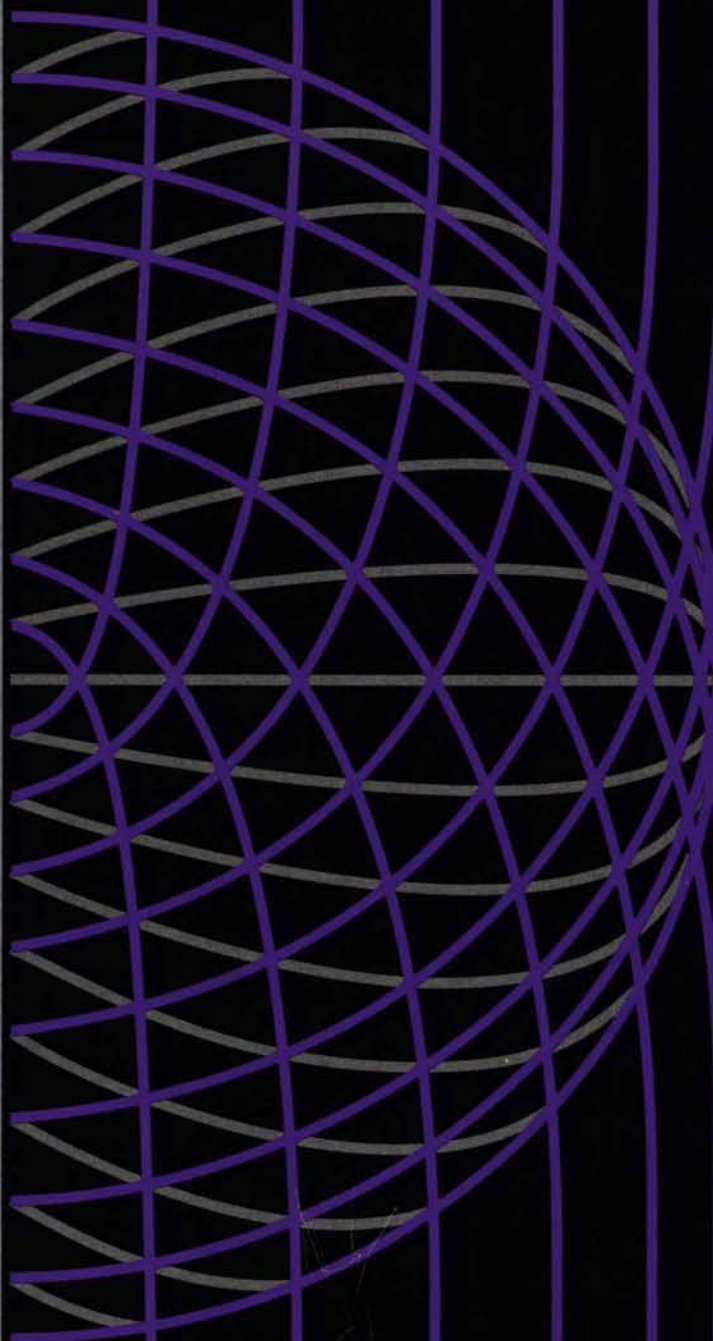


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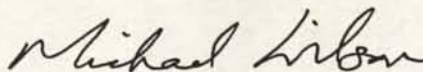
1990-1991

**MOTION PICTURES****FOREWORD**

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*In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.*

*Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.*



Michael H. Wilson  
Minister of Industry, Science and Technology  
and Minister for International Trade

**Structure and Performance****Structure**

The industry comprises companies that produce and manufacture promotional, entertainment and educational films and videos (referred to collectively as motion pictures). Production firms are responsible for acquiring screenplays, selecting and engaging artists and creative personnel, financing and producing the motion pictures, and marketing the products. Manufacturing plants perform activities such as developing and processing films and duplicating videos. These manufacturing plants are highly specialized and usually are not vertically integrated with the production houses.

The industry's products serve three markets: 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, entertainment and educational motion pictures are generally initiated by production firms themselves.

