APPENDIX B2 - CANADA

Australian Film Commission, August 2006

1 OVERVIEW

The country

Canada is a vast country with a relatively small population (31.9 million in 2004). Its affluent high-tech industrial society closely resembles the US in its market-oriented economic system, pattern of production and standards of living.

The US-Canada Free Trade Agreement in 1989 and the North American Free Trade Agreement in 1994 increased the level of trade and economic integration with the US.

The industry

The Canadian film and television production sector is characterised by a concentration of small firms in three regions of the country – Ontario, Quebec and British Columbia. Among those regions, Ontario has the largest concentration of film and television production companies (34 per cent are located in Ontario, 26 per cent in the Greater Toronto Area).

The industry is largely defined by its geographic, cultural and linguistic proximity to the US, leading to both positive and negative consequences for Canadian cultural content and the production industry. It enables Canada to reap the large economic benefits of foreign productions, thereby creating a solid base of industrial infrastructure, expertise and employment. On the other hand this proximity impacts on the creation and success of local Canadian content at the box office, on television and via the Internet.

In order to support the creation of culturally relevant content in the face of the strong cultural and economic influence posed by the US audiovisual industry, Canada's federal and provincial governments intervene to support Canadian producers and distributors.

Government support structures

Canada's support system for the audiovisual industry consists of a range of mechanisms including direct funding, tax credit schemes, TV content quotas and other regulatory measures. Direct public funding for the audiovisual industry is provided by federal film agencies (including Telefilm Canada, the National Film Board, the Canadian Television Fund) as well as provincial agencies (including British Columbia Film, SODEC, Ontario Media Development and the Nova Scotia Film Development Corporation).

Telefilm Canada, the leading federal agency, provides funding to Canadian television, feature film and new media production in the form of equity investments in feature films, lines of credit for established distributors and loans through a financing fund. Its budget is derived mostly from government sources.[1] The Canadian Television Fund operates as a public–private partnership to assist the production of Canadian television programs. Just under half of its funding comes from mandatory contributions from cable and satellite broadcasters.

Canada has two national tax incentives in place. The Canada Film or Video Production Tax Credit (FTC) is designed to stimulate domestic production; and the Film or Video Production Services Tax Credit (PSTC) has been introduced to attract foreign productions to Canada. Both incentives operate as refundable tax credits (against tax otherwise

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[1] AR Telefilm Canada 2004-2005

payable) and are jointly administered by the Department of Canadian heritage through the Canadian Audio-Visual Certification Office (CAVCO) and by Canada Customs and Revenue Agency (CCRA). Most Canadian provinces also make tax incentives available to support the audiovisual sector and to attract productions to their region.

Canada has local content quotas in place for over-the-air and cable broadcast services as well as local content expenditure quotas.

Canada is also very active in co-productions and has more treaties than any other country - with over 60 countries. The UK and France are Canada's major co-production partners.

	Value of public support (2003/04)		
	C$million	**A$million**	**A$ per capita**
Total direct support*	491.7	513	16
Total tax credit schemes**	560	584.5	18.3

* Total of public support through national agencies (see page 7) and provincial agencies (see page 8).
** Total of national and provincial tax credits (see page 15).
Annual average exchange rates: C$1 = A$1.10054 in 2003; C$1 = A$1.0437142 in 2004
Canadian population in 2004 = 31.9 million

Finance for domestic productions

Canadian feature film production relies heavily on public sources of financing, including direct sources such as the Canada Feature Film Fund and federal and provincial tax credits. In 2004/05 public sources (excluding public broadcasters) accounted for 51 per cent of total financing of Canadian feature films. Sources of finance for features in 2004/05 broke down as follows:

- direct public funding (including the Canada Feature Film Fund), 30 per cent
- tax credits, 21 per cent
- private and public broadcaster licence fees, a combined 6 per cent
- foreign sources, 12 per cent
- Canadian distributors, 14 per cent
- production companies, 5 per cent
- other private sources, 12 per cent.

In the case of television, Canadian productions have, over the last few years, increased their reliance on financing from Canadian broadcasters as financing from foreign sources has diminished. CAVCO data indicate that financing from Canadian broadcasters rose from 18 per cent in 1999/00 to 32 per cent in 2004/05. This coincided with a decrease in foreign financing from 28 per cent to 13 per cent. In 2004/05 finance for television production was distributed as follows:

- direct public funding, 9 per cent
- federal and provincial tax credits, 23 per cent
- private broadcaster licence fees accounted for 20 per cent
- public broadcaster licence fees, 12 per cent
- foreign sources, 13 per cent
- Canadian distributors, 7 per cent
- production companies, 3 per cent
- other private sources, 14 per cent.

Levels of production

After several years of strong growth during the late 90s, Canada recently experienced a decrease of the volume of film and television production. The slowing down in television production has particularly challenged Canadian producers.

Figures published by the Canadian Film and Television Producers Association (CFTPA) show that the overall value of film and television production in Canada in 2004/05 amounted to C$4.5 billion, a 9 per cent drop in relation to 2003/04. The decrease was principally due to a 23 per cent drop in the value of foreign location production, with a total volume of C$1.46 billion recorded for 2004/05 (C$1.9 billion in 2003/04). Canadian feature film production also experienced a decline, shrinking in value by 31 per cent to reach a total of C$253 million (C$369 million in 2003/04). This is partly the result of the impact on Canadian co-producers of policy and regulatory changes in Europe, particularly in the United Kingdom, and the resulting decline in treaty co-production activity.[2]

Canada started to attract US companies as a destination for shooting in the 1980s, and in the 1990s was particularly successful as a destination for US television drama. Companies were taking advantage of a tax incentive for limited partnerships which enabled them to claim 6–8 per cent of the production budget. However, this tax shelter was closed in 1996.

