

QUEEN
HD 05
9505
.C3
I5
M1
1988
c.2

I N D U S T R Y P R O F I L E

IC

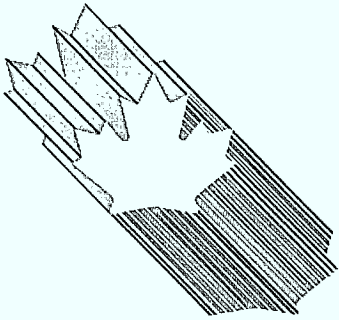


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Motion Pictures

Canada



I N D U S T R Y

P R O F I L E

M O T I O N P I C T U R E S

1988

FOREWORD



In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to survival and growth. This Industry Profile is one of a series of papers which assess, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the papers.

The series is being published as steps are being taken to create the new Department of Industry, Science and Technology from the consolidation of the Department of Regional Industrial Expansion and the Ministry of State for Science and Technology. It is my intention that the series will be updated on a regular basis and continue to be a product of the new department. I sincerely hope that these profiles will be informative to those interested in Canadian industrial development and serve as a basis for discussion of industrial trends, prospects and strategic directions.



Minister

1. Structure and Performance

Structure

The industry comprises establishments engaged in the creative production and the physical manufacturing of promotional, entertainment and educational films and videos (referred to collectively as motion pictures). *Production* establishments are responsible for activities such as acquiring screenplay materials, selecting and engaging artists and creative personnel, financing and producing the motion pictures and marketing the products. The industry's products serve three markets, i.e., *promotional* (such as television commercials), *entertainment* (such as theatrical feature films) and *educational*. Promotional motion pictures are produced under contract for clients (advertisers and their agencies). In contrast, the initiative to make entertainment and educational motion pictures is generally taken by production firms themselves. *Manufacturing* plants perform activities such as developing and processing films, and duplicating videos. These post-production plants are highly specialized and usually are not related to the production houses.

In-house production facilities (as opposed to distinct corporate entities) in television stations and in governments are excluded from the profile. The distribution and exhibition or retailing of motion pictures are also excluded, although their impact on production will be highlighted, where appropriate.

In 1986, it is estimated that the Canadian industry comprised 770 establishments (of which 200 were engaged in manufacturing activities and 570 in production). It employed about 3700 people on a permanent basis (of which 1200 were in manufacturing and 2500 in production) and an additional 500 people on a part-time basis (primarily in the production sub-sector). In addition, the industry provides significant employment opportunities for freelancers, on a project-by-project basis, including screenwriters, performers and technicians. Industry's payments to freelancers reached an estimated \$75 million in 1986, as compared to the \$125 million in wages and salaries paid by the industry to its full-time and part-time employees.

Revenues from all sources and activities totalled approximately \$600 million in 1986. The sale and rental of motion pictures reached almost \$350 million in 1986, including about \$30 million worth of sales and rentals to government departments, agencies and public institutions. Laboratory services, such as post-production work, and other related activities such as the renting of facilities to others, generated about \$250 million. This total includes about \$35 million from the duplication of home videos, based on imported "originals."

Reflecting both the nature of the products and the distribution system in place, international trade in this industry takes the form either of the sale of copies of the film products, or licensing arrangements for their distribution. The former method is prevalent in the home-video field, while the latter is used extensively in the theatrical feature film area.

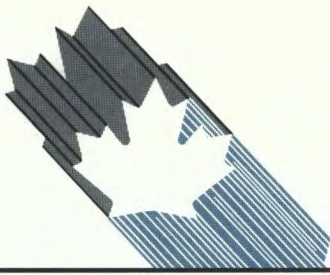
Canadian exports of motion pictures reached \$19 million in 1986, while imports into Canada totalled \$37 million. In addition to this trade in products, one should add the flow of licence fees associated primarily with the use of feature motion pictures. Receipts from abroad reached an estimated \$35 million in 1986, while payments to foreigners exceeded \$150 million. Canada's trade (whether in motion pictures or licence fees) is conducted primarily with the United States.

Canada



Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada



Imports, Exports and Domestic Shipments 1986

* Covers motion pictures sold only, excludes licence payments associated with their use.

