

# a 'major' offensive against nationalism

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**The Canadian Motion Picture Distributors' Association has begun to make its weight felt. More active than ever, the Golden Reel Award, the promotional campaign undertaken with Loblaws, and the foundation of the Motion Picture Institute of Canada are various examples of CMPDA initiatives. The brief published below is the cornerstone of CMPDA philosophy.**

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*In the latter half of 1976, the Canadian Motion Picture Distributors' Association prepared a brief entitled "Position Paper concerning the Motion Picture Distribution Industry in Canada." Cinema Canada requested opinions on this document from several people, and came to the conclusion that the brief had not been widely read within the industry.*

*Despite the all-encompassing title, the brief only addresses itself to the distribution of feature films, and then only as entertainment. The brief was prepared to offset the "negative" influence of the Canadian nationalists; in quoting what the CMPDA considers a "misadvised" opinion on the part of the Hon. Hugh Faulkner, the brief states, "This opinion was influenced by representation... from the CCFM without counterbalancing opinion being heard from the CMPDA." Given the importance of the debate around feature distribution, and the increasing energies expended by the CMPDA to have its voice heard by those in government, we decided to print excerpts of the brief.*

*Cinema Canada will comment on this brief in a later issue and encourages those of you who wish to send us your comments on it as well.*

*The CMPDA represents the following companies: Ambassador, Astral, Bellevue, Columbia, International, Metro-Goldwyn-Mayer, Paramount, Twentieth Century-Fox, United Artists, Universal and Warner. As all but the first three*

*are branches of American companies, the association is said to be the voice of the American 'majors' in Canada. A second association, the Association of Independent and Canadian-Owned Motion Picture Distributors, groups other distributors: Cinepix, Danton, Frontier, New Cinema and Saguenay. Ambassador and Astral are also members of this second group. In Quebec, there is yet a third distributors' association, one which includes those companies based in Quebec which distribute features in French. The following brief does not represent the official opinion of the last two associations. Based on the statistics which the CMPDA gives for 1974, the brief represents the opinion of only 11 of the 82 distribution companies operating in Canada. These 11 companies, because of their relationships to the 'majors', carry considerable clout.*

*The first two chapters of the brief, entitled "The film industry as an entertainment industry" and "The Canadian Motion Picture Distributors' Association", have been omitted because of lack of space, as have the three appendices. The four central chapters, "The economic importance of the industry," "Film distribution in Canada," "Problems and concerns", and "Conclusion" are printed in full. Those readers who wish to consult the complete document are encouraged to contact the CMPDA.*

**Connie Tadros**

## The Economic Importance of the Industry

Although the distribution sector is not the most significant part of the motion picture industry in financial terms, it is very likely the most important component in terms of key industry activity. Distribution functions as the industry catalyst supplying product to exhibitors and feeding back important market data, coupled with financial support, to producers.

In addition to the very substantial direct employment, the industry creates employment for a significant number of people engaged in a variety of support functions, including film laboratories, film shipping, film revision and storage, advertising, printing and customs brokerage.

In 1974, the last year for which published data is available, the total industry consisted of 1,116 theatres with 1231 screens, 307 drive-ins, and 82 distribution companies with 142 exchange offices.

The financial activity generated by these operations is significant and can be summarized as follows:

Employment:	13,942	
Total Revenue:		\$214,490,000.
Total Box Office Revenue (excl. taxes):		\$172,683,000.
Other Revenue (candy, bar & misc.):		\$ 29,023,000.
Amusement Taxes Generated:		\$ 12,784,000.
Salaries:		\$ 47,088,000.
Advertising Expenditures (approx):		\$ 8,634,000.

In 1976 these figures can be expected to be somewhat higher.