Since 2000, there have been several factors slowing the growth of international productions in Canada: issues of production capacity, decline of TV dramas in favour of reality TV programs, 9-11 in 2001/02, closure of another tax loophole in 2002, and an increasing Canadian dollar. In 2004, the government increased the rate of the production tax credit for foreign producers from 11 per cent to 16 per cent of eligible labour expenses.

Audiences

Canada is characterised by a great divide between audience for French-language and English-language programs. While US productions dominate English-speaking programming, the top programs in Quebec are all Quebec productions.

The same differences apply for feature films, with French-speaking Canadian films getting a better share of box office than English-speaking productions, which suffer from the competition of US productions backed by significant marketing budgets.

In 2000 the Government of Canada launched a new Canadian feature film policy and set a goal of capturing 5 per cent of the domestic box office by 2006. In meeting this goal it was expected that a more than proportional increase in market share would occur in the English-language, as opposed to the French-language, market. As of June 2005, a 5 per cent theatrical market share has been met and maintained, with Canadian films closing the year at 5.3 per cent. However, this growth in overall domestic market share is largely the result of the success of French-language films. Although the value of ticket sales for English Canadian films has seen some improvement since 2000, market share has remained relatively flat. In comparison with other countries producing independent films, Canada's English-language domestic market share is among the lowest in the world.[3]

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[2] *Focus 2006*, European Audiovisual Observatory

[3] Telefilm Canada, Summary Report, Canadian Feature Film Industry Focus Group, English Language Market (http://www.telefilm.gc.ca/document/en/03/PP/SUMMARY_REPORT_FF-Focus_Group.pdf).

New media

The Canadian Government has placed great emphasis on digital content over the past few years. Telefilm Canada launched a New Media Fund in 2001 which has seen investments in diverse projects including wireless products, interactive DVD-ROMs, convergent websites, console games and CD-ROMs. The National Film Board also identified the potential of New Media in its 2002-2006 strategic plan.

However, despite significant support in place for development and the emergence of revenue in the new media content industry, it remains a high risk sector for producers. Close to 10,000 full time jobs were lost in the new media sector in 2003 as companies closed or downsized. [4]

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[4] Telefilm Canada Annual Report, quoting a Canadian Interactive Media Producers survey

2 KEY STATISTICS

Demographics	Source	Units	2002	2003	2004
Population	BMI	in million	31.36	31.63	31.90
GDP per capita	BMI	in US$	23,518	27,523	30,152
Real GDP growth	BMI	%	3.4	2.0	3.0
Unemployment	BMI	%	7.7	7.6	7.3
Audiovisual					
TV households	BMI	in million	11.6	11.65	11.72
Television sets	WFB	in million	21.5 (1997)		
Digital TV homes	TBI	in million		3.8	
Pay TV subscribers	BMI	In million	9.75	9.78	9.77
TV advertising	TBI	In US$ million	n.a.	n.a.	n.a.
Film					
Cinema screens	SD		2,753	2,822	3,190
Cinema screens per million population	SD		85.5	86.6	99.9
Cinema admissions	SD	in million	127.9	124.6	118.23
Box office revenues	SD	in US$ million	613.2	682.2	699.1
Film production investment	SD	in US$ million	133.1	236.2	174.4
Average budget per film	SD	in US$ million	3.69	3.42	5.7
Films produced nationally	SD		66	94	69
Total co productions	SD		16	29	20
Feature films produced per million head of population	SD		1.29	2.89	2.09
Total films first-run released	SD		414	401	409
Number and share of domestic films in local releases	SD		71 17%	76 19%	72 17.6%
Number and share of US films in local released	SD		188 45%	190 47%	195 47.6%
Domestic films' share of local market	SD				4.7%
New media					
Internet users	BMI	in million	16.1	17.7	18.1
Broadband internet subscribers	BMI	in million	3.6	4.95	6.05
Mobile phone subscribers	BMI	in million	10.961	12.260	14.540
Personal computers	BMI	In million	12.2	12.3	12.5
Internet Hosts	WFB	In million		3.2	
Internet Service Providers (ISP)	WFB	no	760 (2000)		

BMI = Business Monitor international accessed December 2004, TBI = TBI Yearbook 2005, SD = Screen Digest June 2004, WIB = Wold CIA Fact book, n.a. = non available

3 STRUCTURE OF PUBLIC SUPPORT

Public support is provided by both the Canadian Government and provincial authorities. Canada's Broadcasting Act also requires broadcasters, cable and satellite providers to contribute to the industry through a range of mechanisms.

3.1 National agencies

The most significant government-backed funds are administered by Telefilm Canada, the National Film Board (NFB) and the private-public agency Canadian Television Fund (CTF).

Other national sources of public funding include the Canadian International Development Agency (CIDA) and the Canada Council for the Arts.

The national agencies report to the Department of Canadian Heritage.

