Towards a new film policy for Canada

by Michael Bergman

The key to film-growth in the industry is the participation of private investors in film companies

In its origin, the film policy of the early 1970s had a single objective: the creation of a Canadian, commercial, feature-film industry. The policy was a deliberate attempt to instigate the creation of an industry whose existence previously had been nominal or negligible at best. The means to bring about this creation was also singular: making available sufficient capital to interested private individuals or budding producers. Government made this capital available through three well-known devices: tax shelters, co-production treaties and the Canadian Film Development Corp. The emphasis was not essentially on using taxpayers' money but rather on private monies raised through government incentives. As it developed, the CFDC acted as the catalyst through research and development, seed or bridge financing to assist the producer in tapping into tax-shelter funds. On the whole, the expectation was that these government incentives would not only make money available to the producer, it would develop investor-interest in the industry.

Initial government policy was concerned with finding money to actually make the film, that is, financing film budgets. The effects on the film industry may not have been fully appreciated. No doubt government had intended the more familiar experience of assistance to other industries where paying for the set-up of a plant and equipment was essentially a once-and-for-all basis to get a factory under way. Financing film budgets is a one-by-one process. It concentrates on making a single product, the film, rather than establishing film companies on a continuing basis. But there is a significant difference between financing a company and financing a single film. A well-financed film company should be able to conduct its own research and development, provide for its own seed and bridge money, as well as at least a portion of the budget from its own internal financing, investors and the financial institutions associated with it. To view film financing on a budget-by-budget basis is to inhibit the growth of film companies able to fully accomplish the task by themselves.

Growth in the film industry will only occur once there are solidly entrenched production companies. Government funding or assistance on a budget-by-budget basis will not achieve this. To a private investor it encourages investing only in one project rather than an ongoing business.

The means of raising capital for any corporation in any industry comes from a sale of shares the raising of money through treasury securities such as debentures and loans or credit on security. The key to film growth in the industry is the participation of private investors in film companies. In Canada the traditional position of a private investor has been as a participant in equity, the investor generally owning a small portion of the film without any input into the production company or its management.

The failure of tax-shelter enticements at the beginning of the 1980s effectively knocked an important prop out from under government's film financing incentives. As a remedial measure and under pressure, the government during the course of the 1980s has slowly escalated direct financing of the Canadian commercial feature film industry through government funds, reaching what might be called a crescendo with the 49 percent contribution of the broadcast funds. Just how far government policy has gone from enticing private investors to direct government involvement can be seen when it is considered that the principal active sources of money for Canadian feature film come from either the broadcast funds or the CBC, both government funded. There is an unspoken attitude now that obtaining private investment is a necessary nuisance as the first step to accessing the more important government funding; in most businesses this would operate the other way around.

Any review process must commence with complete assessments of policy objectives. Existing policy had its origins in the desire to create a commercial feature film industry, an objective that has been remarkably successful even in the face of criticism and the ups-and-downs this industry has faced. In addressing the successful, if difficult birth of the industry, present government film policy's objectives are out of date. The mechanisms and initiatives to instigate the birth of the industry are not the means to promote its continued growth.

It must be recognized today that there exist operational Canadian film companies and sufficient personnel at all levels to maintain an output of Canadian production (which is not to say that this production always has production-value). Consequently, the objective of current government policy must be the promotion and growth of an existing and permanent
Canadian film industry. The means to fulfill this objective are dual. Unlike the original policy of the 1970s, it is not enough to concentrate on sources of funding; they must also be in tandem with some incentive to promote what might be termed Canadian commercial excellence.

By Canadian commercial excellence is meant production values of quality and originality that are distinctive in their creative merit yet have considerable, not necessarily inherently, appeal in foreign markets. Copying American films rather than pursuing creative originality in all film genres must be cast aside. It is creative originality that will ultimately make Canadian films acknowledged as Canadian in a positive sense. The world will watch Canadian films without maple leaves, beavers and other indigenous flora and fauna.

