So where's the business in Canadian film business?

by Michael Bergman

Directors, actors, writers, crews: talent, that's what the Canadian film industry has by heaping measure – although it's little realized or recognized by the public. However, talent and technical ability – sometimes aided and abetted by tax shelters, broadcast funds and film development corporations – have produced a film industry that sputters and squeaks from pot-hole to rut searching for the elixir that will oil its machine and smooth the way. Argument, introspection, meditation and naval-gazing all pretend a solution: the problem is the public or the lack of it, to be precise. Or is it the bird to the south that blocks the sun – the American eagle, to be exact? Or is it the government, so befuddled in its own fog that it cannot see the forest of film, let alone the tree of culture? All this belies the real problem, the primordial essence from which the strength of any industry must arise: "business" or, more precisely, the lack of it.

It is the failure of the producing community that has prevented the establishment of a consistent and viable Canadian film industry; and I mean producing in the entrepreneurial and capitalist sense. The function of the entrepreneur is to organize and bring together ideas and a pool of capital with which to build a profitable outcome. His success is dependent on vision and will: the vision to use long-term strategies to achieve the goal, and the will to bear the risk where need be.

With some exceptions, the present crop of Canadian feature-film producers were born of the appearance of film tax-shelters in the 1970's. Much like a film set, it was the age of the "instant" film industry: a lot of front and very little depth. Those who came forward to present themselves as producers were by-and-large amateurs with little knowledge of filmmaking. They were attracted by varying degrees of glamour, the prospect of quick money and the real satisfaction of filmmaking. Their basic strategy to accomplish this was simple and in many ways still visible today. It can be broken down into three components: ideas, sources of capital and long-term planning. The basic idea was to copy perceived American film trends so as to produce a movie that would appeal to the perception of American film taste. This process brought no originality, it was and still is the photocopy approach to film ideas which generally ended in poor facsimilies. It does not seem to have dawned on these producers that American audiences do not need Canadian copies when they have the American originals readily at hand. It is not that Canadian producers should not make mass-appeal, exploitative films but rather that they tried to emulate the perceived essential qualities of American movies without understanding them.

The source of capital to fund the ideas was not only evident and available, it was at the time an endless fountain for anybody claiming to be a filmmaker. The film tax-shelter was both a boon and a bane to the film industry. The mixture of just about the highest tax-deduction available and the attraction of "Hollywood North" resulted in a stampede of investors, not to mention stockbrokers, lawyers and accountants who saw instant tax-savings and huge fees without understanding what it was all about. Unfortunately (for the investors) the producers also did not understand what the tax-shelter, let alone filmmaking, was all about. But worse, the easy availability of tax-sheltered funds caused a complete disinterest in the investors' needs or wants. Indeed, it must have been surprising that the investors could have had any needs or wants other than avoiding taxes. The kind of financing and legal structures used to reach private investors developed partially owing to the selling of tax-shelter units to numerous investors who had no contact with each other or the producer other than nominal representation by a trustee. This had the important side-effect of keeping the investors as distant as possible from any direct participation in the project. It inhibited the development of a real producer/investor rapport or concerted investor action when problems arose.

This failure to appreciate that tax-shelters were a "tool" in the hands of the wise entrepreneur with which to develop his own pool of investment capital and eventually no longer need the enticement of such devices, would be a major failing of the producing community, and is still a recurrent theme.

As for long-term planning there was none; neither was there, nor by-and-large is there, any notion of the need for it. Long-term planning was ignored owing to inexperience, lack of insight and, primarily, misunderstanding the function of risk-taking. The Canadian film producer in the '70s, using tax-sheltered funds, incurred no risk. In fact, the project was specially designed so that he had no risk. The producer was paid up-front generous promotion and producing fees (particularly generous for an infant industry) which came from the readily available tax-sheltered funds. Often added to these fees were sales and licensing-agent commissions obtained through non-arm's length companies generally owned by the producer – the rest, including profit, was sheer gravy. While this did not necessarily make the producer rich, it structured his thinking to a movie-by-movie approach. At the end of every movie he should have a certain personal store of funds from all the up-front fees. This was how he would make his money – this was his purpose. After all, the money was provided by investors trying to avoid paying tax, the film was made so any cinematographic and creative desires should be satisfied, and the producer had his money. Any industry must accept the needs of those who have input into it, and if these were the needs of the participants, then, fine. Few, however, appreciated that, whatever the needs of an industry, the needs of a business required looking over the horizon and planning in terms of years. Risk-taking and sharing of the burden with those providing the capital are the dues which any successful entrepreneur must pay. The Canadian film producers at the time and, to some extent, some still do, believe that the "sweaty" part can be leaped over.

The end of the decade ushered in the '80s to the popping of the film tax-shelter balloon. To say that the floor fell out from under it is generous. To many investors, film producers were "scoundrels" who made lousy films, no profit, didn't care about them, and generally mismanaged the whole affair. It is interesting to note that, even now, few understand the point of film tax-shelters; they were simply tax deferments whereby the investor, instead of giving his money to the government, gave the same money – and more – to the film producer. Its advantage was in the expectation of profit and the ability to use funds, otherwise payable to the government, for more financially rewarding purposes. The tax-shelter is simply a fiscal device to encourage the development of pools of capital to assist industry growth. By its nature it is temporary and should be withdrawn when capital is sufficiently attracted by the inherent financial prospects of the industry itself.