		Value of support 2003/04		
Agency	**Mandate**	**C$million**	**A$million**	**A$ per capita**
Telefilm Canada[1]	support the development and production of television programming and feature film production	220.1	229.7	7.2
The National Film Board (NFB)[2]	produce and distribute films and other audiovisual works which reflect Canada to Canadians and the rest of the world	68.76	71.7	2.2
Canadian Television Fund (CTF)[3]	enhance the creation and broadcast of high-quality, culturally significant, Canadian television programs	132.1	137.8	8
Canadian International Development Agency (CIDA)[4]	support the production of prime-time television and radio programs aimed at increasing awareness and understanding of international development and cooperation issues among Canadians.	3.87	4	0.1
Canada Council for the Arts[5]	provide research, creation, production and dissemination support to artists, organizations, groups and independent collectives in film, video, new media and audio, as well as providing support for festivals, travel, operating activities and equipment acquisition.	1.18	1.2	0.03
Total direct public funding at national level		**426**	**444.4**	**13.9**

Annual average exchange rates: C$1 = A$1.10054 in 2003 ; C$1 = A$1.0437142 in 2004

[1] Value of support for Telefilm Canada is total financial participation, less administrative expenses; source, Telefilm Canada 2003/04 annual report.

[2] Value of support for NFB is total of 2004 expenses, less management and administration expenses; source, NFB annual report 2004/05.

[3] Value of support for Canadian Television Fund is the contribution of public sources only – Department of Heritage and Telefilm Canada; source, CTF annual report 2003/04, p5

[4] Value of support for CIDA is value of the Development Information Program, which includes support for mass media productions as well as support to journalists and support to school initiatives; source, Statistical Report on Official Development Assistance 2003/04.

[5] Value of support for Canada Council for the Arts is the value of support for Media Arts; source, annual report 2004/05.

3.2 Provincial agencies

The most significant sources of direct public funding at provincial level are the Société de Développement des Enterprises Culturelles (SODEC) in Québec, the Ontario Media Development Corporation (OMDC) and British Columbia Film (BCF).

	Value of direct public support (2003/04)		
Direct public funding at provincial level	**C$million**	**A$ million**	**A$ per capita**
Société de Développement des Entreprises Culturelles (SODEC)	46.7	48.7	1.5
Ontario Media Development Corporation (OMDC)	4.1	4.2	0.1
British Columbia Film (BCF)	2.28	2.37	0.1
Manitoba Film and Sound Development Corporation	2.17	2.26	0.07
Film New Brunswick (Film NB)	3.3	3.4	0.1
Newfoundland and Labrador Film Development Corporation (NFLDC)	2.3	2.4	0.07
Nova Scotia Film Development Corporation (NSFDC)	na		
Saskatchewan Film (Sask Film)	1.6	1.7	0.05
Ontario Arts Council (Visual and media arts)	3.3	3.4	0.1
Total direct public funding at provincial level	**65.7**	**68.6**	**2.1**

Annual average exchange rates: C$1 = A$1.10054 in 2003; C$1 = A$1.0437142 in 2004.
Canadian population in 2004 = 31.9 million

SODEC provides support to businesses, to film and television production activities, and multimedia. The figure is the total of support to businesses in film and television (C$17.9 m), support programs for film and television production (C$26.98), support for film and TV exports (C$1.79 m), support for multimedia (C$50,000). It does not include other cultural activities supported by SODEC such as music or literature, or tax incentives.

Ontario Media Development Corporation (OMDC) is an agency of the Ontario Ministry of Culture that facilitates economic development opportunities for Ontario's cultural media industries including book publishing, film and television, interactive digital media, magazine publishing, and music industries. It provides support to Ontario producers for feature film projects in the final stages of development and production financing: interest-free loans for the final development stage (up to C$25,000) and repayable advance of for feature film production (up to C$300,000). It also supports domestic markets and events. The OMDC Export Fund covers up to 50 per cent of a participating company's costs to engage in export development activities. The OMDC provides tax incentives for the interactive digital media (see more in section on new media).

BCF is a private non-profit society which provides development and production financing to British Columbia filmmakers. The majority of its operating funding comes from the provincial government through the Ministry of Small Business and Economic Development. The figure for value of support in the table is for government spending in British Columbia in 2003/04. Source BFC industry statistics.

Manitoba Film and Sound is a non-profit corporation which receives funding from the Department of Culture, Heritage and Tourism. It provides support to film and television, interactive media funding, industry support and location services. It also provides support for sound programs (not included in the value of support). Source: annual report 2003/04.

Film NB provides development loans, equity investments and administers the New Brunswick Film Tax Credit. The figure in the table includes those three activities. Source: Business New Brunswick Activity Report 2003/04.

NFLDC provides equity investment. Source: Press Release March 2005.

Sask Film provides equity investment, development loans, market programs, new media advances. Source: Sask Film Annual Report 2004/05.

The Ontario Arts Council provides grants for visual and media arts. Source Annual Report 2003/04.

3.3 Sources of agency funds

Most of the sources of funds for Canada's film and television agencies come from government sources.

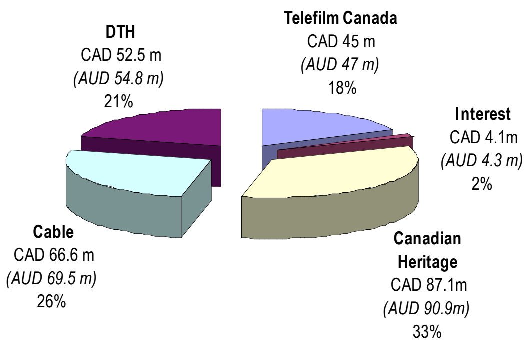
At the national level, **Telefilm Canada** gets its funding from three sources:

- parliamentary appropriation (59.6 per cent in 2004/05)
- from the Department of Canadian Heritage by virtue of contribution agreements (32.7 per cent in 2004/05)
- revenues such as recoupment, loan repayments, interest charges (7.5 per cent in 2004/05).[5]

The **Canadian Television Fund (CTF)** was created by the Canadian Government in 1996 as a public–private partnership to help Canadian producers to make high-quality television programs (drama, documentaries, children's programs, variety and performing arts) and films for Canadians.

