

PREFACE

In the early 1990s, important segments of the U.S. film industry became increasingly concerned about the growing loss of film and television production to foreign shores. The phenomenon of “runaway film production” began as a trickle, but has since become a persistent trend that is affecting thousands of jobs in certain segments of the film and television production industry, such as sound engineers, lighting technicians, assistant directors, unit production managers, supporting actors, costume designers, and set designers. In addition, there may be an even greater number of jobs affected that are connected to film and television production, such as caterers, truck drivers, carpenters, electricians, construction workers, hotel employees, and small businesses that provide services or material goods to productions throughout the United States. Some industry observers fear that the exodus of film production could threaten the viability of important segments of the film production industry in the United States, with potentially devastating effects on local communities in many states.

Last year, the Department of Commerce was asked to examine the flight of U.S. television and cinematic film production to foreign shores. In September 2000, Commerce received an additional urgent request from a bipartisan group of Members of Congress to ensure that the final report address the following issues:

- (1) the impact of runaway production on the “below-the-line” employees throughout the United States, including (but not limited to) caterers, drivers, costumers, suppliers of props, grips, art directors, etc.;
- (2) the trends in runaway production by type of production; i.e., television programming, movies for television, animated films and feature films;
- (3) the extent of new subsidized infrastructure and personnel training by foreign countries to attract film production;
- (4) the extent to which Canadian and provincial wage-related tax subsidies have accelerated runaway production; and
- (5) the updated and additional statistical information gathered by the Southern California Chapter of the Association of Imaging Technology and Sound in its study which tracks television movie production from the 1994/95 season through 1999/2000.¹

The Library of Congress conducted the initial research for this report on behalf of the Department. In its research, the Library of Congress reviewed professional reports and industry publications, and conducted telephone interviews with industry representatives. Department of Commerce staff added additional information and data from their meetings in California, New

¹ Letter dated September 19, 2000, to Norman Mineta, Secretary of Commerce, from U.S. Representatives Mark Foley, Jerry Weller, Howard L. Berman, Robert T. Matsui, and Xavier Becerra.

York, Texas, and Illinois, and from telephone conferences with representatives from North Carolina and Florida. In their meetings, Commerce officials collected data from:

- industry representatives, including major studio production companies and independent film production companies;
- trade associations representing production companies and film service providers;
- unions and guilds representing directors, actors, film service providers, and technical production staff, including construction and transportation support workers; and
- representatives of state and local governments, including film commissions.

A number of factors has contributed to the loss of film production in the United States. The report examines the causes of the loss of film production in the United States, particularly with respect to key states such as California, New York, Illinois, Texas, Florida, and North Carolina, and it gauges the effects of the loss on the economies and communities of the states involved. The report looks at globalization in general, rising production costs in the United States, and the effects of new technologies on the location of film production. It also examines a number of practices, such as wage and tax credits and training programs, that various foreign governments have instituted to attract film production to their countries. The purpose of this report is not to quantify or weigh these factors, or even to segregate them in order of importance. The purpose of the study is instead to gain a better understanding of the short- and long-term factors that affect the location of U.S. film production and to identify areas where further study is needed. Finally, the report reviews ideas generated within the industry to alleviate some of the problems associated with runaway film production in a way consistent with the economic realities of modern film production and sensitive to the needs of adversely affected communities and workers.

TABLE OF CONTENTS

Preface i

Chapter 1, Overview 1

 U.S. Losses from Runaway Film Production 1

 U.S. Production in the Context of the Overall U.S. Film Industry 2

 Economic Effects of Runaway Production 2

 Other Countries Catch Up to the United States 3

 Foreign Governments’ Incentive Programs 3

 The Significance of Technology 4

 Measures of the Size of the Film Industry in the United States 5

 The Film Industry is Important Throughout the United States 5

Chapter 2, From Best Boy to Best Picture: The Major Impact of Film
 Industries on the U.S. Economy 9

 The Little Guy Behind the Big Production 9

 The “Floating Factory” 12

 Key Elements of the Industry 14

 The Economic Importance of the Film Industry to the U.S. Economy 15

 Employment Data in the Film Industry 16

 Census and the Bureau of Labor Statistics 17

 What is the Value of U.S.-Developed Films Imported from Canada? 18

 The Importance of the Motion Picture Industry in Six Key States 19

 Indirect Benefits - The Multiplier Effect 20

 Export Side - The Impact on Balance of Trade 21

Chapter 3, Economic Losses from Runaway Production 24

 Impact on Movies of the Week 25

 Creative vs. Economic Runaways 25

 Loss Estimates 26

 Loss of Film Production Expenditures 27

 Loss of Employment 27

 Effect of Runaway Production on Local Tourism 28

 The Effect of Runaway Film Production on Primary Film Production States 29

California 30

New York 32

North Carolina 35

Florida 37

Texas 38

Illinois 40

Chapter 4, Principal Foreign Destinations of Runaway Film Production and The Growth of Foreign Film Industries	43
Canada	43
United Kingdom	49
Australia	50
Ireland	51
<i>Growth in the Film Industry Abroad</i>	52
Chapter 5, Globalization and Technology	54
Globalization Hits the U.S. Economy	54
Cost Competitiveness of the United States	54
Rising Production Costs in the United States	57
Technological Changes in the Industry	60
The Film Culture	60
Technology and Post-Production Activities	61
Software, Computers, and the “Box”	62
Virtuality, Not Proximity	62
Location Shooting Without the Locale	63
Animation and High Definition Video Cameras	63
Training for the Digital Age	64
Digital Television	66
Chapter 6, Incentive Programs in Other Countries	67
Canada	67
United Kingdom	73
Australia	75
Ireland	77
The Netherlands	78
South Africa	80
Other Countries	81
Chapter 7, Conclusion	82
Many Players Involved	82
Ongoing U.S. Efforts on Behalf of the Film Industry	82
Industry Ideas to Alleviate the Problem of Runaway Film Production	84
Toward the Future	86