Of the \$172,683,000 box office in 1974, the 82 distribution companies received \$59,860,000 as gross film rental. This 34.7% of the box office was spent as follows:

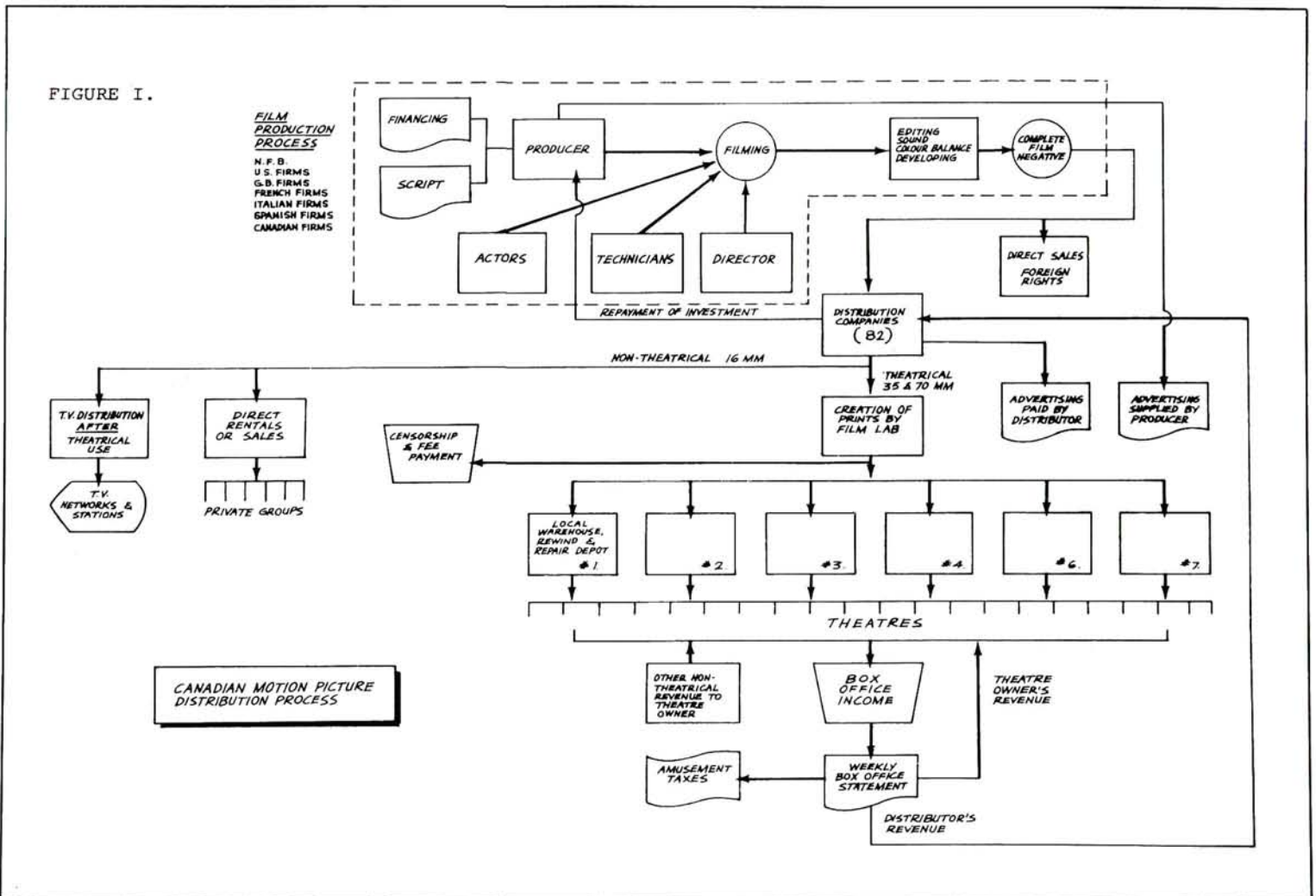
Salaries, advertising, prints etc.	\$29,060,000.
Withholding tax	\$ 2,800,000.
Remitted abroad	\$28,000,000.

From these figures, one can readily determine that in 1974 the provincial and federal governments received in excess of \$15,000,000 from amusement and withholding taxes. In addition, they have collected both employment and corporate taxes. Even if the 13,000 employees paid only \$1,000 each in taxes, the governments in Canada have collected more revenue as a result of the film industry activity in this country than did the producers who made the films (\$12,784,000 + \$2,800,000 + \$13,000,000).