In 2003/04, 51 per cent of its revenues came from public sources (33 per cent from the Department of Canadian Heritage and 18 per cent from Telefilm Canada) and almost half were provided from the cable-television distribution companies (26 per cent) and direct-to-home (DTH) satellite service providers (21 per cent) under the Broadcasting Distribution Undertakings (BDU); see section 3.4.

Canadian Television Fund – revenue sources, 2003/04



Source : Canadian Television Fund, Annual Report 2003/04 p 4

[5] Annual Report, Telefilm Canada 2004-2005

3.4 Regulation

The **Canadian Radio-Television and Telecommunications Commission** (CRTC) is the federal broadcasting regulator. It regulates and supervises all aspects of Canadian broadcasting system (AM and FM radio, television, cable, pay TV and speciality services). It also regulates rates and other aspects of the services offered by federally regulated telecommunications carriers.

The Canadian industry is governed by the 1991 Broadcasting Act. The Act lists among its objectives “to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada.” The CRTC is in charge of the implementation of these objectives.[6]

Mandatory contributions from broadcasters

The Broadcasting Act also established that in return for licences to broadcast and distribute programming in the Canadian market, “each element of the broadcasting system shall contribute to the creation and the presentation of Canadian programming.”[7]

There are currently two main mandatory contribution mechanisms providing financing to the Canadian industry:

Benefits Packages

On change of ownership of a television broadcaster, the buyer is required to create a benefit package worth 10 per cent of the value of the transaction. It is up to the buyer to propose how the money will be contributed to the industry.

Broadcasting Distribution Undertakings (BDU) Contributions

To serve the objectives of the Broadcasting Act, all cable and satellite companies must contribute 5 per cent of their gross revenue to the content industry.

The companies can split the 5 per cent, with generally 4 per cent going to the Canadian Television Fund, the largest Canadian fund, while 1 per cent is allocated by the companies to a private fund of their choice.

Distribution of BDUC revenue has engendered a system of around 20 independently administered private funds, each with its own mandate: children’s programming, documentaries, drama, for example.

The funds are certified by CRTC according to certain criteria: arm’s length investment, recycling of investment recoupment, investment in ‘priority programming’. In 2003, these funds contributed C$65 million (A$67.8 m) to the film/TV and new media industry.[8]

Broadcast quotas

The CRTC requires that for commercial television stations and networks, and ethnic broadcasters, Canadian programs make up at least 60 per cent of television broadcast

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[6] http://lois.justice.gc.ca/en/B-9.01/8444.html

[7] The objectives are enclosed in the declaration of Broadcasting Policy for Canada in section 3 (1) (d) (i).

7 Canadian Broadcasting Act, http://lois.justice.gc.ca/en/B-9.01/8444.html Section 3 (1) (e) each element of the Canadian broadcasting system shall contribute in an appropriate manner to the creation and presentation of Canadian programming;

[8] Media Financing, Canada’s best practice, Bell Fund, Bell Broadcast and New Media Fund, presentation

time annually, overall. During evening hours (6 pm to midnight) not less than 50 per cent must be Canadian.

The Canadian Broadcasting Corporation (CBC) must ensure that at least 60 per cent of its overall schedule, measured during the day (6am to midnight), is Canadian.

English and French television networks operated by the CBC are required not to show ‘popular foreign feature movies’ between 7 pm and 11pm. The only non-Canadian films that may be broadcast during that time must have been released in theatres at least two years previously, and not be listed in the top 100 of Variety Magazine’s top grossing films for at least the previous 10 years.

Broadcasters can claim a 125 per cent to 150 per cent time credit for Canadian dramas when they're aired during peak viewing hours (7pm to 11pm).[9]

For cable TV and direct to home (DTH) broadcast services, more than 50 per cent of the channels received by subscribers must be Canadian programming services.

For other services, such as specialty television and pay audio services, the required percentage of Canadian content varies according to the nature of the service.[10]

Extra advertising minutes for Canadian drama

To support Canadian drama, the CRTC has moved to offer extra advertising minutes to broadcasters airing Canadian drama. The biggest award is six and half minutes of additional advertising inventory for every hour of Canadian drama aired.

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[9] CRTC - http://www.crtc.gc.ca/eng/info_sht/g11.htm

[10] Canadian licensees may appeal the listing of a non-Canadian service which is thought to compete with a Canadian pay or specialty service and the CRTC will consider removing existing non-Canadian services from the list if they change format to compete with a Canadian pay or specialty service.

4 DIRECT PUBLIC FUNDING

4.1 Value of support - summary

	Value of direct public support (2003/04)		
	C$million	A$million	A$ per capita
Direct public funding at national level	426	444.4	13.9
Direct public support at provincial level	65.7	68.6	2.1
Total	**491.7**	**513**	**16**

Source: Various; see sections 3.1, 3.2. Annual average exchange rates: C$1 = A$1.10054 in 2003; C$1 = A$1.0437142 in 2004. Canadian population in 2004 = 31.9 million.