In-house production facilities (as opposed to distinct corporate entities) in television stations and in government departments and agencies (such as the National Film Board of Canada) are excluded from this profile. Distribution firms and motion picture theatres are also excluded, although their impact on production will be highlighted, where appropriate.

Industry, Science and Technology Canada (ISTC) estimates that in 1989 the Canadian motion picture industry comprised 775 firms (of which 145 were engaged in manufacturing and 630 in production). The industry employed about 4 800 people on a permanent basis (of which 1 900 were in manufacturing and 2 900 in production) and an additional 2 100 people on a part-time basis (primarily in the production subsector). In addition, the industry provides significant employment opportunities for free-lancers on a





project-by-project basis, in most areas of the production sector. Industry payments to free-lancers reached an estimated \$115 million in 1989, compared with the \$100 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 \$925 million in 1989. The sale and rental of motion pictures reached about \$625 million. Laboratory services and related activities, such as post-production work and facility rentals, generated about \$300 million. Industry sources indicate that this total includes about \$50 million from the duplication of home videos from imported "originals."

Reflecting both the nature of the products and the distribution system in the industry, international trade involves either the sale of motion picture copies or of licences for their distribution. For example, the former method of transaction is prevalent for educational films while the latter is used extensively for theatrical feature films.

Canadian exports of motion pictures reached \$27 million in 1989, while imports into Canada totalled \$52 million. In addition, receipts of licence fees from abroad reached an estimated \$25 million in 1989, while payments of licence fees to foreigners totalled about \$200 million. Canada's trade (whether in motion pictures or licence fees) is conducted primarily with the United States.

The industry is highly concentrated in central Canada. Ontario generates 66 percent of industry revenues, followed by Quebec (24 percent) and British Columbia (6 percent). In addition, it tends to be concentrated in urban areas, particularly in metropolitan Toronto and Montreal.

Roughly 55 percent of all firms generate sales of less than \$250 000 annually, but together they account for less than 5 percent of total revenues. Conversely, about 20 percent of the companies each have sales of at least \$1 million, and they account for approximately 85 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 theatrical feature films. Constantly changing consumer preferences make investment in this area a high-risk undertaking. Eight of 10 theatrical feature films will be lucky to recover 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 and the sale of spinoff merchandise, such as toys and T-shirts.

The industry is predominantly Canadian-owned. Although U.S. production firms frequently come to Canada to shoot their films and videos, there are few reasons for them to establish permanent offices here.

Overall, the structural characteristics of the Canadian motion picture industry parallel those of its counterparts in most other developed countries, with the exception of the United States. That country is the world's largest distributor of entertainment and educational motion pictures. In 1989, the United States recorded an estimated positive trade balance of about U.S.\$2 billion (mostly in licence fees). Even in the United Kingdom and France — countries that have large internal markets and are able to support several major producers — the presence of U.S. motion pictures is significant, although it is less pervasive in those countries than in Canada.

### **Performance**

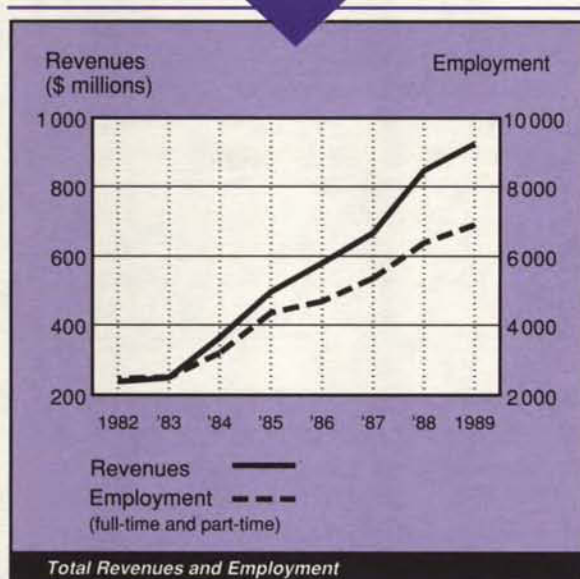
Motion picture production and manufacturing in Canada began to grow in the 1970s as a result of government support. Industry revenues (in current dollars) increased at an average annual growth rate of 22.2 percent from 1982 to 1989. Revenue levels increased over this period, particularly in 1984 and afterwards, as a result of injections of federal funding, tax concessions and growth in the video field. Factors such as the amount of leisure time and level of education of the population have also had a positive effect on this industry.