Today, the average film produced in the U.S. has a cost of \$3,000,000. Many of the larger grossing pictures cost much more. Nevertheless, assuming an average film cost of \$1,000,000, the royalties remitted abroad result in a net return for 879 films of 3.2% (\$28,000,000 divided by \$879,000,000).

## Film Distribution in Canada

Diagram 1 shows the process involved in moving a film from the production stage to the public viewing stage. It also shows where feedbacks occur and where revenues are split.



It should be clear from this chart that the distributor acts as a marketing and sales arm for the producer and as a supplier to the exhibitors. As such, he must ensure that he has a supply of product to rent under the Copyright Act, which can compete with that of other distributors for the number of showings that exhibition has available.

### Exhibition

Motion picture distributors and exhibitors could be likened to the wholesalers and retailers of a consumer commodity. If the public likes the commodity, they buy it; and if not, they don't. The cultural or educational aspects of the story being shown will not attract viewers if the product is not primarily entertaining and of good technical quality. A stage play is identical to a motion picture in this regard. However, because the film is recorded on a permanent medium it has an added value because of its potential re-use.

### Marketing

In viewing the sales process, recognition must be given to the overriding concern of the exhibitor for the profitability of his operation. Whether he represents a major circuit or his own theatre, there is no motive for the exhibitor to run a film solely because it is Canadian if he can acquire better product elsewhere. Obviously, the distributor is also concerned with profits. In this case, both for his own organization and for the producer he represents. The selling process balances the rental rates against the anticipated box office revenues in order to determine the best selection, for a particular theatre, at a particular point in time.

### Canadian Feature Film Production

The importance of creating films which can be distributed successfully outside Canada can be seen by reviewing the limitations of the Canadian market as reflected in the statistics of Table I. The 11.2% decline in admissions between 1964 and 1974 reflects a very significant market loss, particularly when compared to population growth in the same period of time. It is a reflection of a more selective audience with ever-increasing alternatives competing for a share of disposable income. Fortunately, admission prices (currently averaging \$2.00) have been increasing fast enough to offset the decline in attendance.

Motion picture distributors have a particular interest in supporting an internationally competitive Canadian film production industry. There is currently a worldwide shortage of motion pictures that have a high degree of public appeal. This shortage is caused by a multitude of factors, including the consumption of the traditional 'B'-type movies by television, a severe shortage of good properties, the trend to small multiple theatres (300-500 seats) constructed in previously large, single locations, and the introduction of multi-run, simultaneous release distribution patterns. The result is an upward pressure on the demand for feature films that is coupled with a current trend in the U.S. to produce fewer features.

The shortage of successful Canadian films is not due to the lack of technical expertise or the unwillingness of distribution; but is more likely because of the absence of sufficient economic organization with the capability of correctly packaging an appropriate property that has the right artistic bias and a very specific international thrust.

TABLE I.

STATISTICAL SUMMARY  
THEATRES, INCLUDING DRIVE-INS

Year	Paid Admissions		Box Office			Amusement Tax	Average Admission Price	
	(000's)	% Change	(\$000)		% Change Current \$	(\$000)	(\$)	% Change
			Constant \$	Current \$				
1964	101,727		75,262	78,348		5,003	0.77	
1965	99,915	-1.8	79,889	78,348.	+8.7	5,587	0.85	+10.4
1966	98,959	-1.0	86,101	94,367	+10.8	6,518	0.95	+11.8
1967	97,573	-1.4	90,527	103,563	+9.7	7,216	1.06	+11.6
1968	97,189	-0.4	95,224	113,697	+9.8	8,200	1.17	+10.4
1969	90,226	-7.2	94,832	118,021	+3.8	8,518	1.31	+12.0
1970	92,315	+2.3	99,336	128,739	+9.1	9,229	1.39	+6.1
1971	--	--	97,760	131,100	+1.8	--	--	--
1972	91,800	--	100,916	140,374	+7.1	10,080	1.53	--
1973	89,019	-2.2	103,081	150,602	+7.3	11,110	1.69	+10.5
1974	90,392	+1.5	108,606	172,683	+14.7	12,784	1.91	+13.0
1964-74		-11.2%	+44.3% =4.4% per year in real terms.		+120.4% =12.0% per year.	+155.5%		+148%