Implicit in promoting the growth of an existing film industry must be the aim that the industry stand on its own two feet without direct government long-term financial intervention. The operative means of government policy in the 1970s to incite private investors to invest in a particular film corporation to go public and sell its shares widely on any exchange. The use of taxpayers' money is significant and makes the process difficult unless sufficient initial funds are available.

In addition, the government should fund research and development of company projects and not simply on a project-by-project basis. An established film production company should be able to apply for R & D funding on an annual basis based on reasonable projections and analyses of its R & D needs for the upcoming year. No production company can survive without constant research and development of company projects, and the actual film financing costs of R & D in an amount sufficient to reasonably cover these expenses over a 12-month period, the film production company itself should be encouraged and allowed ongoing funds to adequately and continuously deploy some for R & D purposes. Of course, receiving only one year to cover the year implies an prudent allocation within the corporation's internal structure to assure that these funds are not depleted or that they are in time augmented by other sources.

Film tax shelters as established production corporations should be limited. As part of the continuing incentive to the private investor to invest directly into a film company, the tax shelter of the corporation should be assured. For this purpose government should fund the insurance costs of motion-picture guarantees and the insurance costs as the only assured costs in the budget which the government will support.

Finally, established film corporations should be able to apply for a single annual fund for promotional and marketing purposes based on reasonable projections and analyses. Similar to the R & D fund, the film production company should assist the promotion and marketing of the corporation and the projects it has completed during the funding period.

The above four funding methods will be subject to three forms of "Canadian" criteria on a progressively increasing scale. The tax shelter for corporate projects should be reduced to zero. As Canadian financing on all film projects undertaken by the corporation within two years of the financing, according to a point system to be established, one dollar of the carry forward allowance point system. Corporations receiving R & D annual funding must observe Canadian financing requirements from the time of receiving such funding on all projects where the writer, director and principal star (as well as the crew) must be Canadian. Finally, not every foreign director or producer can provide the Canadian look.

Corporations receiving guarantors and budget financing funds must undertake such tax shelter capitalization incentives and the financing provided must be subject to manging requirements.

The use of taxpayers' money must meet Canadian manging requirements. In particular, films will not reflect Canadian originality unless the writer and director are Canadian. There is no way foreigner can provide the Canadian look.

In fulfilling this policy the government must be that of Canadian commercial excellence. Longer-term funding of Canadian established film corporations must be conditioned with a determination of financial success. If a film company cannot show a critical or audience approval, it should not be in the business of commercial filmmaking. Consequently if, after initial funding, a film company requests further budget funding, a film corporation cannot demonstrate Canadian commercial excellence within two years of receiving funding and, if applied for, should be reduced.

Simply supplying money or money-gathering incentives are not enough. All film projects must be able to develop suitable managerial, marketing and development expertise. This requires the input of people with appropriate business, financing, managerial and marketing skills.

For this purpose, government film funding agencies should provide a consultative assistance programme to assist film companies in developing these skills by working for and through multiple government agencies and corporate programs to render film corporations as structurally sound entities.

The other side of the coin is distribution. The principle of distribution is the benchmark for potential success. In Canada a significant portion of the distribution element of the feature film business is actually foreign. To correct this situation the issue of ownership, the fact is significant not simply because of American presence, but rather because of the extent that Canadian films are subject directly or indirectly of American film producing corporations. These have less incentive to be concerned about distribution. Any public money that is distributed to film producing corporations must be able to ensure that a Canadian industry the money and effort that an indigenous, successful distributor would be able to. The latter point has much to do with the government's view of the domestic film market. Canadian film corporations should be able to apply for single annual fund for promotional and marketing purposes based on reasonable projections and analyses. Similar to the R & D fund, the film production company should assist the promotion and marketing of the corporation and the projects it has completed during the funding period.

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"Canadianization of the distribution system is one area where the government must bite the bullet".