Chapter 1

OVERVIEW

U.S. Losses from Runaway Film Production

Over the last several years, increasing numbers of made-for-television productions and feature films by U.S. companies have been produced outside the United States, particularly in Canada, but also in Europe and Australia. One study estimates that, from 1990 to 1998, the rate of U.S.-developed film and television productions produced abroad almost doubled from 14 percent to 27 percent, while the economic losses from runaway production increased five-fold from \$2 billion to \$10 billion.²

The losses have been particularly acute in made-for-television and miniseries productions. The same study estimates that, in 1998, out of a total of 308 U.S.-developed made-for-television movies, 139 were produced abroad -- a significant increase from the 30 produced abroad in 1990.³ Another study shows that, while the number of U.S.-developed made-for-television films produced in the United States increased from 67 to 70 between 1998 and 1999, the number of U.S.-developed made-for-television films produced in Canada increased from 122 to 154 in the same time period.⁴

The total value of film and television production in Canada reached over \$3.5 billion in 1999, a 20 percent increase over the previous year and triple the amount for 1992-93.⁵ While this represents only a fraction of the total film production in the United States, a considerable portion of it is focused on the television and miniseries film production market, which has been the major growth market in the film industry over the last 10 years. Foreign location shooting in Canada, the majority of which is presumed to be U.S. production, totaled \$1,096 million in 1999, an increase of 34 percent over the previous year and an almost five-fold increase since 1992.⁶

² The Monitor Company, "The Economic Impact of U.S. Film and Television Runaway Film Production," June 1999, p. 8-13.

³ Ibid.

⁴ Stephen Katz & Associates (SKA) of Los Angeles, "1999 Motion Picture and Movie of the Week Production Survey."

⁵ The Canadian Film and Television Production Industry; Profile 2000. PricewaterhouseCoopers. February 2000.

⁶ Ibid.

U.S. Production in the Context of the Overall U.S. Film Industry in the United States

As this report will discuss in Chapter 2, the film industry in the United States is large, diversified, and made up of many segments, starting with the pre-production phase and continuing through production, post-production, and distribution. Many segments of the industry today are strong and vibrant. The industry employs many thousands of people around the country, contributes billions of dollars to the domestic economy, and earns billions of dollars in export revenues. By several measures of the industry's financial health, such as box office receipts and export revenues, several segments of the U.S. film industry are growing rapidly.

This report deals with one aspect of the enormous film industry in the United States-- the migration of the *production* of U.S.-developed films to countries outside the United States, and the effect of this migration on many small businesses and workers who depend on domestic film production. At a time when worldwide film and television production is booming, production of films in the United States has leveled off.

It is true that production of films in the United States still dwarfs that of most other countries. However, even though there is a lack of comparable data across countries, all of our research indicates that the rates of growth in many foreign countries, particularly English-speaking countries, may well have considerably outstripped the growth rates in the United States throughout the last decade. This is especially apparent in movies-of-the-week (made-for-television movies) and miniseries productions made for television, the most dynamic part of the film production industry. Because of the worldwide explosion in cable television access, television programming has experienced the highest rates of growth in recent years. Already most movie-of-the-week production intended for the United States is taking place overseas, and programming for cable intended for the United States is increasingly taking place overseas. If the most rapid growth in the most dynamic area of film production is occurring outside the United States, then employment, infrastructure, and technical skills will also grow more rapidly outside the United States, and the country could lose its competitive edge in important segments of the film industry. Many industry observers believe that the United States has already lost its competitive advantage in movies-of-the-week production. Some fear that there is a danger that these recent trends could lead to a downward spiral for certain segments of the industry in which more and more U.S. film production moves overseas, taking with it thousands of jobs, infrastructure, technical and artistic expertise, and U.S.-developed technology .

Economic Effects of Runaway Production

Even the relatively small portion of the U.S. film industry that began to move abroad in the early 1990s had an economic impact that was not immediately obvious. Production facilities and production-related services gradually began to lose the advantages of the economies of scale they had enjoyed when they were operating at full capacity. Many of the specialized trades involved in film production, particularly in the post-production phase, as well as many of the secondary industries that depend on film production, such as equipment rental companies, require round-the-clock, year-round demand in order to operate profitably. When sound stages in California, New York, Illinois, Texas, Florida, North Carolina, and other parts of the country

began to operate at less than full capacity, not only did the production companies experience higher costs, but a whole host of secondary and tertiary companies hit upon hard times. The impact was felt especially by small and medium-sized companies, many of which went out of business as the decade wore on.

Other Countries Catch Up to the United States

At the same time, it was not obvious ten years ago how quickly and successfully other countries would develop an infrastructure and skilled labor pool capable of competing with the most sophisticated sound stages and the best technicians in the United States. The American film industry developed gradually and painstakingly over nearly the entire 20th century, starting with the silent movies in the 1910s and 1920s, flourishing during the heyday of Hollywood in the 1930s and 40s, and reaching unprecedented technical mastery in the latter part of the century, with a worldwide distribution network that was second to none. The gradual development of the film industry produced artists, technicians and craftsmen with highly specialized skills in editing, sound engineering, lighting, imaging, camera work, filming, set design, special effects, and many other areas. These skills were developed over many years, and were often passed from generation to generation in the same families, or from master to apprentice in guilds and unions organized to protect and preserve the expertise of their members.

Yet within a matter of just a few years, many other countries have developed technicians with a level of technical expertise comparable to that of American workers'. Also, other countries have constructed sound stages and production sets that rival their American counterparts in size and sophistication. To be sure, some of this rapid development can be attributed to the legacy of U.S. production companies bringing their own experts and set designs with them as they went overseas to produce movies. However, this is only part of the story. Many countries have invested heavily in education and training programs to develop a skilled labor force; they have offered incentives to both local and foreign investors to produce films locally; and they have entered into bilateral co-production agreements and other innovative cooperative arrangements to encourage local production.