4.2 Breakdown of support

A detailed breakdown of support is provided for the main national agency Telefilm Canada.

By activities

Telefilm Canada has programs in place to support development, production, and distribution. The major share of the funding goes to production, which accounted for over 80 per cent of the funding in 2003/04.

Funding for distribution accounts for 7.5 per cent: the Feature Film Distribution Fund provides annual lines of credit to established distributors and project-by project assistance to developing distributors, and the Versioning Assistance Fund provides up to 100 per cent of dubbing and subtitling costs into English and French.

Telefilm Canada - activities supported	Value of support (2003/04)		
	C$million	A$million	% of total
Scriptwriting	1.2	1.2	0.5%
Development – television, film	15.5	16.2	7%
Production – television, film and new media	175	182.6	79.5%
Distribution - including marketing, versioning, market participation, festivals – television, film and new media	16.7	17.4	7.5%
Co-productions – mini-treaties television, film	1.1	1.1	0.5%
Training, industrial and sectoral assistance	3.6	3.7	1.5%
Others (complementary activities)	6.7	7	3%

Source: Telefilm Canada Annual report 2003/04, prepared from financial participation p 11, excluding Music Fund and Administrative Expenses.

By type of production

Just over half (52 per cent) of **Telefilm Canada's** budget in 2003/04 went to supporting feature films, followed by television (42 per cent) and new media (4 per cent).

In order to improve the audience of Canadian productions, Telefilm Canada has set objectives and targets for its support to feature film.

The strategy is to support bigger feature film productions and marketing budgets, with some targets set for audience, average production budget and average marketing budgets of projects.

The targets are:
- audience: 5 per cent domestic market share;
- average production budget: C$5 million (A$5.2 million)
- marketing budget: C$500,000 (A$521,000).

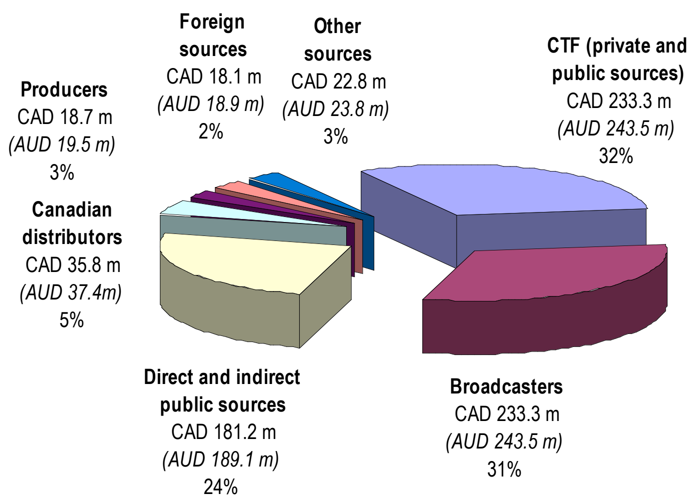
Telefilm Canada –production types supported	Value of support (2003/04)		
	C$million	A$million	% of budget
Television	114.7	119.7	52 %
Feature film	91.4	95.3	42 %
New media	9.5	9.9	4 %
Others	4.4	4.6	2 %

Source: Telefilm Canada annual report 2003/04, prepared from financial participation p 11, excluding Music Fund and Administrative Expenses.

For the **Canadian Television Fund**, one of the objectives is to support genres which are traditionally under-represented in the Canadian broadcasting system. In 2003/04, the CTF contributed to the production of 383 projects involving 67 broadcasters. It resulted in 2,178 hours of television programming, of which 34 per cent was documentary programming, 27 per cent children's programming, 20 per cent drama, 17 per cent music/ performing arts programming and 2 per cent feature films.

The support provided by the CTF represented 31 per cent of the total financing of CTF-supported productions in 2003/04, with broadcasters accounting for another 31 per cent, direct and indirect public sources for 24 per cent, Canadian distributors for 5 per cent, and the remaining 8 per cent are spread between producers, foreign sources and other sources.

Canadian Television Fund – financing of CTF-supported production – 2003/04



Source: Economic Report on the Canadian Film and Television Production Industry, 2005
'Other sources' include financing from corporate production funds, other private investors, local foundations, universities, sponsorships. 'Direct and indirect public sources' exclude the CTF.

4.3 Type of funding

Telefilm Canada provides various forms of funding: equity investments for feature film production, lines of credits for established distributors and loans through its Interim Financing Fund.

It also offers performance-based funding, reserving a portion of the Canada Feature Film Fund for applicants with a performance track record. Telefilm Canada aims to allocate 75 per cent of the funds to the performance component. In 2003/04, 75 per cent of the funds reserved for French language projects went to producers with performance envelopes, compared to 24 per cent for English language projects. This can be explained by the superior performance of French-speaking productions in the domestic market.

The **Canadian Television Fund** offers financial contributions in the form of licence fee top-ups through its Licence Fee Program, and equity investments through a program administered by Telefilm Canada.

5 INDIRECT FORMS OF PUBLIC SUPPORT

5.1 Tax credits

The federal government and most provincial governments have instituted tax credits that are based on the use of Canadian labour. These credits have been implemented for industrial and cultural reasons to encourage Canadian production activity.