Between 1982 and 1989, Canadian exports of films and videos grew from \$2 million to \$27 million. Imports during the same period increased from \$42 million to \$52 million. Canada's trade deficit in motion pictures declined from \$40 million in 1982 to \$25 million in 1989. Of greater consequence is the trade deficit in motion picture licence fees, which increased from \$142 million in 1982 to an estimated \$175 million in 1989.

While many Canadian films and television programs have been acclaimed by foreign critics, very few have generated important revenues from abroad. 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 motion pictures is dominated by imports mostly from the United States. In the entertainment market, for example, foreign products occupy about 95 percent of the screen time in movie theatres and account for approximately 95 percent of the sales and rentals of home videos in Canada. The volume of international trade in promotional motion pictures is small and is conducted primarily between multinational parent advertisers and their branch plants abroad.

From 1982 to 1989, industry employment expanded at an average annual rate of 16.4 percent. This industry is labour-intensive and requires a high proportion of skilled workers. In the last few years, labour supply has not been





a critical problem for the Canadian industry, although some specialized skills have been at times in tight supply.

In 1988, the latest year for which financial statistics are available, manufacturers of motion pictures reported an average before-tax profit on total revenues of 23.8 percent, compared with only 3.6 percent for producers of motion pictures.

## Strengths and Weaknesses

### Structural Factors

Production of promotional motion pictures is usually a domestically oriented activity with little international trade. Nevertheless, part of the shooting may be done abroad to meet special climatic or geographic requirements. In this segment of the industry, the clients usually supervise production and control distribution of the products.

Competitiveness in the entertainment and educational motion picture production segments depends essentially on the ability to discover, develop and market screenplays and artists with mass appeal. Canadian and U.S. motion picture industries differ significantly in their ability to develop and market their respective talent pools successfully on a sustained basis. Canadian firms suffer economic disadvantages due to the small size of their market base. The largest Canadian firm reported corporate revenues of about C\$75 million from general motion picture activities in 1989, compared with worldwide revenues of almost C\$2 billion for the largest motion picture company in the United States.

Because of their large market base and, hence, inherent economic advantages, the large U.S. firms are able to spread their risks by producing a wide range of motion pictures, including screenplays with mass appeal or those involving the most popular or promising artists. The average production budget of theatrical feature films released by major U.S. firms exceeded C\$25 million in 1989, compared with an estimated average of C\$4 million for Canadian films. In addition, major U.S. companies often spend several million dollars to promote a high-budget film.

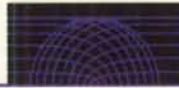
Weaknesses usually associated with small scale limit the Canadian firms' ability to grow. The majority of companies are underfinanced. After absorbing the creative and manufacturing costs, companies frequently have little money left to promote their films adequately at home or abroad. The size of most companies financially restricts sustaining full-fledged management and technical groups. The impact of these weaknesses is particularly noticeable in the French-language segment of the industry, given the small size of its market base.

In the manufacturing segment of the industry, wages represent the major cost factor. The industry estimates that wages in the Canadian manufacturing segment in 1989 were marginally higher than those of its U.S. counterpart, after currency adjustment. Labour productivity in the manufacturing segment of the industry was about 30 percent lower in Canada than in the United States, after currency adjustment.

Transportation is not a significant cost element in this industry, except in the home video field. These products are relatively fragile and have a low value-to-volume ratio. Consequently, videos are duplicated as close to the major consuming markets as possible.

Distribution is a significant factor in the theatrical feature film market. Distributors function as the gateway 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 the United States. Together they account for about 85 percent of revenues earned by all distributors serving the theatrical feature film market in Canada. The foreign-owned distributors promote products primarily from their vertically integrated parent organizations. Since these firms have distribution rights for most mass-appeal feature films, they have been able to obtain preferred locations and strategic release dates in Canada for their own products.