Foreign Governments' Incentive Programs

Many foreign governments have recognized the many direct as well as intangible benefits of developing a film production industry. They have found that the quickest and most efficient way to develop the infrastructure and skilled labor pool required for a serious production effort is to lure companies from foreign countries with a highly sophisticated industry, particularly from the United States. Canada has developed the most extensive incentive program, with a wide variety of wage and tax credits, financing packages, and funds for equity investment. Other countries, including the United Kingdom, Ireland, and Australia, are offering similar programs.

The goal behind the incentive program is to develop an indigenous industry. The following discussion, from a recently issued report by the Florida Office of the Film Commissioner, describes in general terms how the process works. Although the discussion uses Canada as the example, the experience of many other countries is similar.

With a relatively non-developed film industry, a country such as Canada attracts initial production through a series of tax incentives, building the basic infrastructure for film development. As the industry relocates in small amounts at first, below-the-line cast and crew become trained, making them part of the infrastructure used to attract future productions. As more films begin to relocate, more infrastructure is developed (film studios, sound stages, recording studios, set developments, etc.). It then becomes easier for a project to relocate. At this point, the country can then offer tax incentives for using local labor, providing even more cost savings to relocations. The end result, as is the case in Canada, is a group of production “clusters” that can attract a large number of both locally developed productions and runaways. In Canada, Montreal, British Columbia, and Toronto have all been developed as viable filming locations for U.S.-developed productions. As this has happened, Canada has attracted more and more runaways in the 1990s.⁷

The Significance of Technology

A technological revolution in the industry has changed the nature of film production to such an extent that physical proximity is no longer a requirement for the many persons and sub-industries involved in the film production chain. In times past, film editors would splice and dice reels of actual film, using an unimaginable combination of complex machinery to put together a polished product. Directors, actors, producers, and other specialists and technicians had to be at hand or within reach to review and approve the painstaking work being done by the various levels of film editors. Nowadays, once a film is shot, it is transferred to videotape format, digitalized, transmitted over the internet, and an editor sitting at any location in the world can use powerful computers and sophisticated software programs to perform his tasks. The editor can then get feedback almost immediately from directors, actors, and others, no matter where they happen to be, and re-edit the “film” to produce the final product. Long distances and geographical borders are simply not as important as they once were. This phenomenon holds true for many other specialists involved in film production, particularly those involved in the post-production phase.

The ease of transmitting data over long distances and in short periods, combined with the addition of technical infrastructure and a skilled labor force, has enabled film makers to take advantage of lower labor and production costs in other countries. Ten years ago, it would have been inefficient to produce a film in many foreign countries, even if the country had lower labor costs. Indeed, the lack of infrastructure and a skilled labor force would have forced studios to transport capital equipment and technicians in order to produce a film of sufficient quality. Today, however, this is not the case, as many countries have developed appropriate infrastructure and skilled labor.

Measures of the Size of the Film Industry in the United States

Decades of experience, creativity, and growth have made film production and distribution

⁷*An Economic Assessment of the Florida Film and Entertainment Industry*, MGT of America, Januar 2001, p. 2 - 8.

one of the most economically important industries in the United States. Unfortunately, our official statistics are woefully deficient due to the intangible nature of the industry and the fleeting, temporary, and seasonal aspects of the production process. However, we do know that film production and distribution generate at least \$18 billion in direct and indirect export revenues for the United States, constituting a substantial portion of our overall trade surplus in services. Even though we do not have reliable industry-specific information on the indirect impact of the film industry on the economy, we know that film production and distribution generate well over \$20 billion in economic activity in the United States, and probably much more. Film production is a “locomotive” industry, similar to housing construction and automobiles, in that the number of production workers directly working in the industry belies the true impact of the industry on the economy because so many upstream, downstream, and peripheral industries depend on the primary production plant. While several studies have attempted to estimate the “multiplier” effect of film production on the economy, ranging from twice to triple the figures cited above, many industry insiders believe that these estimates underestimate the true economic impact.

Official labor statistics indicate that 270,000 jobs in the United States are directly involved in film production – more than the number of workers directly employed in the steel industry. Once again, these statistics do not measure the number of workers in secondary and tertiary industries that are indirectly involved in film production. This would include carpenters, electricians, caterers, drivers, seamstresses, movers, construction workers, and many other professions that may not be exclusively or primarily devoted to film production. Furthermore, the impact of film production has a disproportionate impact on certain large metropolitan regions, notably Los Angeles, New York, Chicago, Dallas, Orlando, Miami, and Wilmington, North Carolina.

The Film Industry is Important Throughout the United States

Thirty years ago, the economic benefits from the film industry accrued overwhelmingly to California, except for certain niche markets, such as television commercials, where New York was long the industry leader. Then, a dramatic change took place, and the California film industry began to fan out across the country. Independent filmmakers and production companies emerged and major film industries developed in New York, Texas, Florida, Illinois, and North Carolina. Many other states have growing film industries, including Nevada, New Jersey, Arizona, Utah, Louisiana, Washington, Massachusetts, and others (see charts 1-4).⁸ Most of these states report that film production and distribution have been among the highest growth industries in the last decade.

⁸ Source: Information from U.S. Census Data, as cited in the Florida Film Report. Ibid.

More than an Economic Issue

Some industry insiders consider the significant increase of American television and film production moving offshore to be more than an economic issue. They point out that, throughout the twentieth century, democratic and free market ideals were the cornerstone of American films successfully produced, exhibited, and distributed throughout the world. In addition to serving as one of our most lucrative exports, the entertainment industry provided the world's population with a clear understanding of a democratic society.

America exported stories defining a system of government that could withstand open criticism and still grow stronger (*Mr. Smith Goes to Washington*, *Gentleman's Agreement*); stories demonstrating that talent and hard work could surpass birth into a social class as determinants of wealth or fame (*Rocky*); stories about one person's ability to make a difference (*Norma Rae*), and to overcome persecution and prejudice (*To Kill a Mocking Bird*); stories exploring the impact of American slavery and prejudice and the struggle to transform society into one of equal rights for all (*Roots*). Many of these American films and television programs have helped promote freedom and democratic values, the same values that encouraged throngs of people throughout the world to rise up and challenge repressive governments, contributing to the end of the Cold War, the destruction of the Berlin Wall, and the events in Tiananmen Square before the crackdown.