Value of indirect public support – tax credits

	Estimated value of tax credit (2003/04)		
	C$million	**A$million**	**A$per capita**
National tax credit schemes	225	235	7.4
Provincial tax credit schemes	335	349.5	10.9
Total	**560**	**584.5**	**18.3**

Annual average exchange rates: C$1 = A$1.10054 in 2003; C$1 = A$1.0437142 in 2004
Canadian population in 2004 = 31.9 million

National tax credit schemes

Canada currently has two national tax credit schemes in place:

- the Canadian Film or Video Production Tax Credit (FTC) is designed to support domestic productions; worth C$164m in 2003/04
- the Film or Video Production Services Tax Credit (PSTC) has been introduced to attract foreign productions (particularly US productions) to shoot in Canada; worth C$65m in 2003/04.

Both schemes offer tax credits calculated on the basis of production costs (labour expenditure), and paid after completion of the film. In 2003/04, their combined worth was C$229 million (A$23 million). [11]

To be a ‘qualifying film’ the company must obtain a ‘Canadian film and video production’ (CFVP) certificate from the Canadian Audiovisual Certification Office (CAVCO) under the Minister of Canadian Heritage.

Co-productions between Canada and another country are eligible only when co-produced under an official treaty. Telefilm Canada is responsible for certification of treaty of co-production, but certificates are still delivered by CAVCO. CAVCO awards ‘Canadian content points’ to certified productions according to the number of creative positions occupied by Canadians.[12]

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[11] Canadian Revenue Agency (CRA), May 2004; http://www.canadianheritage.gc.ca/pc-ch/sujets-subjects/arts-culture/film-video/pubs/Mar2005/5_e.cfm

[12] A production - except animation - must earn six points to qualify. Directors and screenwriters for example count two points while directors of photography, art directors, music composers and editors count one point. At least one of the director, screenwriter, and either the lead actor or the second lead must be Canadian for the production to be eligible for the FTC tax credit.

	Canadian Film or Video Production Tax Credit (FTC) [13]	Film or Video Production Services Tax Credit (PSTC)[14]
Type	Refundable tax credit (against tax otherwise payable)	
Target	Domestic	Foreign
Introduced	1995-1996 budget - to replace capital cost allowance incentives for certified productions	1997-1998 Budget – to replace the tax incentives for film production services tax shelters eliminated in November 1997
Operated by	Jointly administered by the Department of Canadian Heritage through the Canadian Audio-Visual Certification Office (CAVCO) and by Canada Customs and Revenue Agency (CCRA). The Canadian Revenue Agency (CRA) reviews the film tax credit claims, assess the corporate income tax returns and issues refund cheques	
Objectives	To encourage Canadian programming and stimulate the development of an active domestic production sector in Canada.	To make Canada a more attractive place for film production and to stimulate job growth in the Canadian film industry
Rate	25 per cent of qualified labour expenditures (salaries and wages) up to 15 per cent of the cost of the production (before 2003, 12 per cent); so maximum credit available is 12 per cent of the total production cost	16 per cent of qualified Canadian labour expenditures (before Feb 2003, 11 per cent)
Conditions	Available to qualifying films or videos – developed, produced and exploited by Canadians, or the Canadian component of an official treaty based co-production. The corporation must own the copyright in the film for which a claim is being made - labour-sponsored venture capital corporations, tax-exempt corporations and corporations controlled by one or more tax-exempt persons are excluded	For accredited film and video productions produced in Canada where Canadian labour is used : the production must meet a minimum cost and be of an eligible genre set in the Income Tax Regulations For both Canadian and foreign-owned companies – but in practice is mostly attractive to foreign companies
Value 2003/04	C$164m	C$65m

Characteristics of the Canadian tax credit model

There are different scheme and rates for domestic and foreign productions.

Canadian content requirements (CAVCO points) ensure the FTC incentive is available only to Canadian-controlled companies.

Producers are not able to claim both FTC and PSTC with respect to the same production.

Federal tax credits are paid net of any direct provincial assistance.

The schemes are not seen as very successful because they are loaded towards the 'backend': long interim financing is needed.

The PSTC scheme has proven especially attractive to American producers (about 95 per cent of the applicants since the implementation).

Producers can benefit from double-dipping into federal and provincial tax incentives for the same labour expenditures.

[13] http://www.cra-arc.gc.ca/ftc

[14] http://www.cra-arc.gc.ca/taxcredit/pstc/pstcsum-e.html

Provincial tax credit schemes

In addition to the two federal incentives, there are approximately 20 provincial incentives available in Canada. In total, provincial tax credits are estimated to be worth C$335 million (A$350 million).

The main provincial tax incentives are available in Québec, Ontario and British Columbia. Provincial governments offer incentives for shooting in their province, with enhanced incentives available for shooting outside the key production centres (Montreal, Toronto, Vancouver).

Tax credit schemes at provincial level	**Estimated value of tax credit (2003/04)**		
	C$million	**A$million**	**A$per capita**
Société de Développement des Entreprises Culturelles (SODEC) – Total tax credit for film and TV	153.5	160.2	5
Cinema and TV production Tax credit	141.1	147.2	4.6
Versioning Tax credit	1.4	1.5	
Production services Tax credit	11	11.5	0.4
Ontario Media Development Corporation (OMDC) Total tax credit for film and TV	105.2	109.7	3.4
Ontario Film and Television Tax credit	69.6	72.6	2.3
Ontario Production Services Tax credit	29.6	30.8	1
Ontario Computer Animation and Special effects Tax credit	4.5	4.7	0.1
Interactive Digital Media Tax credit	1.5	1.6	
British Columbia Film - Total tax credit for film and TV	52.8	55.1	1.7
Film Incentive BC (Canadian companies)	23.9	24.9	0.8
Production services Tax Credit	28.9	30.1	0.9
Manitoba Film and Video Production Tax Credit	12.9	13.4	0.4
Film NB (Film New Brunswick)	3.3	3.4	0.1
Newfoundland and Labrador Film development Corporation (NFLDC)	na		
Nova Scotia Film Development Corporation (NSFDC)	na		
SaskFilm (Saskatchewan)	7.4	7.7	0.2
Total tax incentives at provincial level	**334.9**	**349.5**	**10.9**

Sources : SODEC Annual Report 2003/04 p 14 ; OMDC, Annual Report 2003/04 p9 ; British Columbia Film, Annual Report 2003/04 p ; Manitoba Screen and Sound, Annual Report 2003/04, p11.