The industry is highly concentrated in central Canada, especially in the metropolitan areas of Toronto and Montréal. Roughly 85 percent of all firms have fewer than 10 employees and generate sales of less than \$500 000 annually; conversely, companies with sales of at least \$1 million, about seven percent of the total, account for roughly 60 percent of the industry's revenues.

The rates of entry and exit of firms in the production segment of the industry are relatively high, particularly in the theatrical feature film area. Constantly changing consumer preferences make investment in this area a high-risk undertaking. For example, it is accepted that eight out of ten theatrical feature films will at best cover their costs. However, those that do succeed can earn high rates of return, not only at the box office but also from the video and television markets, as well as through the sale of spin-off merchandise such as toys and T-shirts.

The industry is predominantly Canadian-owned. Although U.S. firms frequently come to Canada to shoot their films and videos, there is generally little incentive to establish permanent offices here.

There are about 150 companies producing predominantly French-language motion pictures in Canada with revenues of about \$100 million. The average French-language company is much smaller than its English-language counterpart; it relies more extensively on television commercials, as opposed to entertainment and educational motion pictures, for its source of revenue.

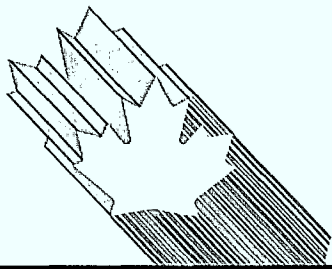
Overall, the structural characteristics of the Canadian motion picture industry tend to parallel those of its counterparts in most developed countries, with the exception of the United States. That country is the world's largest producer and distributor of entertainment and educational motion pictures. It recorded an estimated positive trade balance of US\$1.2 billion (mostly in licence fees) in 1985. Even in countries such as the United Kingdom and France, which have large internal markets and are able to support several major producers, the presence of U.S. motion pictures is significant, albeit less pervasive than in Canada.

Performance

Motion picture production and manufacturing in Canada began to grow in the 1970s as a result of government support. Employment and shipment levels in the motion pictures industry during the 1973-86 period increased at average annual growth rates of 9.5 and 20.7 percent respectively. Shipment levels increased over this period, particularly in 1984 and afterwards, as a result of injections of federal funding, surges in investor confidence and growth in the video field.

During the same period, Canadian exports of films and videos grew at a faster rate than domestic shipments to increase their share of total output from 1.5 to 3.2 percent. Imports, however, increased at a slower rate than domestic production, as their share of the apparent Canadian market declined from 27.5 to 6.0 percent. The trade deficit in motion pictures declined from \$18.9 million to \$18.3 million. In contrast, the trade deficit in licence fees associated with the use of motion pictures increased from \$38 million in 1973 to an estimated \$125 million in 1986. The Canadian industry has been particularly successful in exporting relatively low-budget entertainment and educational motion pictures. In contrast, the Canadian market for high-budget cinematography is dominated by imports. International trade in promotional motion pictures is small and conducted primarily between multinational parent advertisers and their branch plants abroad.

Recent financial statistics for this industry are not available. Over the last few years, it is generally believed that the manufacturing segment has reported much higher profit margins than the production segment. Within the latter, the promotional production sub-sector has performed better than the entertainment and educational production sub-sectors.



2. Strengths and Weaknesses

Structural Factors

The "content" factor associated with the production segment of the industry is the key element in influencing international competitiveness; manufacturing costs are generally a secondary factor.

In the case of promotional motion pictures, the content elements are usually provided by the clients, who in turn control their utilization. Production of promotional motion pictures is usually a domestically oriented activity in which clients closely supervise the production process. Nevertheless, part of the shooting may be done abroad to meet special climatic or geographic requirements.

In the case of entertainment motion pictures, production firms are responsible for discovering, developing, and marketing screenplays and artists. Competitiveness is tied to the ability to attract and market screenplays and artists with mass appeal. There is a significant disparity in the abilities of the Canadian and U.S. motion picture industries to develop and market their respective talent pool successfully on a sustained basis. Canadian firms suffer significant size-related economic disadvantages due to the small size of their market base. For example, the largest Canadian producer or manufacturer of motion pictures reported corporate revenues of C\$50 million from general motion picture activities in 1986, as compared to worldwide revenues of over C\$1.3 billion for the largest motion pictures company in the United States.