Many foreign incentive programs were initially created to encourage production that reflected the local language and characteristics of that population. However, these incentives, particularly when paired with quotas, often require that the major creators and artists be citizens or hold passports of the country providing the funding, limiting the opportunity for Americans to participate in the production. In addition, these incentive programs bring with them a requirement to consider the creative opinions of the local partner, whether a broadcaster or a governmental entity. Some American storytellers have questioned whether their messages will have to change in order to meet the financial incentives created by foreign interests.

*The section is adapted from an essay by Meryl Marshall, Chairman of the Board and Chief Executive Officer of the Academy of Television Arts and Sciences.

Chart 1

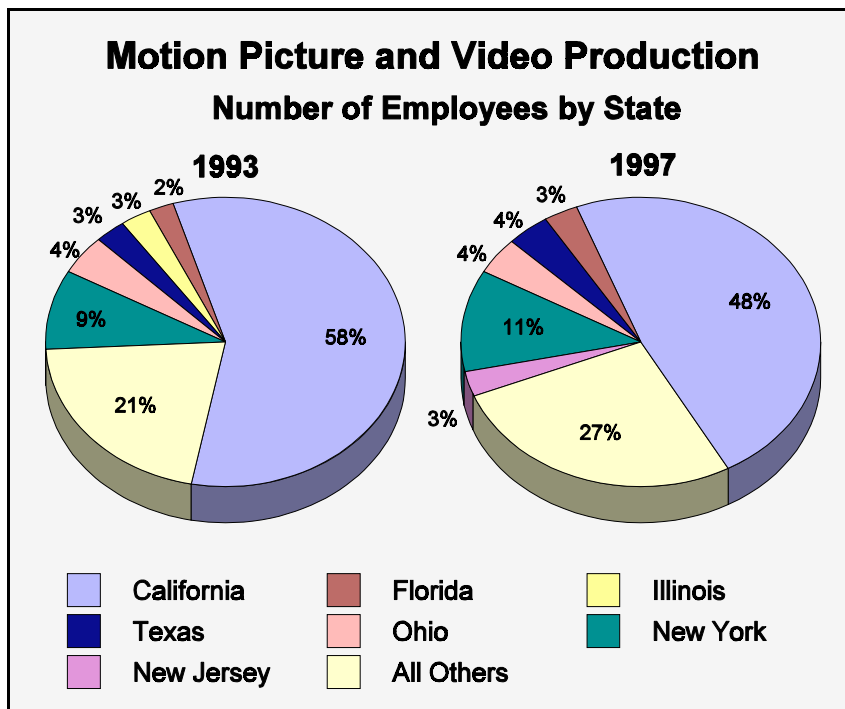


Chart 2

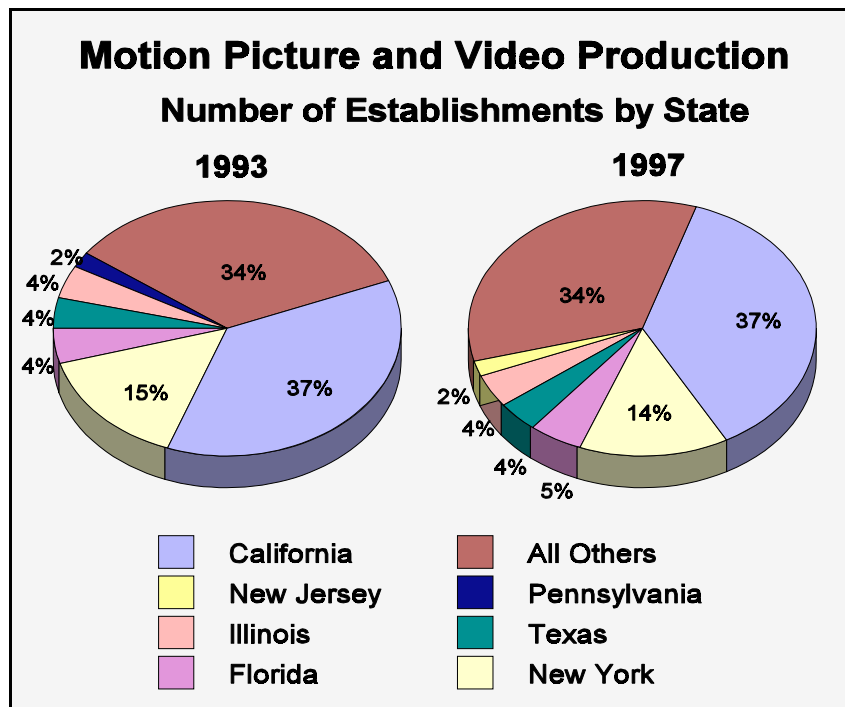


Chart 3

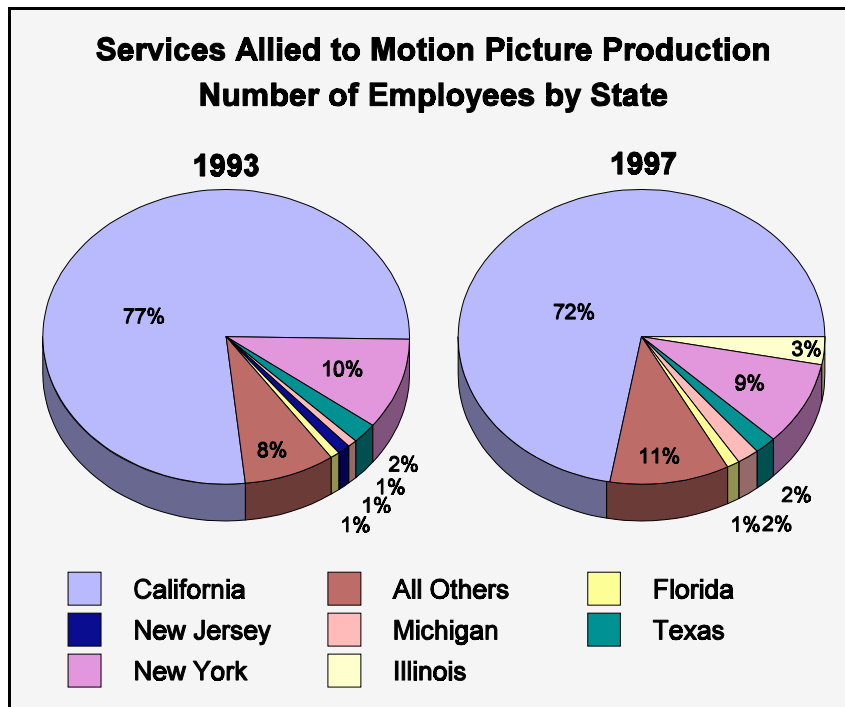
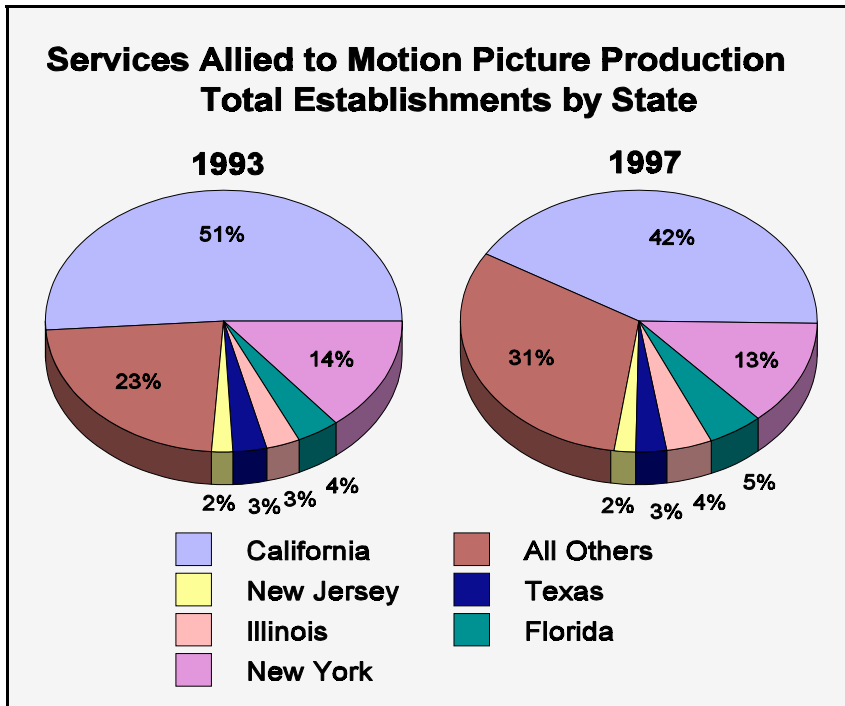


Chart 4



Chapter 2

FROM BEST BOY TO BEST PICTURE: THE MAJOR IMPACT OF FILM INDUSTRIES ON THE U.S. ECONOMY

The U.S. film and television industry is a significant component of the U.S. economy that provides an important source of economic growth and employment in a number of sectors not conventionally associated with the glamor of Hollywood and the polished finished product of a major motion picture. Though not often recognized as such, the creative process of putting a story onto film is a complex, expensive, and labor-intensive business operation. Thus, like an major business operation, film and television productions require a wide range of services and scores of workers – from front-line actors and directors to the behind-the-scenes employees like sound engineers, set designers, and caterers. In addition, there are hundreds of small businesses and independent contractors, ranging from equipment rental companies and talent agents to electricians, construction workers, and even local gas stations, that provide materials and services to film and television production companies. In meeting these material and resource demands, a production operation distributes substantial economic benefits through a wide range of industry sectors in the locality where the production takes place. This section will explore the wide economic impact of a film and television production operation, and its contributions to the U.S. domestic economy and international trade balance.