### Trade-Related Factors

Canada, like the United States, the European Community (EC) and Japan, provides duty-free entry to motion pictures of an educational, scientific and cultural nature. Filmed or videotaped television commercials were subject to a Most Favoured Nation tariff rate of 11.3 percent in 1989. Copies of entertainment films were dutiable at 2.95 cents per metre. Video tapes were dutiable at 11.3 percent, and video discs at 9.5 percent. Tariffs are computed on reproduction costs only, not on the actual cost of producing the "originals." "Originals" of entertainment motion pictures, when imported for reproducing or dubbing, enter Canada duty-free.

Most Favoured Nation tariff rates in Canada are much higher than those of its main trading partners. In the United States, the only remaining tariff rates in 1989 were 0.66 cents U.S. per metre for video tapes and 5.3 percent for video discs. In comparison, tariff rates in the EC in 1989 were 5.1 percent for video tapes and video discs and ranged from 0.28 to 1.90 ECUs per 100 metres for films.<sup>1</sup> Japanese tariff rates ranged from 1.5 yen to 30 yen per metre.<sup>2</sup>

The Canadian-content regulation for programs broadcast on television stations is considered a non-tariff barrier by the United States. Many European countries have measures in place to assist their industries. Measures include theatre and television screen quotas, admission sales tax rebates for domestic motion pictures, and domestic dubbing requirements. A significant non-tariff barrier for the Canadian industry is France's requirement that dubbing of all foreign motion pictures for distribution in France must be done by domestic firms. The United States does not have these types of measures in place.

Under the Canada-U.S. Free Trade Agreement (FTA), the tariffs on films will be phased out by 1 January 1993, while the tariffs on videos will be phased out by 1 January 1998. The motion picture industry, as one of the cultural industries, has been excluded from the investment provisions of the agreement. The other government measures in place to assist the Canadian industry will not be affected by the FTA.

### Technological Factors

In Canada, as in most other countries, producers and manufacturers of motion pictures generally rely on suppliers of materials, machinery, equipment and specialized services to originate technological developments. These new, more sophisticated technologies that result are available worldwide.

The National Film Board of Canada 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. Other Canadian developments include techniques for producing giant-screen images by Imax of Toronto and the colour conversion techniques for black-and-white movies by Mobile Image, also of Toronto.

In the last few years, film studios and post-production manufacturing firms in Canada have made substantial investments to expand and modernize their facilities. Overall, the manufacturing segment of the Canadian motion picture industry uses state-of-the-art manufacturing technologies.

### Other Factors

The manufacturing processes used in the motion picture industry are not directly linked to serious pollution or occupational health and safety problems. Nonetheless, the industry has had to comply with increasingly stringent government regulations concerning clean air, waste disposal and worker safety.

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

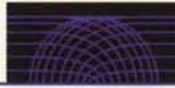
The Canadian government has introduced special measures to assist the motion picture industry, in particular the entertainment subsector. The overall objective has been to support the development of Canadian culture by providing a medium in which Canadian performing artists and creators could flourish.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

- The Canadian Radio-television and Telecommunications Commission requires that Canadian programs occupy at least 60 percent of the broadcast time on Canadian conventional television stations between 6:00 a.m. and midnight and between 6:30 p.m. and 11:30 p.m. during each calendar quarter; 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 improve the industry's access to financing by

<sup>1</sup>In December 1989, one ECU (European common currency unit) equalled about C\$1.27.

<sup>2</sup>In December 1989, one yen equalled about C\$0.01.





encouraging the involvement of financiers not previously associated with the industry. The capital cost allowance rate was reduced from 100 percent to 30 percent in 1988.

- Telefilm Canada, a Crown corporation, provides financial (loans, investments and grants) and technical assistance for the production, promotion and distribution of entertainment motion pictures. In fiscal year 1989–1990, it provided approximately \$100 million to support the industry.
- The Canadian government has negotiated co-production treaties with 20 foreign countries.<sup>3</sup> Motion pictures co-produced under these treaties are regarded as national products with full rights to all resultant advantages. The objective of this policy is to spread financial risks and increase the sales potential of the films.