Canadian film producers of the '80s have done very little to address the root causes of the problems left by the demise of the film tax-shelter as a source of funds. Rather than examining their own conduct, they have by-and-large developed three approaches to finding new capital.

The official treaty co-production is probably the most successful of these responses. There are certain important side-effects, though, which may not be apparent. Co-production tends to inhibit the growth of Canadian film investment capital as, by its very nature, it presumes the significant contribution of a foreign partner as a principal lever to secure local funds. It has also been used primarily in conjunction with government funding which only further serves to create the impression that filmmakers dependent on this approach cannot raise Canadian money without third-party assistance. Few co-productions result in films identified in any way

Entertainment lawyer Michael Bergman is a member of the Bars of the province of Quebec, Ontario and Alberta.

with Canada. This gives the impression that Canadian participation is purely in the form of services; artistic, creative and financial control being elsewhere. In fact, it is probably true that most foreign participants in official treaty co-productions are attracted to Canada as a means whereby their financial capability can benefit from the treaty status. The result is to subject the Canadian co-producer to the rough seas of foreign participation which, when available, will leave him awash with little local money to bail him out.

Secondly, producing on behalf of American companies or servicing them has helped to keep other Canadian producers afloat. This mode of film financing either excludes or seriously inhibits any desire by the producer to develop Canadian investors. This is because these producers are turning themselves into organizers of technical facilities instead of financial, managerial and creative units. Dependence on this approach will no doubt put the producer at the mercy of his American associate.

Finally, it is probably universally true that Canadian producers look to government initiatives, whether in the form of broadcast funds, film investment, R & D money or the licensing of pay-television to assure the survival of their companies and enable them to produce films. This has resulted in the curious paradox of universal criticism of the effectiveness of government intervention against a universal "separation anxiety" at any thought of its reduction. Bad enough that government should be viewed as the means for filmmaking, the dependence on government has almost made it the ends too.

It is the familiar theme of failing to use the devices at hand to encourage private investment and capital so that the government may withdraw. After all, government money means restrictions, dealing with the bureaucratic mentality and endless amounts of paper. Indeed, the bureaucrats administering the various film-funding agencies are a curious lot. Uncertain of whether they are advancing industry or culture, having very little film background and conscious of the power they wield through their decisions, film-funding agencies have to dance on and inevitably break the eggshells of artistic and creative merit versus some kind of financial reliability.

Much as students of business administration do case-studies and examine models for marketing and managerial approaches, all good businessmen should reflect critically on their previous methods to find weaknesses. Canadian producers with their limited success should look even harder for the weakness in their business. The elemental question that must be asked is striking in its simplicity: how does the producer make money in the film business? The answers – and they are harder than the question – will solve much of the current problems.

Making money is not necessarily a function of profit. It is a function of creating a product which, because of its consistent qualities, will be in sufficient demand by the end-user. In other words, making films of a consistent minimum standard which break even is what is important. This develops reputation and reliability that inspires confidence in private investors.

Making money means "not" making money in the short term. It means sharing the risk on an equal basis with the private investor and even giving him greater advantage. It means developing the legal and financial structures that favour the private investor and recognize him as a partner. It means recognizing that the producer's work is a kind of capital which he invests in the film with the investor and therefore producing fees should also be at risk.

Making money and making the film requires competent business personnel. The producer must attract to his team knowledgeable businessmen who are willing to learn the film trade and apply to it proper standards of businessmanship and business-like practices.

Making money means an appreciation of the fundamental elements that attract the end-user: what do audiences like? It is not enough to say everyone likes horror. There must be an appreciation of what makes a good horror script and a good horror film. Success in this requires a sixth sense, not a degree in cinema appreciation. The producer who lacks this intuition should hire someone who possesses it.

Making money means long-term planning. The business of the producer is filmmaking. Each film is a small bit which helps accomplish this end. The producer should never operate on a film-to-film mentality. The structure of each film is tactics. The producer must equally concentrate on grand strategy. A producer is not making a ***single*** film; he should be thinking over a number of years.

Most of all, money-making means attracting private investors, whether individual or institutional. This, in many ways, is predicated on the above but not completely. Ultimately the producer must be able to sell himself, his company and his business. He must establish wide contacts with the Canadian business community. He must learn their preferences and at the same time educate them to understand the film business. Only a knowledgeable investor can confidently and competently invest. It is amazing that Canadian producers and their associations have done nothing to counter the negative image they have in the business community. Most Canadian business publications periodically print horror stories of how film-investors have suffered, yet producers do not even seem to have the self-interest to respond to these articles. Every association of businessmen regularly through publications, seminars or public relations, attempts to create a positive impression of their industry. Producers' associations seem to define their aims narrowly, confining their interest to government lobbying without appealing to broader public support.

There is no doubt that establishing pools of private capital in the Canadian film industry is difficult. There is no doubt that the industry faces other problems, American domination of the distributing system in the forefront. Nevertheless, the road to the door of the private investor must be travelled if a vibrant independent Canadian film industry is to take off. The final answer to making money in film is dependent on business and business practices.

So where's the business in Canadian film? Nowhere, and that's the problem. ●