The Little Guy Behind the Big Production

Hollywood, the movies, and television often evoke images of glitz and glamor surrounding marquee name producers, directors, actors and actresses. For these individuals, the location of film production does not matter because they are paid enough to follow the production set anywhere in the world. However, behind the polished, finished film product there are tens of thousands of technicians, less well-known actors, assistant directors and unit production managers, artists, specialists, post-production workers, set movers, extras, construction workers, and other workers in fields too numerous to mention. These workers are the backbone of the industry. They are known in industry jargon as “below-the-line” workers (as opposed to the “above-the-line” workers or “major talent,” which generally refer to the producers, writers, directors, and principal actors).

Many people never sit through all of the film credits at the end of a movie, but those who do will see a long list of persons with job titles that range from the mundane to the arcane. There are drivers, caterers, carpenters, painters, and makeup artists. There are grips, gaffers, and best boys. These below-the-line workers are the people who make film and television production happen. They build the sets, find the props, run the cameras, hang the lights, do the makeup, hair and costuming; keep everyone fed, and perform dozens of other jobs to ensure that the project runs like clockwork. Then there are those highly skilled individuals who work in post-production processes, such as editing, sound, and color imaging. By one industry estimate, 70 to 80 percent of these workers are hired at the location where the production is filmed.

Below-the-line workers tend to be employed by small businesses, or they own small businesses or work as independent contractors. One important feature of some of these small businesses is that below-the-line services often require heavy capital investment. For example, companies that provide such services as lighting, equipment rental, and special effects require hundreds of thousands of dollars of inventory and equipment because they must be able to provide the precise piece of equipment or special effects machine on demand. Just like any other business, these companies must be able to cover their expenses, which means working on at least a minimum number of productions. Many of these below-the-line companies and their workers are particularly vulnerable to decreases in demand for their services.