The total does not include provincial tax credits in New Brunswick, Saskchewan. Annual reports are not available for the others.

5.2 Loan support

The province of Quebec provides gap financing to film and television production companies through the FIDEC (Financière des Entreprises Culturelles).

Gap financing is available to local companies and foreign companies engaged in strategic alliances with a Quebec company which maintains a stable place of business in the province of Quebec and whose project generates significant economic spin-offs in the province.

To assist corporations involved in film, television and live entertainment and artist promotion in penetrating international markets, the FIDEC also provides bank guarantees based on the sales potential of the production in foreign markets.

Guarantees are up to 20 per cent of the production budget - up to a maximum of C$5 million (A$5.2m) per production - for a term of up to 36 months.

5.3 Other measures

In addition, there are measures aimed at stimulating private investment and economic development in Canada. No data is available on their use by the audiovisual content industries.

Revenue R&D tax credit – Federal

The Federal Scientific Research and Experimental Development (SR&ED) allows generous tax credits with a three year carry back and 10-year carry forward:

- 20 per cent for qualifying expenditures (100 per cent of current and capital expenditures)
- 35 per cent tax credit for certain small business.

Half the normal rate for equipment used for R&D and other purpose.

This tax credit is recognised as one of the most generous tax based incentives for R&D in the world.[15]

Fund for Growth of Private Investment and Resurgence of Employment (FAIR)

FAIR encourages companies to implement investment projects likely to give rise to significant economic benefits. Projects worth over C$10 million, or that create at least 100 jobs; projects over C$2 million, or that create or maintain at least 50 jobs can benefit from:

- assistance worth 50 per cent of expenses related to the feasibility study conducted
- loan guarantee not exceeding 75 per cent of the project cost
- defrayal of start up costs and work force training.

[15] World Development Report, 2005, A better investment climate for everyone, A co-publication World Bank – Oxford University Press, p 173

Venture capital

Several non-profit organisations are trying to bridge the gap between companies and potential investors (Toronto Venture Group, BDC Venture Capital, Canada Venture Capital Association). They promote networking, communication, research and education, and information dissemination.

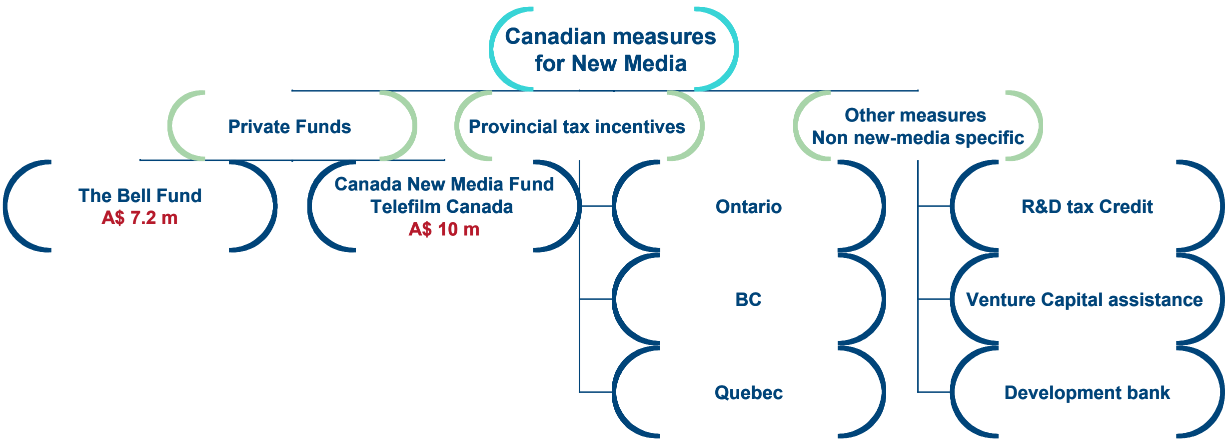
Business Development Bank of Canada (BDC)

The BDC provides specialised financial and management services to help create and develop Canadian small and medium-sized businesses (less than 100 employees and under C$12 million annual revenue). It provides loans usually in the range of C$250,000 to C$500 000.

6 SUPPORT TO NEW MEDIA

Canada has three types of support to new media.

- two major funds: Bell Fund - a private fund for projects with both new media and broadcasting elements; Canada New Media Fund – a public fund operated by the main national agency Telefilm Canada.
- tax-credit schemes in several provinces : Ontario, Nova Scotia, British Columbia, Quebec
- other forms of assistance which indirectly support new media, including an R&D tax credit, assistance to small businesses and business development.



Source: Compiled by the Australian Film Commission

6.1 New media specific funds

The two national new media funds allocated a total of A$17.2m in 2003.