The industry's products are subject to provisions of the *Canadian Copyright Act*. Adequate copyright protection is important in order to provide sufficient positive incentive for creative activities to take place. However, the Canadian Act had become obsolete and no longer provided adequate protection to creators, and in June 1988, a first series of major revisions was made to address primarily the concerns of creators. The most important revision affecting the industry relates to the penalties for infringement. Under the new Act, the penalties are much tougher, up to \$1 million in fines and five years in jail, compared with a maximum fine of only \$200 and two months in jail under the old Act. A second series of amendments dealing primarily with the concerns of users of copyright material is expected to be introduced in Parliament in the near future.

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.

## Evolving Environment

At the time of writing, the Canadian and American economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of

recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

Over the medium term, market demand for motion pictures is expected to grow at a moderate rate. For example, in the entertainment market, factors such as the population's amount of leisure time and level of education will continue to have 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. The release of theatrical feature films will continue to remain the focus of marketing strategies in the entertainment market. However, theatre revenue will decline in importance as the television field (i.e., conventional, pay and videos) grows.

Motion pictures shot on location in Canada by U.S. companies reached a record level in 1987, but then declined in 1988 and 1989. This activity is extremely sensitive to price.

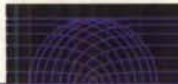
Over the medium term, the level of gross advertising expenditures on all Canadian media is expected to grow at a moderate rate. While competition among media for the advertiser's dollar will be very strong, most analysts expect little change in the media mix used by advertisers. Television should remain the second-largest recipient of advertising dollars after daily newspapers. This projection augurs well for producers of television commercials.

The FTA is expected to have only limited effects on the Canadian motion picture industry since government policies and incentive programs in place to assist the industry 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. Canadian manufacturers who now make reproductions would therefore be adversely affected. 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. tariffs would have little effect on the level and nature of Canadian exports.

## Competitiveness Assessment

By its nature, the production of promotional motion pictures is usually a domestic activity and is therefore not subject to strong international competitive pressures. In contrast, the Canadian entertainment and educational motion picture production segment of the industry is subject

<sup>3</sup>Algeria, Argentina, Australia, Belgium, China, Czechoslovakia, France, Germany, Hungary, Iceland, Israel, Italy, Morocco, Netherlands, New Zealand, Spain, Switzerland, the United Kingdom, USSR and Yugoslavia.



to international competition. This segment is not currently competitive. It suffers significant size-related economic disadvantages compared with its U.S. counterpart. The development of this segment will depend upon continued regulatory and financial government support. In the manufacturing segment of the industry, a few large and efficient Canadian companies are internationally competitive, while the smaller firms are not.

The FTA is expected to have a limited impact on the Canadian motion picture industry. 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**

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Attention: Motion Pictures  
235 Queen Street  
OTTAWA, Ontario  
K1A 0H5  
Tel.: (613) 954-3100  
Fax: (613) 954-3107





## PRINCIPAL STATISTICS<sup>a</sup>

	1982	1983	1984	1985	1986	1987	1988	1989
Firms	579	592	680	704	752	700	766	775 <sup>b</sup>
Employment (full-time and part-time)	2 464	2 462	3 191	4 349	4 684	5 364	6 412	6 900 <sup>b</sup>
Revenues (\$ millions)	238	249	363	496	580	667	852	925 <sup>b</sup>
Profits before taxes (\$ millions)	N/A	N/A	N/A	54	56	66	75	N/A
(% of revenues)	N/A	N/A	N/A	11	10	10	9	N/A

<sup>a</sup>Data are from *Film and Video in Canada*, Statistics Canada Catalogue No. 87-204, annual.

<sup>b</sup>ISTC estimates.