Some of these workers are highly skilled artisans, others are manual laborers. But they all have one thing in common: they cannot move to Canada or Australia at the drop of a hat to perform jobs that are as routine to film production as those of skilled workers are to the production of steel or automobiles. These businesses are stationary, and their work is local. In some cases, national immigration and labor laws would prevent these workers from crossing borders even if they were otherwise willing and able to do so. One industry source estimates that 90 percent of the production budget for "below-the-line" expenses are spent on location.

WHO DOES WHAT: Breakdown of Motion Picture & Television Personnel

ABOVE-THE-LINE

-**Writer**
 -**Executive Producer**
 -**Producer**
 -**Co-Producer**
 -**Line Producer**
 -**Associate Producer**
 -**Director**
 -**Casting Director**
 -**Talent**
 Stars
 Supporting Cast
 Day Players
 Stunt Players
 Extras:
 Atmosphere
 (SAG or Non-union)

-**Travel & Living**
 Cast/Cre
 Transportation
 Cast/Cre
 Lodging

-**Atmosphere**
 General Atmosphere
 Teacher/Welfare Worker
 Atmosphere Cast

-**Fringe Benefits**
 SAG Pension & Welfare
 IATSE

BELOW -THE-LINE

-**Production**
 First Assistant Director
 Second Assistant Dir.
 Second Second
 Assistant Director
 Production Accountant
 Production Coord./Mgr.
 Production Secretar
 Office Production
 Assistant (PA)
 Set Production
 Assistant (PA)
 Script Supervisor
 Assistant to the
 Producers & Director

-**Art Dept./Set Dressing**
 Production Designer
 Art Director

-**Construction**
 Set Construction
 Construction Foreman
 Carpenters/Painters
 Greensman

-**Set Dressing**
 Set Dresser
 Set Decorator
 Lead Person
 Art Swing Gang
 Purchases
 Rentals

-**Prop Department**
 Property Master
 Assistant Propert
 Master
 Rentals
 Purchases
 Animal Handlers/
 Wranglers
 Animals
 Weapons Specialist

-**Camera**
 Director of
 Photography (DP)
 Camera Operator
 First Assistant Camera
 Second Assistant
 Camera
 Steadicam Operator
 Still Photographer
 Rentals

-**Sound**
 Sound Mixer
 Boom Operator
 Supplies
 Walkie Talkies

-**Stage & Studio**
 Rental
 Labor
 Equipment

-**Electrical**
 Gaffer
 Best Boy Electric
 Third Electrician
 Swing Electric/
 Grip Day Players
 Generator Rental
 Rentals (including trucks)
 Expendables

-**Grip**
 Key Grip
 Dolly Grip
 Best Boy Grip
 Third Grip
 Dolly/Cranes
 Rentals (including trucks)

-**Wardrobe**
 Costume Designer
 Key Wardrobe
 Coordinator
 Assistant Wardrobe
 Cleaning
 Rentals

-**Makeup & Hairdressing**
 Key Makeup/Hair
 Assistant Makeup
 Assistant Hair
 Supplies

-**Special Effects/
 Pyrotechnics (FX)**
 Makeup Effects
 Pyrotechnics

-**Laboratory & Film**
 Negative Film Stock
 Developing Negative
 Polaroid Film
 Stills Rawstock

-**Food**
 Caterer/Chef
 Assistant Chef
 Craft Service
 Late Meals

Water and Ice
 -**Transportation**
 Transportation
 Coordinator
 Transportation
 Captain
 Drivers
 Honeywagon Driver
 Vehicle Rentals
 Picture Vehicles
 Water Truck

-**Locations**
 Location Manager
 Asst. Location Manage
 First Aid
 Police
 Fire Safet
 Securit
 Loss & Damage
 Restoration
 Telephones/Car Phone

-**Editorial**
 Editor
 First Assistant Editor
 Apprentice Editor
 Post Production
 Supervisor
 Film Cutting
 Purchases

POST PRODUCTION

-**Music**
 Composer
 (Music Editor)
 Music Clearance

-**Sound**
 Sound (ADR/Foley/
 Sound EFX/Mix)

-**Film/Lab Wor**
 Title & Opticals
 (Stock Shots)

MISCELLANEOUS

-**Publicity**
 Publicist

-**Insurance**
 Completion Bond
 Workman's
 Compensation

-**Legal**
 Lawyer

The “Floating Factory”

Below-the-line workers have much in common with workers in any other industry. They have defined skills, some requiring more artistry and craftsmanship than others, and they report to work regularly like anyone else. And while they tend to work locally, as do workers in other industries, their actual place of work takes them to many different physical locations. While an auto worker may report to the same factory on a daily basis, a film worker may report to a production set that changes at least with each film project, and quite probably several times during the course of a single film. In fact, the production set is often referred to as a “floating factory” – the same workers with the same skills produce the same products using the same “machinery” (sets, lights, cameras, etc.), but the production set, or “factory,” moves around, depending on the requirements of each scene in the film.

In the heyday of Hollywood, most films were produced in the major studios, with controlled environments and elaborate “sound stages” (studio production sets with built-in equipment, lights, cameras, and other equipment needed to shoot a film). Nowadays, location shooting and off-lot production are increasingly common, particularly with feature films.

Whether the filming is done downtown in an urban area or in the desert will determine just how much will have to be built from the ground up. But even in a major city, a location shoot requires extensive preparation. It is not uncommon to see entire buildings built from scratch, blocks of city streets refaced, stores turned into theaters, churches, or other buildings and existing buildings completely transformed to meet the creative demands of the film. Even the contents of shops and stores will likely be moved out and replaced with more appropriate items. Bus stops, street signs, vehicle logos and license plates all must match the setting of the movie. Additionally, the set must have the necessary utilities, such as electricity, and fuel for vehicles, equipment, heating or cooling, trucks, and trailers. Temporary buildings provide transportation, storage, offices, and lodging for equipment, cast and crew. Crew specialists must control the amount light and sound on the set. With all of the expenses included, each “floating factory” may cost millions of dollars and require the services of scores of local workers to construct. However, when filming is completed, the sets and “factory” will be gone.

