

Whither or Withered

The Canadian Film Industry in the late 1980's and into the 1990's

by Michael N. Bergman

Most analyses of the Canadian film industry begin, end and are preoccupied with the role of government, its policies and their effect on the strength and development of Canadian film. If the industry is stagnating or declining, increased government intervention is the prescription. If government fails to legislate Canadianization then foreign takeover or entrenchment is a foregone conclusion.

This almost singleminded emphasis on the necessity and effect of government's role on the industry's health was not without merit in the past and is still relevant. After all, government initiative largely created the industry in the early '70s and kept it going during the bust of the early '80s. Nevertheless, and regardless of Canadian filmmakers' continued insistence on the primacy of government's role, a very different sort of player is now responsible for the industry's health and momentum — American film production and film investment in Canada.

The sum of \$350,000,000 (1986) worth of American film production, not to mention an unknown but surely significant dollar amount of investment through distribution contracts and the hiring of Canadian producers to produce projects in Canada, does not appear overnight. The '70s saw periodic, usually single-time, American projects shot in Canada mostly for location reasons. The early '80s ushered in the Canadian film bust somewhat compensated by the beginnings of in-

creased American production in Canada. It is the last three years though when American film production here has become significant. The primary reason which virtually everyone ascribes to this dramatic upturn is the dramatic fall of the Canadian dollar's value compared to its American counterpart. The plunge of the Canadian dollar's value began some three to four years ago and coincided with the significant upturn in American production in Canada. A saving of some 25 to 30 per cent of film budgets (assuming all other costs are the same) is obviously an attractive element. These savings are further enhanced by the lower cost of film labour in Canada. Not only are minimum scale rates lower but fringe benefits which can amount to 40 to 60 per cent of film salaries or fees in the U.S. amount to no more than 15 to 25 per cent in Canada, depending on the category of personnel.

American film production in Canada employs a completely Canadian crew and mostly Canadian production personnel. Typically the only non-Canadians on an American-Canadian shoot are the producer (although not necessarily the line producer), the director, the stars, the writer and, to a lesser extent, the editors and the art director. An American shoot sees most preliminary work done in the U.S., virtually all pre-production work in Canada, most if not all of principal photography in Canada and some post-production work here although, generally, editing is done in the United States. Apart from the significant amounts spent by American producers to pay both the fees and salaries of Canadian cast and crews, American producer check-offs are an important part of the financing of many Canadian film unions. All of this is not to forget the significant

amounts injected into the Canadian economy through the purchase of supplies and services, accommodation, food and equipment. Not only has American production in Canada encouraged employment in the film industry, it has made that employment more regular, full-time and provided enough jobs to encourage more people to enter the industry. In fact, the best barometer of film employment for the last three years is the significant increase in the membership rosters of most Canadian film unions, particularly those which provide production and crew personnel. It is no wonder then that many in the industry fear that any revaluation of the Canadian dollar as compared to the American would bring about significant unemployment in the Canadian film industry.

Direct American film investment in Canada in the form of American projects are easily identifiable. Somewhat less apparent, although just as significant, is American film investment into Canadian production companies; less apparent because Canadian producers insist that these projects are Canadian and examples of what Canadian talent can do. While their claims are true enough when it comes to the use of a Canadian cast and crew and possibly even a Canadian director or starring actor, their blandishments become a little thin when one watches the resultant film or TV program which is invariably either American in look or in the so-called North American style (no eagles, no beavers, possibly American but never Canadian).

American film investment into Canadian production companies may take several forms but primarily consists of distribution or broadcast contracts or direct payments. American producers who prefer to use Canadian production houses

instead of producing the project directly themselves in Canada, are usually independent producers or broadcast networks, the kinds of entities which either do not have the necessary infrastructure or mobility to produce directly in other countries.

American distribution deals have long been considered of signal importance for Canadian producers. From 1979 onwards the presence of an American distribution deal for a project would generally make or break any Canadian offering for private film financing. Canadian producers saw so much of their success or failure in terms of the American market, often using American directors, stars and sometimes writers. This prescription met with little if any success. The difference though in the middle '80s is that whereas in prior times the idea for the project originated in Canada, presently the idea for the project often originates in the States.

This is particularly true of broadcast contracts. A contract to broadcast a television program or 'movie-of-the-week' on an American television network is usually a form of servicing that broadcaster since producers have nominal if any residual rights to the use of a project made-for-television.

The telltale signs that a Canadian producer is really just servicing an American or riding on an American investment are any one or more of the following: an American writer, an American idea, American executive producers, the appearance that the show takes place in the States even though it is shot in Canada, the absence of anything that appears on the screen as Canadian, the notation in the credits mentioning an American company.