Because of their size and inherent economic advantages, which in turn are reflections of their market base, the large U.S. firms are able to acquire the best screenplays, hire the best artists and produce a wide range of motion pictures in order to spread their risks. For example, the average budget of theatrical feature films released by major U.S. firms exceeded US\$15 million (C\$20 million) in 1987, compared to an average of C\$5 million for Canadian films. In addition, it is not uncommon for these companies to spend several million dollars to promote a high-budget film.

In contrast, the Canadian entertainment and educational production sub-sectors are subject to the weaknesses usually associated with small scale. The majority of companies are underfinanced. After absorbing the creative and manufacturing costs, companies frequently have few funds left to undertake adequate promotion at home or abroad. Finally, the size of most companies restricts the extent to which full-fledged management and technical groups can be financially justified. The impact of these weaknesses is particularly noticeable in the French-language segment of the industry, given the small size of its market base.

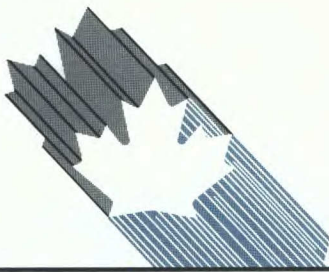
The motion pictures industry in Canada and the United States is labour-intensive. It employs predominantly skilled workers. In the last few years, labour supply has not been a critical problem for the Canadian industry, though some specialized skills have been in tight supply now and then. It is estimated that wages in the Canadian industry are about 10 percent lower than those of its U.S. counterpart, after currency adjustment. Labour productivity in the manufacturing segment of the industry is running about 30 percent (currency adjusted) lower in Canada than in the United States.

Transportation is not a significant cost element in this industry, except in the home-video field. These videos are relatively fragile products with a relatively low value-to-volume ratio. Consequently, manufacturing (i.e., duplicating of videos) is usually done as close to the major consuming markets as possible.

Distribution occupies a strategic position in the entertainment motion picture market, worldwide. Distributors perform the gateway function between producers and exhibitors and, hence, have a significant influence on the commercial performance of motion pictures. In essence, they determine who can see what, when and how. About 15 percent of all distributors in Canada are controlled by foreign interests, primarily U.S. Together they account for roughly 70 percent of revenues earned by all distributors in Canada. The foreign-owned distributors concentrate their activities on promoting products from their parent organizations, which are for the most part U.S. motion picture companies that generally show limited interest in distributing Canadian motion pictures. With their effective control of mass-appeal feature films, the foreign-owned distributors have developed close relationships with all the major theatre chains in Canada. As a result, most of their releases are seen on Canadian screens, in preferred locations, on the best play dates. For example, Paramount, a major distributor in Canada, and Famous Players, the second-largest theatre chain in Canada, are controlled by the same U.S. conglomerate, Gulf + Western.

Trade-related Factors

Canada, like the United States, the European Community (E.C.) and Japan, provides duty-free entry to motion pictures of an educational, scientific and cultural character. Television commercials, whether filmed or videotaped, are subject to a Most Favoured Nation tariff rate of 11.3 percent. Copies of entertainment motion pictures are subject to rates of 2.95 cents per linear metre for films and 11.3 percent for videos. All of the above tariffs are computed only on the cost of reproducing the copies, not on the actual cost of producing the "originals." "Originals" of entertainment motion pictures, when imported for making reproductions or dubbings of their sound tracks, enter Canada duty-free.



In the United States, the only remaining tariff rate is 0.2 cents (US) per linear foot for videos. By way of comparison, tariff rates in the E.C., where applicable, range from 0.28 to 1.90 ECUs (European currency unit) per 100 metres (as of July 1988, one ECU equals roughly C\$1.40). Japanese tariff rates, where applicable, extend from 1.5 yen to 30 yen per metre (as of July 1988, one yen equals roughly C\$0.01).

The Canadian-content regulation for programs broadcast on television stations is considered as a non-tariff barrier by the United States. Many European countries have measures in place to assist their industries, including theatre and television screen quotas, admission sales-tax rebates for domestic motion pictures and domestic dubbing requirements. Of particular importance to the Canadian industry is France's requirement that dubbing of all foreign motion pictures for distribution in France be done by domestic firms. In 1987, France agreed in principle to exempt Canada from the application of this restriction. However, this decision has not yet been implemented. The United States does not have these types of measures in place.