With regard to exploitation and distribution, contrary to some opinions, no particular problem is envisaged provided the right product is there. Distributors in Canada are no different from their counterparts in other countries; they compete with each other to obtain distribution rights to marketable product. Any major feature which is favourably received by the public can, with little effort, obtain 800 to 1,100 bookings across Canada. A major feature, not well received, will have its bookings reduced to as few as 150.

This situation applies to all major producers regardless of their affiliation. The only yardstick that governs the number of play dates and attendant box office grosses is public support. Failing public support, the theatre exhibitor, regardless of his business relationships, will refuse to book a picture. It is the exhibitors' business judgement, based on his audience, which determines the number of bookings of a particular motion picture. Table 2 (this page) is a reflection of the performance to which such judgements are applied. (Note: Film rental is approximately 1/3 of these figures.)

The Hon. Hugh Faulkner could well have been misadvised when, appearing before the Standing Committee on Broadcasting, Films and Assistance to the Arts, on May 9th, 1975, he said:

"One of the major problems which has faced Canadian filmmakers for many years is the difficulty of securing adequate distribution for their films. The main reason for this is the foreign domination of theatres and distribution networks which has limited the access of Canadian films to the home market."

Unfortunately, the same thoughts were expressed by the Ontario Legislature's Select Committee on Economic and Cultural Nationalism in its final report on cultural nationalism, tabled in the Legislature in June, 1975, and stating that:

"Foreign ownership of the major film distributor chains means that there are automatic pipelines into Canada for American films, backed as they are by various substantial and sophisticated promotions. It is difficult for Canadian films to get widely promoted and shown. Thus it is difficult for Canadian films to earn substantial box office receipts, and as a result it is difficult for Canadian film production to attract the necessary financial backing for production. Where Canadian films are produced, their owners are often in very weak bargaining positions with film distributors. As a result, there are very few Cana-

dian feature films shown and the Canadian film industry is very weak."

No doubt this opinion was influenced by representation to the Committee from the CCFM without counterbalancing opinion being heard from the CMPDA. In fact, the difficulty in understanding this industry can be seen in Diagram 2 where one's perspective of the industry clearly depends on the position from which it is viewed.

### Multiplicity and Duplicity

The present Canadian industry survives economically by the production of commercials, commissioned documentaries and industrial films. As a matter of fact, the industry has developed a reputation of some considerable merit in these particular categories. Efforts in the feature film area have, however, not been nearly as successful.

Considering the competitive factors and the limited personnel resources (approximately 1300) the number of projects undertaken has probably been too large and the style and type of picture has been either too parochial or too great a reflection of the producers' / directors' personal concepts. Superimposed upon these factors is the competition from firmly entrenched government agencies, namely the NFB and the CBC.

As a result, only a very small number of feature films have returned a profit to producers/investors.

In addition to these problems is the proliferation of small firms in the industry competing for all resources. There were 82 distribution companies listed by Statistics Canada in 1974. There were also 187 companies involved in feature film production and total employment in production was 1,276, giving an average employment per firm of only 6.8. There would appear to be a very real need for a significant sorting out and substantial economic rationalization.

Table 2.