Just how persuasive American film investment in Canada has become is indicated by the

absence of the kind of intense, vocal and strident opposition to the tampering with the Canadian film tax shelter implemented by Tax Reform in comparison to the tantrum-like outcry of previous years at the mere suggestion of any such thing. In fact, there are those who now allege that in recent times Canadian producers have attempted to use the Canadian film tax shelter as a vehicle to give American investors additional tax benefits. Others speculate that this very allegation has caused the Minister of Finance to reduce the Canadian Certified Film Capital Cost Allowance.

The importance of American film investment in Canada, whether direct or indirect, raises a whole series of problems rarely addressed but which cannot be ignored. Without some form of American investment, many Canadian production houses would be forced to significantly downscale their operations or close. Unless Canadian production houses were to expand their activities dramatically from present levels, keeping direct American film production in Canada is imperative if industry employment levels are to remain constant.

There is a definite need for American production companies to put down roots in Canada so that their commercial stake here transcends changes in currency exchange rates. So far, American producers have shown little inclination to open permanent production facilities or operations bases in Canada. This is not encouraging since it tends to indicate a lack of ongoing financial commitment. American producers may be encouraged to view their stay in Canada as temporary, due to economic factors which may ultimately bring the cost of filmmaking in the two countries closer to-

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gether. These factors include currency revaluation and increased Canadian personnel costs. The Canadian dollar in the past 12 months has risen six cents in American currency. The ongoing size of the direct American production in Canada is creating pressure by Canadians for equal or at least similar pay for work of equal value.

More subtle but just as important as an indicator of permanence is the fact that American production in Canada virtually never results in anything to do about Canada on the screen. American production in other countries, Britain for example, usually results in a look which is obviously British in location or theme. The need for the British look gives some impetus for maintaining facilities in the U.K.

Canadian producers who rely on American film investment face in one respect similar problems of exchange rate fluctuations and personnel costs to the extent that they are simply servicing American firms. In another respect, though, they face different problems. The long-term viability of American investment into Canadian producers depends on a regular output of quality programs, commercially viable in the United States. Canadian producers are beginning to demonstrate this ability, but to continue it they will need greater access and more permanent links to the American market. This will inevitably require Canadian production houses taking on either American partners or developing American facilities in the U.S.

Here is the nub of a problem which has existed since a viable film industry has come into existence in Canada. To become viable and survive, Canadian producers must either integrate themselves into the American film and television market or compete with Americans for the non-American market. In the former case, Canadians must join the existing American infrastructure which is already highly developed. They must produce a quality American product and establish more than casual financial and business links with the American market.

The latter case does not mean avoiding the American market. For Canadian producers to compete in any market they must operate from stable, financial bases with sufficient monetary resources to produce quality but distinctive products. Canadian producers need to develop their own controlled distribution system and emphasize world markets. Unfortunately the history of the business of Canadian filmmaking with its emphasis on project-by-project financing as opposed to corporate capitaliza-

tion, combined with varying, sometimes weak entrepreneurial skills, has diminished the ability of Canadian producers to compete against any, let alone the American, entertainment package.

If the motion picture industry were like any other, the present dependence on American film financing, whether direct or indirect, would just be an aspect of the debate on the extent to which foreign investment, and particularly foreign dominance of a particular industry, is healthy. Clearly as a general proposition there are arguments both pro and con. However, the motion picture industry is one not like any other in many respects, one of them being that it is the cultural expression of a nation's identity, outlook and ideas. Indeed, the aims of the federal government's film policies were to create a film industry to give expression to Canada's national identity.

There now exists a professional, first quality, filmmaking industry in Canada which is not to say that there exists a Canadian film industry. The inability or disinterest of Canadian filmmakers to make Canadian themes into commercially viable projects is an alarming industry weakness. Presently most productions with a Canadian theme are designed for the CBC or French-language exhibition. Canadian themes in feature films remain nominal. Neither have Canadian producers, whether English or French, been able to find an enterprising way of capitalizing the country's linguistic duality. Quite the contrary, those who do not design their projects for the American market tend to emphasize either the English or French milieu without transcending them both. This practice diminishes the scope of the Canadian domestic market and forces producers to the conclusion that only the American market is viable.

Americans see their culture as both entertaining and commercially profitable. Canadians, with often questionable if not erroneous reasoning, see their culture as dry, staid, and worse — undefined. For Canadian producers, the use of Canadian themes is considered largely a liability only compensated for by the fact that Canadian themes unlock government financing or make available Canadian broadcast contracts from Canadian television networks forced to meet Canadian content quotas by government regulation.

By definition, any private commercially-oriented industry operates to make profit in the marketplace, financing itself through capital in the private sector. The consistency, growth and dependence on

government financing, either directly or through Telefilm Canada, some provincial government agency, the Canadian Broadcasting Corporation, tax incentives, or Canadian content quotas may be necessary. Nevertheless, it creates an artificial level of production activity which cannot be supported indefinitely and makes the industry subject to the ups and downs of government financing of its own institutions like the CBC.

Furthermore, Canadian producers have not yet been able to take advantage of such secondary markets as video cassettes and syndication. They are too dependent on their primary sales when it comes to projects with a Canadian theme.