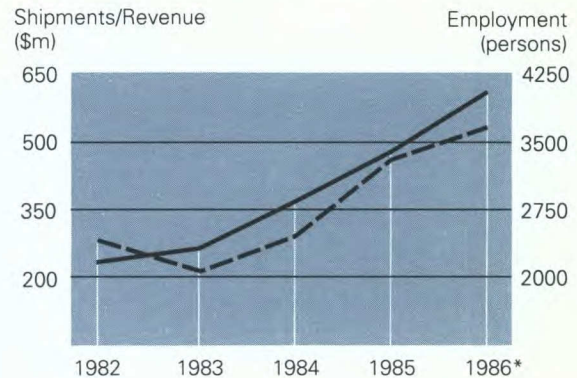
Under the Canada-U.S. Free Trade Agreement (FTA), all tariffs on motion pictures will be eliminated in five equal annual stages starting on January 1, 1989. Motion pictures, as one of the cultural industries, have been excluded from the investment provisions of the agreement. In the event that the divestiture to Canadians of a U.S.-controlled enterprise in the cultural industries is required as part of the review of an indirect acquisition of such a business, Canada will offer to purchase the business at fair market value, as determined by an independent, impartial assessment. The other government measures in place to assist the Canadian industry will not be affected by the FTA.

Technological Factors

In terms of shooting techniques, the National Film Board of Canada, a Crown corporation, has been a world pioneer in areas such as three-dimensional film and animation. In addition, the Board has served as a training ground for many filmmakers now active in the private sector. Imax of Toronto developed the filming and production techniques for producing giant-screen images, while Mobile Image, also of Toronto, developed the colour conversion techniques for black and white movies. IMAX and COLORIZATION are registered trademarks. Imax licences the use of its technology and Mobile Image, through Colorization Inc., sells its services to others.

Other Factors

The world market for entertainment and educational motion pictures is dominated by the United States. It is the largest exporter as well as the home base for most of the multinational corporations in this field. In response, governments in most other developed countries have established measures to protect and assist their domestic industries.



Shipments/Revenue ———

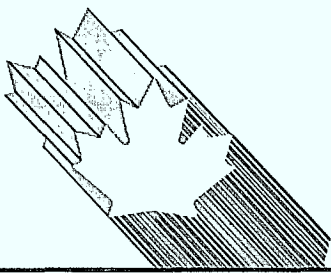
Employment - - - - -

Total Shipments and Employment

* Estimate.

The Canadian government has introduced special measures to assist the motion picture industry, notably in the entertainment sub-sector. The overall objective has been to support the development of Canadian culture by providing a medium in which Canadian performing artists and creators could flourish. The measures are aimed generally at motion pictures on a project-by-project basis. The principal measures in place are:

- the Canadian Radio-television and Telecommunications Commission requires that at least 60 percent of the broadcast time on Canadian conventional television stations between the hours of 6:00 a.m. and midnight and between the hours of 6:30 p.m. and 11:30 p.m. during each calendar quarter must be devoted to Canadian programs; a general 30 percent Canadian-content requirement also exists for Canadian pay television; these requirements were introduced to encourage the production of Canadian motion pictures;
- the *Income Tax Act* provides a special capital cost allowance for investors in certified Canadian feature films, short-length films and videos; this provision was introduced to encourage the involvement of financiers not previously associated with the industry with a view to improving the industry's access to financing; the capital cost allowance rate was reduced from 100 percent to 30 percent in 1988;
- Telefilm Canada provides financial and technical assistance for the production, promotion and distribution of entertainment motion pictures; and
- the Canadian government has negotiated co-production treaties with several foreign countries; motion pictures co-produced under these treaties are regarded as national products with full rights to all resultant advantages; the objective is to spread financial risks and increase sales potential.



In 1988, the federal Minister of Communications proposed legislation (the *Film Products Importation Bill*) to regulate the importation of motion pictures with a view to supporting Canadian-owned distributors. Under this legislation, among other things, the government would be able to deny importation by distributors who have integrated interests in the exhibition business, if these activities were deemed to be unfair business practices in the Canadian distribution market.