N/A: not available

## TRADE STATISTICS

	1982	1983	1984	1985	1986	1987	1988	1989
Exports <sup>a</sup> (\$ millions)	2	3	3	6	19	28	28	27
Domestic revenues (\$ millions)	236	246	360	490	561	639	824	898 <sup>c</sup>
Imports <sup>b</sup> (\$ millions)	42	47	37	36	37	38	51	52
Canadian market (\$ millions)	278	293	397	526	598	677	875	950 <sup>c</sup>
Exports <sup>d</sup> (% of revenues)	1.0	1.1	0.7	1.3	3.3	4.2	3.3	3.0 <sup>c</sup>
Imports <sup>d</sup> (% of Canadian market)	15.0	16.1	9.3	6.8	6.2	5.5	5.8	5.5 <sup>c</sup>
Receipts of licence fees from abroad <sup>e</sup>								
(\$ millions)	20	25	27	26	13	16	24	25 <sup>c</sup>
Payments of licence fees to foreigners <sup>e</sup>								
(\$ millions)	162	174	173	192	193	231	192	200 <sup>c</sup>

<sup>a</sup>Data are from *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly. They cover only motion pictures sold, not licence fees associated with their use.

<sup>b</sup>Data are from *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly. They cover only motion pictures sold, not licence fees associated with their use.

<sup>c</sup>ISTC estimates.

<sup>d</sup>Percentages were calculated from unrounded dollar figures.

<sup>e</sup>See *Canada's International Transactions in Services*, Statistics Canada Catalogue No. 67-203, annual.





### SOURCES OF IMPORTS<sup>a</sup> (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	89.9	91.1	88.4	86.1	86.1	90.5	88.5	89.0
European Community	7.7	6.7	9.6	9.6	10.4	6.9	6.6	5.5
Asia	1.6	1.7	1.4	3.9	3.1	2.0	3.6	3.7
Other	0.8	0.5	0.6	0.4	0.4	0.6	1.3	1.8

<sup>a</sup>Data are from *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly. They cover only motion pictures sold, not licence fees associated with their use.

### DESTINATIONS OF EXPORTS<sup>a</sup> (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	80.6	81.7	68.5	89.3	95.4	93.5	94.0	95.5
European Community	10.4	6.5	15.4	6.9	2.6	2.9	3.2	2.2
Asia	1.0	1.4	6.5	1.7	0.8	2.0	0.7	0.4
Other	7.9	10.4	9.6	2.1	1.2	1.6	2.1	1.9

<sup>a</sup>Data are from *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly. They cover only motion pictures sold, not licence fees associated with their use.

### SOURCES OF LICENCE FEE RECEIPTS<sup>a</sup> (% of total value)

	1983	1984	1985	1986	1987	1988
United States	88.0	85.2	90.0	92.6	72.2	79.2
European Community	8.0	14.8	5.0	3.7	16.7	12.5
Other	4.0	—	5.0	3.7	11.1	8.3

<sup>a</sup>See *Canada's International Transactions in Services*, Statistics Canada Catalogue No. 67-203, annual.

### DESTINATIONS OF LICENCE FEE PAYMENTS<sup>a</sup> (% of total value)

	1983	1984	1985	1986	1987	1988
United States	87.4	80.5	78.6	92.2	90.2	90.6
European Community	12.1	17.8	20.4	7.3	8.8	4.7
Other	0.5	2.4	1.0	0.5	1.0	4.7

<sup>a</sup>See *Canada's International Transactions in Services*, Statistics Canada Catalogue No. 67-203, annual.





## REGIONAL DISTRIBUTION<sup>a</sup> (average over the period 1985 to 1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Firms (% of total)	4	21	57	7	11
Employment (% of total)	2	25	61	4	8
Revenues (% of total)	1	24	66	3	6

<sup>a</sup>Data are from *Film and Video in Canada*, Statistics Canada Catalogue No. 87-204, annual.

## MAJOR FIRMS

Name	Country of ownership	Location of head offices or manufacturing plants
Alliance Communications Corporation	Canada	Toronto, Ontario
Astral Inc.	Canada	Montreal, Quebec Toronto, Ontario Calgary, Alberta
Glen-Warren Productions Limited/ Agincourt Productions Limited/ Carleton Productions Incorporated	Canada	Toronto, Ontario Ottawa, Ontario
J.P.L. Video Inc./Sonolab Inc.	Canada	Montreal, Quebec
Nelvana Limited	Canada	Toronto, Ontario

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