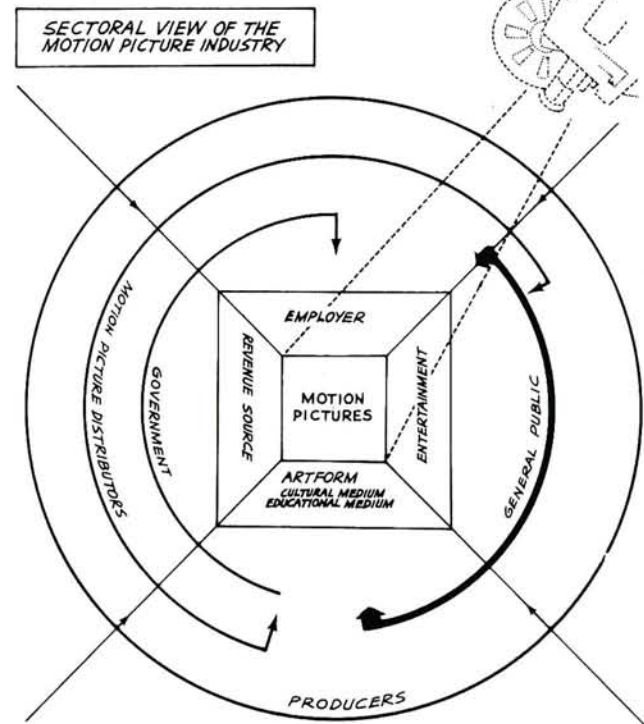
### Comparative Box Office Performance of Recent Canadian-Made Films

Title	Lifetime Gross To Date	Weeks In Distribution
Black Christmas	\$1,600,000.	53
Duddy Kravitz	\$1,900,000.	65
Les ordres (1)	\$ 30,000.	26
Lies My Father Told Me	\$ 650,000.	38
Recommendation for Mercy	\$ 625,000.	40
Shadow of the Hawk	\$ 330,000.	5
Shivers	\$ 720,000.	35
Wedding in White	\$ 400,000.	40

(1) Subtitled version only

It is unlikely that any of the pictures listed above would have been helped by box office quotas. Les ordres and Wedding have been major disappointments, but the public has obviously endorsed the balance as acceptable.

FIGURE II.



### Problems and Concerns

Diagram 2 focuses on the need to recognize feature film production for what it is. It is primarily a commercial enterprise geared to the "leisure time" market. The other aspects include culture and education; however, it is our view that these are secondary to the main function which is

to provide a product which the public will endorse as entertainment. Indeed, the results can be financially disastrous if a feature film does not receive adequate public endorsement.

In this latter regard, investors recognize the highly speculative component of a product which relies so heavily on public favour and, quite naturally, expect a combination of appropriate tax incentives and higher than average returns from a successful film.

The key to *success* in the film industry is, therefore, the *ability to induce the public to view your product*. There seems to be no other answer. Inherent in this is the ability to assess public demand and market the product that it wants. All too often identification of trends in the marketplace seems to have been neglected. We all must be cognizant of current changes in marketplace demographics. For example, 1975 studies completed in the U.S.:

- 50% of the population over 12 years old either do not attend movie theatres at all or go very seldom.
- Declining birth rates, later marriages and child-bearing, smaller families, and more working wives and mothers all have a direct impact on the age category of the movie-goer.
- Demographers are convinced that the rural to urban migration has been halted; and this fact will have a definite impact on a variety of entertainment and leisure time activities.
- The consumer finds the nearby film theatre a good entertainment buy, having decided to seek relaxation closer to home in order to conserve both money and gasoline.

Today Canadians have a variety of choices for allocating their leisure time. It is not entirely as a result of the influence of television that in twenty years theatre attendance declined from 252,300,000 in 1953 to 90,000,000 in 1974, a reduction of almost 65%. Drive-in theatre attendance would reflect a similar trend but for the recent introduction of drive-ins in the Province of Quebec. Even in 1974, considered a very good year, attendance was down by 2% when compared to 1970.

### Quality

In 1974, there were approximately 3,500 feature films produced world-wide, of which only 355 were made by American companies. Of this latter figure, CMPDA member firms distributed 130 new pictures. *Fewer than one third* of these pictures have yielded a profit in distribution. A substantial number were "lemons", which exhibitors have generally avoided showing. This has been more or less normal experience over the years.

In this regard, some recent remarks attributed to Morey Hamat of Frontier Amusements, an independent Canadian distribution company, succinctly highlight the matter:

"I think they (the filmmakers) are trying to blame the distributor for their own lack of ability. I think if they made a good picture it would certainly be seen. And I qualify "good" as meaning a picture which has public appeal. If the film is good and if the public will buy it, any theatre owner would be happy to play it."