Since there are no distinct, physical locations for making movies, it is difficult to quantify all the skills, equipment, technology, or even number of workers that contribute to the production of a film or television show. Films and television productions tend to be short-term projects lasting only a few months. Often there are different combinations of crews and workers involved in different projects. Because of these factors, motion picture and television production is less visible than a stationary manufacturing facility, such as an automobile plant. Moreover, in “floating factories” film workers tend to be relatively fragmented, belonging to literally dozens of professional associations and unions, and lacking a unified national identity akin to workers in the steel or auto industry. Correspondingly, when production is lost, it neither generates the same tangible, visual image of unemployed workers standing outside the fence of a shuttered physical factory, nor does it elicit a cohesive nationwide industry response. However, the economic impact and job loss are no less real or important to local communities.

Below-the-Line Workers Speak Out

"I have been a member of the I.A.T.S.E. Local 705 for the past 20 years. For 14 of those years I have also been a small business owner in the entertainment industry. I am supposed to be living the American Dream. Instead, after 20 years of hard work I am on the verge of living the American Nightmare. I hear about potential jobs all the time. Unfortunately, they are in Canada or Australia.

Jean Rosone, IATSE Local 705

My husband and I have worked in the film industry for over 20 years. We are now seriously considering closing our doors, losing our modest home and facing bankruptcy. It is infuriating for production after production to request bids from our company only to take the work out of the country.

Jennifer E. Manus, Sticks and Stones Studio

The film business is a driving economic force [in] California. The monies spent on filming filter down through our Community creating jobs in related industries and providing sales and income tax revenues.

Gary Jackson, President, Jackson Shrub Supply,

While we are small employers in the entertainment industry, we have already been forced to reduce our staff by 10% and anticipated that further cuts of up to 25% will be necessary in the near future if this problem is not addressed.

Raymond Claridge, President, C.P. Enterprises

In its first season back in California, X-Files spent \$328,494.74 in rentals and expendables, and another \$168,000.00 in manufacturing and graphics from our companies. Our company employs 95-125 people with salaries greatly varying. We can't afford to lose even one SHOW.

Gregg, H. Bilson, Jr., Executive VP/CFO, Independent Studio Services, Inc.

During the past 12 months, Omega experienced a significant drop in revenue. Moreover, first quarter 1999 figures are down 10% from 1998. Normally studios have several feature films in production in the Spring. Currently we are working only on one feature in US production, and Omega is working closely with the set decorator to control costs.

Barry Pilchard, VP/General Manager, Omega Cinema Props

My business in the past year has seen a decrease of \$500,000.00 in revenue resulting in layoffs and consideration of a permanent down sizing.

Frank Uchalik, President, ALPHA Medical Resources, Inc.

I lost three movies in four months with producers I have worked with for years. I only made \$1800 in the first four months of 1999.

David Lewis, Director of Photography, Age 53

For 24 years I have worked as a costume designer making between \$80,000 and \$120,000 in a good year. I have lost two jobs to Canada in the last year. I did a commercial for three days in January and that's the only work I've had since last March. We're scared of losing our home."

Betty Pecha Madden

I'm trying to stay afloat, but it's tough because of all the money I owe. What I'm finding is a lot of business going toward Canada and out of state. When I do sell something, I have to cut the price by 50 - 60 percent.

Jesse Hurtado, Owner, Prima Equipment (lighting business)

Key Elements of the Industry

U.S. film and television production is performed by the major film studios and a large number of smaller production companies called “independents.” The major studios are members of the Motion Picture Association of America (MPAA). Any film production company that is not a member of the MPAA is considered in the industry to be an independent. Many independent film companies are organized into the American Film Marketing Association (AFMA).⁹ The Bureau of Labor Statistics reports that total employment in 1999 in the motion picture production and allied services industry was just over 270,000.

The Three Parts of Creating a Movie: Pre-Production, Production, and Post-Production

The process of creating film and television program is generally divided into three parts. “Pre-production” generally refers to activities that are performed and paid for before shooting begins. This includes script development, set design, casting, crew selection, costume design, location selection, and preparation of a budget. Once these preliminaries are accomplished, then the second part, “production” – the actual shooting of the film – can begin. The third part, “post-production”, is generally considered to include film editing, color imaging, making of soundtracks, special effects, musical scoring, titles and credits, and dubbing (see “Who Does What” text box).¹⁰

The term “film and television production” covers several types of production, notably:

- ✓ full-length feature films,
- ✓ movies-of-the week (or made-for-television movies),
- ✓ series television programming,
- ✓ television commercials, and
- ✓ music videos

Full Length Feature Films: Of the film and television productions, full-length feature films (also called “theatrical films” in the industry) produced by both major studios and independent companies operate on the largest scale and generally require the greatest resources. The MPAA reports that, for 1999, 441 feature films were released in the United States – 213 by the major studios, and the remaining 229 by U.S. independent producers and distributors of imported foreign movies. Based on MPAA estimates, total feature film expenditures in the United States in 1999 reached \$11 billion, with \$10 billion coming from major studios and \$1 billion from independents.

⁹ The web sites of these associations are www.mpa.org and www.afma.com. The MPAA’s member companies are: Walt Disney Company; Sony Pictures Entertainment, Inc.; Metro-Goldwyn-Mayer Inc.; Paramount Pictures Corporation; Twentieth Century Fox Film Corp.; Universal Studios, Inc.; and Warner Bros.

¹⁰ Harold L. Vogel, *Entertainment Industry Economics, a Guide for Financial Analysis*, Cambridge University Press, 1994.

Television Programming: Television production includes programming of one-hour long and half-hour long episodes, movies-of-the-week (MOWs), and miniseries (a MOW of two or more parts). All the major film studios and many independents are involved in producing television programming.

