported productions totaled over $1 billion in total television production.[41]
- On April 1, 2010 the CTF was amalgamated with the Canada New Media Fund to create the Canada Media Fund (CMF). The new Fund has two streams: a Convergent Stream, requiring that projects are available across a minimum of two distribution platforms (one of which is television), and a non-television Experimental Stream. A new program added this year by the Fund is the Digital Media Incentive which has been added to the Convergent Stream to encourage production of value-added digital media content. In the March 22, 2011, Federal Budget it was announced that the CMF would receive $100 million in annual funding. However, since the Budget was not passed, the CMF has announced a preliminary program budget of $271 million for the upcoming year which only includes confirmed support of $236 million from broadcast distribution undertakings and $34.6 million from the Department of Canadian Heritage. In the event the CMF receives a further allocation of funding as a result of a new federal budget later in the year, a supplementary program budget will be released by the Fund.[42]
- The CMF also offers an incentive to regional productions outside of the major production centers of Toronto and Montreal within the Performance Envelope program. The regional incentive takes the form of a license fee top-up contribution of 10% of eligible costs up to a per project maximum of $100,000.[43] In Ontario, this regional incentive is unpopular among producers as it has been seen to drive production away from the province.
- 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 the Business Breakfast Forum that was attended by over 100 Hollywood decision makers and Ontario industry stakeholders.[44]
- Ontario television producers 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. 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.

- 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.[45]

- 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.[46]

Profile current as of July 5, 2011

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