In 1973 and 1974, Canada produced 33 and 32 feature films, respectively. Six of this total may have recovered their negative cost and realized some small profit. The previously mentioned 355 pictures were made knowing that the U.S. population was not sufficient to guarantee an adequate return. The objective of these pictures was to realize only 50% of total film rental from U.S. exhibition. The emphasis of the Canadian feature film production industry must, therefore, be on:

- world-wide distribution;

- fewer pictures;
- more competitive budgets for purposes of attracting "international box office success ingredients" and supporting effective exploitation.

The question then is, how might "good" productions be achieved in Canada?

If Canada is to build an economically sustainable feature film production activity, it is a prerequisite that parochialism be set aside and that the objective be viewed and treated for what it is - a commercial enterprise from which a producer expects a return.

*It is impossible to make money on a Canadian film where distribution is restricted to Canada.* Herein lies the real challenge. Provided good quality films are made for the world motion picture market, our domestic production activity will have a very significant impact world-wide which will, in turn, stimulate further successful productions.

### The Canadian Equation

The distribution sector in Canada consisted of 82 companies in 1974, a number of which have been in operation for over 50 years. Over this period of time, these companies have seen Canada develop into a sophisticated theatre-going country. Although attendance dropped significantly in the late 1960's and early 1970's, some stability seems to have occurred in the last two years, as Canadians realize the low-cost entertainment value of the local theatre. Nevertheless, frequency of attendance is presently running at only four visits per year per Canadian. A very low exposure rate when compared to other media such as TV, newspapers and magazines.

Based upon annual film rentals of \$59,800,000 and 879 films distributed in Canada, the average film rental for a picture is only about \$70,000; indicating that overall revenues must depend on those few, particularly successful, motion pictures. In fact, a good picture can only anticipate Canadian film rentals of \$400,000 even with the best bookings and a sound exploitation. Given that film rentals are the sole means by which investors recoup production costs, the Canadian market is obviously not making significant profits for producers from any country.

### The Key to Success

The most important link in the whole chain of success is the one which makes or breaks a picture - THE PUBLIC. And no matter how financed or by whom, no matter how distributed, the picture is doomed to failure, in commercial terms, if it does not achieve an adequate level of public acceptance. It fails in the very task for which it was designed.

For any major feature production, and on the basis of internationally accepted film industry parameters, Canada represents only some 5% of the total world market. It is highly unlikely that a feature film will recoup its costs, let alone earn a profit to finance the next production, in a 5% market.

Decisions regarding a feature film production in Canada must be based on the premise that the film be viable in the international marketplace. A film must compete with feature films in other countries. It must attract the theatre-going public of other nations, as well as that of its domestic market. The competition in these countries will be with production companies that are quite well established throughout the world. The leaders of the film industry in Canada must be sufficiently knowledgeable to face this competition with product of equivalent commercial standard. This can best be done by incorporating all the ingredients necessary to assure every reasonable opportunity for box office success.

The cost of feature film production is a significant matter. The larger, more successful producers have already learned that a large budget alone does not necessarily guarantee success. However, experience shows that a producer must be able to spend a minimum of \$1,000,000 on a major feature to ensure some degree of production quality (current U.S. average ranges between \$2,500,000 and \$3,000,000).

There is considerable distortion as well as lack of understanding concerning revenues derived from film rentals in Canada. Those who invest or reinvest their capital anticipate a profit. The free enterprise system will not function if it is otherwise.

Using 1974 Statistics Canada data, a more realistic picture can be developed.

- Major U.S. 35mm films distributed (vs. 355 reported by StatCan)	165
- Average cost	\$3M
- Targeted (before tax) return	20%
- Canada's share of world market	5%
- 35mm film rental	\$59.9M
- Total theatre revenue	\$215M
- Box office and withholding taxes	\$15.6M
- Remittances abroad (approximate)	\$28M

Therefore:

- As related to total theatre revenue, remittances are	13.0%
- As related to total theatre revenue, taxes are	7.3%

Since withholding tax is now 15% (vs. 10% in 1974) government's share of theatre revenues is even greater.