The industry's products are subject to provisions of the Canadian *Copyright Act*, which originally came into force in 1924. As the act had become obsolete and no longer provided adequate protection to those engaged in a creative process, a first series of major revisions was made in June 1988.

Several provincial governments and municipalities provide important support to the industry, notably in promoting export sales and in attracting foreign producers to Canada to shoot their films and videos.

3. Evolving Environment

Overall, it is projected that market demand for motion pictures will continue to grow at a relatively strong rate over the medium term, given the anticipated steady increase in consumer demand. In the entertainment and educational markets, factors such as the amount of leisure time and the level of educational attainment of the population will continue to have strong positive effects. However, other factors such as the anticipated slower population growth rate and the strong competition between leisure products for a share of the consumer's time and money will have a negative impact on demand. In the entertainment market, the release of theatrical feature films will continue to remain the centrepiece of marketing strategies for the industry. However, this market will decline in importance in terms of revenue as the television market (i.e., conventional, pay and videos) grows.

Shooting of motion pictures on location in Canada by U.S. companies reached a record level in 1987. However, this activity is extremely price sensitive. Consequently, changes in the exchange rate and the labour cost differentials between Canada and the United States could have an impact on this activity in the future.

It is expected that the level of gross advertising expenditures on all Canadian media will continue to grow at a rate similar to that for the economy as a whole. While competition for the advertiser's dollar among media will be very strong, most analysts see little change in the media mix used by advertisers. Television should continue to remain the second-largest recipient of advertising dollars, after daily newspapers, which augurs well for producers of television commercials.

The industry's basic structural characteristics or methods of operation should remain basically the same over the medium term. The proposed *Film Products Importation Bill* is expected to strengthen the position of Canadian-owned distributors which, in turn, should have a beneficial impact on the Canadian production segment.

The FTA is expected to have only very limited effects on the Canadian industry since government policies and incentive programs in place will not be affected. However, removal of Canadian tariffs could lead to a shift in the nature of imports away from "originals" to finished copies of videos, which would impact negatively on Canadian manufacturers who now make those copies. The extent of the shift would depend on several other factors, including transportation costs and exchange rates. In contrast, the elimination of the remaining U.S. tariff would have little impact on the level and nature of Canadian exports.

4. Competitiveness Assessment

By its nature, the production of promotional motion pictures is essentially a domestic-oriented activity and is, therefore, not subject to strong international competitive pressures. The Canadian entertainment and educational production sub-sectors are not currently competitive and are not likely to become so in the near future. They suffer significant size-related economic disadvantages as compared to their U.S. counterparts. The continuing development of these sub-sectors will depend upon continued government support.

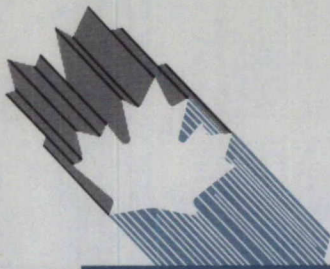
In the manufacturing segment of the industry, a few large and efficient Canadian companies are internationally competitive; however, the smaller firms are not.

The FTA is expected to have a limited impact on the Canadian motion pictures industry. Most government measures in place to support the industry are not covered by the agreement.

For further information concerning the subject matter contained in this profile, contact:

Service Industries and Consumer Goods
Branch
Industry, Science and Technology Canada
Attention: Motion Pictures
235 Queen Street
Ottawa, Ontario
K1A 0H5

(613) 954-3100



PRINCIPAL STATISTICS

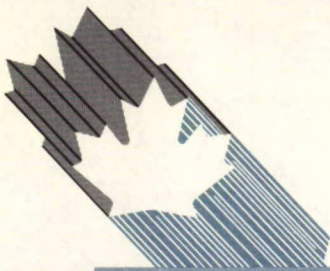
SIC(s) COVERED: 9611 and 9613 (1980)

	1973	1982	1983	1984	1985	1986
Establishments	152	579	592	680	740	770 ^e
Employment	1 265	2 464	2 041	2 480	3 334	3 700 ^e
Shipments/revenue (\$ millions)	53	238	245	363	495	600 ^e