In this writer's opinion the Canadian film and independent television production industry now faces a critical fork in the road. The path it chooses knowingly or not will only be reversed with great difficulty. Canada will eliminate all barriers to American (or any other) film investment and film production in Canada and Canadian producers will integrate themselves into the American market. Alternatively, Canada will further regulate film and television production in Canada to such an extent that only Canadians own and control all aspects of the Canadian market. Canadian producers will then compete amongst themselves for the Canadian market, and with Europeans and Asians for the markets on those continents.

These choices are neither ideal nor healthy. They are the product of a failure of corporate strategy for the industry and the absence of an *élan* vital for Canadian themes. Ironically, government intervention will be necessary no matter what choice is taken, either to remove all barriers or to make them all-encompassing.

It will not be enough to remove barriers if American film investment is to be encouraged. Rather, an aggressive attempt must be made to capture this investment. An excellent means to do this would be the creation of the equivalent of the auto pact for the film industry; the guarantee of minimum American production activity in Canada in return for say, more favourable copyright protection, compensation for satellite retransmission, the withdrawal of film distribution legislation, etc.

The alternative is not simply a matter of increased regulation and legislative fiat. The commitment must be increased financial support for the CBC and Telefilm and the creation of other government-sponsored film financing vehicles.

In any event, the situation

cannot be left as is. Inaction can only result in a significant reduction of production levels particularly in the early 1990's. Currency fluctuations, economic downturns, funding shortages, rising labour costs — all are happening or will happen. But apart from these recognized factors there looms a larger one, the consolidation of independent producers in the U.S.

The proliferation of independent producers in the U.S. has been a significant industry event in the early '80s. These independents supplied growing and new markets for film and TV products. The numbers of independents will, if it has not already, reach saturation. The weaker ones are falling by the wayside, some are joining the majors, others will develop a merger to form new majors. This process will ultimately reduce the number of American producing entities, bringing them closer to previous levels. The consolidation will mean financially stronger organizations more appealing to Wall Street. In turn there will be fewer American production houses needing Canadian servicing. American independents use Canadian producers not only because of currency savings but just as, and often more importantly, because they can obtain investment funds more easily in Canada for an American-organized project than on Wall Street, where most independents have met a cool reception.

Thus the dilemma of Canadian producers: without aid or investment by the Canadian government or American investors, their capital base is nominal. They are trapped into satisfying both leviathans, each of whom has needs which contradict the other's.

In the end, the needs of the American investor will prove more persuasive. They can deliver more — more market, more money, more fame. Canadian production houses which wish to maintain themselves and grow will gravitate to the American option.

These choices do not have to be the only ones. Cooperation, foresight and vision on the part of both industry and government can produce a corporate strategy which allows for the foundation and development of solid, well-capitalized production companies whose volume is regular and thematically Canadian. But the mentality of dependence on subsidies and a single-minded focus on the American market offers little chance that the new way will be found, let alone undertaken.

Whether the Canadian film industry? The years 1988 and 1989 should see stable, perhaps slightly declining, direct, American film production in Canada.

The bloom will come off that rose in the first years of the next decade, with a significant reduction in American projects here. Canadian production will begin to decline in late 1988, corresponding with the end of the former tax shelter, somewhat offset by American investment in Canadian production houses. Into the 1990's, Canadian feature film production will become negligible while independent TV production without American support will decline to levels supported by Canadian TV networks. There will be some brain drain, particularly of better Canadian producers, to the U.S. The industry though will be permanent and will not experience as deep a decline as in the early '80s. Employment in the industry will retreat to more realistic levels with, of course, a significant group of current personnel falling by the wayside. Nevertheless output, although reduced, will be regular and come from the remaining American direct production and a smaller core of Canadian production houses who, having survived the wars, will have much more staying power. Commercial projects with a demonstrable Canadian theme will be restricted to the CBC and to an even more limited extent over Canadian networks.

The real variable in the future will be the extent of Canadian servicing of American projects. While this should decline, a reduced number of Canadian production houses, especially the more aggressive ones, should be able to hold on to, and develop, American support to their profit. We may see some interesting cross-border corporate linkups with the best Canadian production houses taking American shareholders or joining with several American independents to form one entity.

Postscript: This piece was written before the announcement of the 'successful' conclusion of the Free Trade talks between Canada and the U.S. While the contents of the agreement are — at least at the writing of this postscript — uncertain, I do not believe Free Trade changes any of the above. On the contrary, Free Trade emphasizes the need to deal with the problem of maintaining American direct and indirect film investment in Canada. Free Trade will probably mean the end of an aggressive Canadian federal or provincial government action for the industry; e.g. film distribution not to mention other cultural areas conceded or affected by the deal. The industry will be more on its own. Unless a new imagination in financing comes to it, increased American involvement, with whatever that may entail, is inevitable.