Funds remitted abroad are primarily used to repay bank loans and the other heavy costs incurred in producing films licensed for showing in Canada. As a result of these showings, government revenues are 60% of these payments.

The balance of film rentals is retained by distributors in Canada to defray the cost of prints and accessories for domestic films, royalties due domestic producers and the other business expenses of the distributors; including the payment of approximately 726 employees.

## Conclusions

The information in this document has been presented in an attempt to provide a factual and unemotional overview of the motion picture industry in Canada, with particular reference to the role of the film distributor. We have presented economic argument in place of nationalistic or anti-American rhetoric. The statistics are from official sources which can be verified, and their interpretation has not been distorted.

A motion picture, in its role as a cultural and educational medium, has an impact on Canadian society. This is clearly recognized, but the document emphasizes that continued viability and development of the industry in Canada will probably require a clear understanding of the demanding economic forces within which the industry operates worldwide. A movie will have limited cultural or educational impact if the movie-going public is unwilling to attend. The demands of the marketplace must be met if the industry is to be self-sustaining in Canada. There will be no cultural impact if there is no motion picture industry in Canada. It is important, therefore, that all aspects of the motion picture industry in Canada cooperate with the various levels of government to ensure that a proper climate for the further stimulation and development of the industry is created. Under a situation where the free market forces are stimulated by government actions, rather than restricted by punitive legislation, it is believed by experts in the industry that a

Canadian motion picture industry can be developed which will permit the fulfillment of various societal objectives while, at the same time, provide the type of entertainment demanded by the marketplace and, as a result, be self-sustaining.

The demands of the marketplace must not be ignored. This is probably the most important conclusion of this document. It is a very important point for competition in the marketplace is increasing. The drop in theatre admissions from 256 million in 1952 to 90 million in 1974 is a clear reflection of increased competition being faced by the motion picture industry in Canada. It also serves to suggest that the cultural impact of the motion picture medium is being reduced. The impact of television, newspaper and other media now is substantially greater.

Some of the conclusions derived from the information presented in this document are as follows:

- There is a tendency to use cultural arguments to support Canadian government involvement. Yet there is a very high risk factor in the motion picture industry that, by its very nature, dictates high capital cost allowances, very flexible definitions, adequate incentives and entrepreneurial rather than government involvement. Levies and quotas will not assure the success of a motion picture.
- There is the beginning of a feature film production industry in Canada. This industry has proved that it can make feature films with international appeal and box office success. However, there has been a tendency on the part of certain sectors in the Canadian industry to equate box office failure with American domination. This position is inconsistent and is contradicted by the fact that competitive Canadian films have achieved distribution both in Canada and in other parts of the world. Moreover, exclusive of corporate taxes, the provincial and federal governments are currently collecting 7% of theatre revenues as compared with the 15% of theatre revenues transferred to pay for films, prints, accessories, repayment of bank loans and as a return to foreign investors.
- There is a world-wide shortage of internationally acceptable feature films. Obviously, if a Canadian feature film is able to compete in the international marketplace, there will be no difficulty in obtaining distribution for the product.
- Canada has developed into the number one foreign market for the major film producers of the United States. But it should be emphasized that this is an international industry. Accordingly, the industry in Canada is now in a position to build an export-oriented activity that could eventually serve to reinforce Canadian identity and culture.
- Increases in box office admissions in the near term have hardly kept up with the rate of inflation in Canada. The ever-increasing selectivity of the Canadian motion picture audience highlights the need for producers and directors alike to produce pictures with a high probability of commercial success. Experience has shown that a star with an international reputation, a proven property, a successful producer, adequate financial resources and a suitable distribution contract, will give a picture the very best chance for commercial success.
- Government policies should seek to stimulate the production of feature films in Canada through an incentive system that will attract Canadian investors and the encouragement of joint venture productions between Canadian and foreign partners. □