The Bell Fund

The Bell Fund is a non-profit organisation certified by the Canadian Radio-Television and Telecommunications Commission to administer the BDU contribution (see section 3.3) of Bell Canada's digital TV service, Bell ExpressVu.

Its mandate is to advance the Canadian broadcasting system by encouraging the creation of Canadian digital media and to promote partnerships and sustainable models in the broadcast and new media sectors.

The Bell Fund receives a contribution of over C$7 million per annum (representing 0.6 per cent of Bell ExpressVu revenues).

The fund provides grants for the production (since 1997) and development (since 2000) of new media–television converging projects. Applicants must be Canadian-owned and controlled companies. Projects have to include both a new media *and* a television production component.

Component	Fund provides …
New media component	75 per cent of the cost of production up to maximum of C$250,000, or 75 per cent of development cost up to C$50,000. In addition, a bonus is granted to match any broadcaster direct contribution - up to C$50,000)
Television component	75 per cent of the cost of production (maximum of C$75,000).

In 2003, C$6.2 million was allocated to the production of 48 projects; C$470,000 for the development of 14 new media projects and 12 professional development training activities.

Canada New Media Fund

The Canada New Media Fund is a public fund operated by Telefilm Canada. Its mandate is to support the creation of high-quality cultural content for the Canadian public.

The projects funded must be interactive, entertaining and or educational, and have a **large audience reach**. Applicants must be a Canadian production company from the private sector.

The fund provides conditionally **repayable advances** up to 50 per cent of eligible expenditures with a different cap applicable for each phase of a project.

Phase	Fund provides …
Market research / prototyping phase	the lesser of 50 per cent of market research and prototype budget or C$100,000
Product development budget	the lesser of 50 per cent of the product development budget or C$250,000
Marketing budget	the lesser of 50 per cent of the marketing budget or C$200,000
Total project	the lesser of a maximum of 50 per cent of total budget or C$550,000 assistance across all phases of the project

Canada New Media Fund provided C$9.7m investment in 2003/04.

In 2004, Telefilm Canada announced its intention to use an on-line audience measurement software to **track audience traffic** to websites it helps finance. The objective is to provide in-depth market intelligence to the industry, Telefilm Canada, the Department of Canadian Heritage and the public on the importance of Canadian on-line cultural products.

Canadian Independent Film and Video Fund (CIFVF)

CIFVF provides financial assistance – C$750,000 per annum - for the development and production of fully interactive multimedia projects, educational or informational in content or edutainment in nature.[16]

Scheme	Benefit	Conditions
CIFVF	49 per cent of direct costs to a maximum of C$60,000 total to one project)	Development: Up to C$10,000 Prototype: Up to C$30,000 Production: Up to C$50,000

Applied Research in Interactive Media (ARIM)

ARIM is a public–private sector partnership launched by CANARIE (Canada Internet Development Organization) and Department of Canadian Heritage, which provides support for R&D of broadband technologies and tools facilitating the creation and use of broadband projects (C$6 million in total, with equal contributions from each partner from 2001 to 2004).

[16] A significant portion of the product's content must include live-action or animated video images. Games are eligible if they are educational or informational in content. Existing film/videos may be converted to multimedia projects if they can demonstrate that they will be fully interactive. Eligible projects should be platform independent but must be user controlled.

6.2 Tax credit schemes for new media

The other forms of funding for new media projects in Canada are mainly the tax credits on labour expenditure available in Ontario, British Columbia and Quebec.

Scheme	**Benefit**
Ontario Interactive Digital Media Tax credit **(OIDMTC)** Refundable tax credit	Rate: 20 per cent of eligible labour expenditures incurred by a qualifying corporation to develop interactive digital media products.
Ontario Computer Animation and Special Effect Tax credit (OCASE) Refundable tax credit	*Rate*: 20 per cent of eligible labor expenditure incurred by a corporation in **computer animation and special effects activities**. *Qualifying expenditures:* Ontario labour expenditures Labour expenses for individuals working in Ontario who are not employees of a corporation may be eligible for a 50 per cent tax credit *Qualifying companies*: Canadian or foreign controlled corporations with a permanent establishment in Ontario. Includes animation and visual effects houses, post-production houses, and film and television production companies
Film Incentive BC (FIBC) Refundable corporate income tax credit	Rate:15 per cent of the British Columbia labour expenditures directly attributable to digital animation or visual effects activities (combined with 30 per cent for film, television, digital animation and visual effects production in British Columbia). *Eligible applicants*: film, television and animation production corporations that are owned and controlled by British Columbians, and have incurred qualifying labour expenses in British Columbia while producing an eligible production in British Columbia.
Information Technology Development Centers (CDTI) incentives supporting companies undertaking innovative projects in information technology, telecommunication, multimedia and information highway with designated buildings in Montreal (SIMPA building), Laval (Technoval in the science and high-technology park)	exemption of income tax, capital tax, employer health insurance payments for 5 years income tax credit of 40 per cent of eligible salaries (max C$15,000 per employee per year) until 2010 income tax credit of the capital or rental cost of eligible specialised equipment five year tax holiday for foreign specialists
Cite Multimedia Redeemable tax credit + same tax holiday than CDTI	*Rate*: 40 per cent on salaries paid to eligible employees through January 2011 (maximum C$15,000 per employee per year) Qualifying companies: Companies carrying out a multimedia production or service activity or activity related to the IT in a Cite Multimedia designated building