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports (\$ millions) ¹	1	2	3	3	6	19
Domestic shipments (\$ millions)	52	236	242	360	489	581
Imports (\$ millions) ¹	20	42	47	37	36	37
Canadian market (\$ millions)	72	278	290	397	525	618
Exports as % of shipments	1.5	1.0	1.2	0.8	1.2	3.2
Imports as % of domestic market	27.5	15.0	16.2	9.3	6.9	6.0
Source of imports (% of total value)			U.S.	E.C.	Asia	Others
		1981	89.5	8.1	1.7	0.7
		1982	89.9	7.7	1.6	0.8
		1983	91.1	6.7	1.7	0.5
		1984	88.4	9.6	1.4	0.5
		1985	86.1	9.6	3.9	0.3
		1986	86.1	10.4	3.1	0.4
Destination of exports (% of total value)			U.S.	E.C.	Asia	Others
		1981	78.4	8.6	2.4	10.6
		1982	80.6	10.4	1.0	7.9
		1983	81.7	6.5	1.4	10.4
		1984	68.5	15.4	6.5	9.6
		1985	89.3	6.9	1.7	2.2
		1986	95.4	2.6	0.8	1.2

(continued)

**REGIONAL DISTRIBUTION — Average over the last 3 years**

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments — % of total	2	25	52	10	11
Employment — % of total	1	20	60	9	10
Shipments/revenue — % of total	1	20	60	9	10

MAJOR FIRMS

Name	Ownership	Location of Major Firms
Astral Bellevue Pathe	Canadian	Montréal, Toronto and Calgary
Sonolab/J.P.L. Productions	Canadian	Montréal
Glen Warren Productions	Canadian	Toronto
VTR Productions/Carleton Productions	Canadian	Toronto and Ottawa

e Estimate.

(1) Covers motion pictures sold only, excludes license payments associated with their use.

Note: Statistics Canada data have been used, to the greatest extent possible, in the preparation of this profile.

Regional Offices

Newfoundland

Parsons Building
90 O'Leary Avenue
P.O. Box 8950
ST. JOHN'S, Newfoundland
A1B 3R9
Tel: (709) 772-4053

Prince Edward Island

Confederation Court Mall
Suite 400
134 Kent Street
P.O. Box 1115
CHARLOTTETOWN
Prince Edward Island
C1A 7M8
Tel: (902) 566-7400

Nova Scotia

1496 Lower Water Street
P.O. Box 940, Station M
HALIFAX, Nova Scotia
B3J 2V9
Tel: (902) 426-2018

New Brunswick

770 Main Street
P.O. Box 1210
MONCTON
New Brunswick
E1C 8P9
Tel: (506) 857-6400

Quebec

Tour de la Bourse
P.O. Box 247
800, place Victoria
Suite 3800
MONTRÉAL, Quebec
H4Z 1E8
Tel: (514) 283-8185

Ontario

Dominion Public Building
4th Floor
1 Front Street West
TORONTO, Ontario
M5J 1A4
Tel: (416) 973-5000

Manitoba

330 Portage Avenue
Room 608
P.O. Box 981
WINNIPEG, Manitoba
R3C 2V2
Tel: (204) 983-4090

Saskatchewan

105 - 21st Street East
6th Floor
SASKATOON, Saskatchewan
S7K 0B3
Tel: (306) 975-4400

Alberta

Cornerpoint Building
Suite 505
10179 - 105th Street
EDMONTON, Alberta
T5J 3S3
Tel: (403) 420-2944

British Columbia

Scotia Tower
9th Floor, Suite 900
P.O. Box 11610
650 West Georgia St.
VANCOUVER, British Columbia
V6B 5H8
Tel: (604) 666-0434

Yukon

108 Lambert Street
Suite 301
WHITEHORSE, Yukon
Y1A 1Z2
Tel: (403) 668-4655

Northwest Territories

Precambrian Building
P.O. Box 6100
YELLOWKNIFE
Northwest Territories
X1A 1C0
Tel: (403) 920-8568

*For additional copies of this
profile contact:*

*Business Centre
Communications Branch
Industry, Science and
Technology Canada
235 Queen Street
Ottawa, Ontario
K1A 0H5*

Tel: (613) 995-5771