Movies-of-the Week (MOWs): Due to the rapid growth of the cable industry, the production of MOWs (or “made-for-television movies”) has been an area of sizable growth in recent years. MOW production has probably been more affected by runaway production than any other type of film production because it is most sensitive to cost factors. The costs associated with filming MOWs are generally far lower than those of feature films, often more in line with those of filming series (or episodic) television programming.

Television Commercials: The industry standard for television commercials is the “30-second spot,” although 15-second and 60-second commercials are also used. According to one industry source, the production budget for a 30-second commercial can easily approach \$500,000, and some may cost as much as \$1 million. Although some small businesses in the industry may specialize in commercials, most small businesses who work below-the-line consider television commercials to be an interim source of work that is essential to sustain their companies between feature films and MOWs.

Music Videos: Record companies, mostly belonging to the Recording Industry Association of America, produce music videos. This is by far the smallest segment of the motion picture and television production market.

The Economic Importance of the Film Industry to the U.S. Economy

The entire business operation of a film or television program, with its diverse and varied resources and service demands, provides substantial economic benefits to the locality where it is produced. In the United States, data from the 1997 Economic Census, the most recent available, show that the motion picture production industry directly employs over 270,00 workers, with an annual payroll of \$10.4 billion.¹¹ Additionally, the motion picture production industry represents 15,000 establishments countrywide.

¹¹1997 Economic Census.

Employment Data in the Film Industry

The U.S. Standard Industrial Classification (SIC) system is the official U.S. Government mechanism for categorizing and tracking data by industry type.¹² The Bureau of Labor Statistics (BLS) monitors employment data in the motion picture industry by tracking employment in two SIC categories, Motion Picture and Videotape Production and Services Allied to Motion Picture Production. Both categories include production for television or other media.

Although BLS data are helpful, an examination of only these two SIC codes does not provide the entire picture for the impact of runaway film on employment. First, these SIC codes include only those functions that are directly tied to motion picture production, and these functions constitute only a portion of the jobs that actually go into making a movie or television show. Dozens of other establishments (composed of, e.g., carpenters, accountants, caterers, cleaners, electricians, hair and makeup stylists, and car rentals) are tracked in other SIC categories, even though workers in these fields may work predominantly, if not exclusively, on motion picture or television production. A second problem with these categories is that they do not break out separately theatrical and broadcast productions. This is significant because the two categories include establishments involved in tape and video production not related to film or television, such as educational, industrial, institutional, religious, and training videos. This is a

¹² Major Group 78 of the Standard Industrial Classification (SIC), entitled Motion Pictures, includes establishments producing and distributing motion pictures, exhibiting motion pictures in commercially operated theaters, and furnishing services to the motion picture industry. The term motion pictures, as used in this major group, includes similar productions for television or other media using film, tape, or other means. Industry Group number 781, Motion Picture Production and Allied Services, is broken down into two industry numbers, SIC 7812 and SIC 7819.

Industry group number SIC 7812 includes establishments primarily engaged in the production of theatrical and non-theatrical motion pictures and video tape for exhibition or sale, including educational, industrial, and religious films. Included in the industry are establishments engaged in both production and distribution. Specific examples are audiovisual motion picture program production, cartoon motion picture production, commercials, television tape or film production, educational motion picture production, industrial motion picture production, motion picture production and distribution, music video production, non-theatrical motion picture production, religious motion picture production, tape production, video or motion picture, television film production, training motion picture production, video tape production.

Industry group number SIC 7819 includes establishments primarily engaged in performing services independent of motion picture production, but allied thereto, such as motion picture film processing, editing, and titling, casting bureaus, wardrobe and studio property rental, television tape services, motion picture and video tape reproduction, and stock footage film libraries. Specific examples are motion picture casting bureaus, developing and printing of commercial motion picture film, independent directors of motion pictures, editing of motion picture film, motion picture film processing, motion picture laboratories, motion picture consultants, motion picture reproduction, rental of motion picture equipment, studio property rental for motion picture film production, television tape service, (e.g., editing and transfers), titling motion picture film, video tape or disk reproduction, and wardrobe rental. SIC 7819 covers many below-the-line film occupations.

The NAICS (North American Industry Classification System) will soon replace the SIC.

growing segment of the industry that could mask some of the effects of runaway production on theatrical and broadcast production.

Census Data and the Bureau of Labor Statistics

In film production and allied services, employment data collected by the BLS in its covered “Wages and Employment” program differ from employment data that the Bureau of the Census publishes as part of its five-year Economic Census. For comparative purposes, it is necessary to use data from 1997, when the Bureau of the Census last conducted the U.S. Economic Census. A comparison of the data reveals that, for 1997, BLS reported employment in “Motion Picture Production and Allied Services” as 236,152, whereas Census reported it as 271,936. This discrepancy may be explained by differences in methodology, although both BLS and Census collect data on an establishment basis.

More difficult to explain are the differences between the BLS and Census reports for the two sub-groups to film production and allied services, “Motion Picture and Videotape Production” and “Services Allied to Motion Picture Production.” Briefly, BLS reports a high number for film production and a low number for allied services, whereas Census reports a low number for film production and a high number for allied services. Specifically, BLS reported film production employment as 172,715, and employment in allied services as 63,437. Census reported film production employment as 83,558, and employment in allied services as 188,378.

Although some differences in employment data from BLS and Census is generally expected, the differences in film production data are unusually large. The two agencies have discussed discrepancies in data, but have not yet resolved them. In any case, the differences, especially in the data for the sub-groups, show the difficulty in collecting data that will give a clear view of employment in the film production industry and the employment effects of runaway film production.

In addition to the number of people employed, BLS also reports wage data. Jobs in motion picture and television production require high skills and pay high wages. The average wage paid in motion picture and television production, at \$20.57/hour, is significantly higher than the industry average for private service industries at \$13.44/ hour, making it difficult for those specialized workers to find equivalent paying positions if they are out of work.

These “high quality, high wage jobs” attract skilled technicians and professionals who are crucial to the California economy. These skilled technicians and professionals are also essential to maintaining an infrastructure and labor pool, which matches the needs of the entertainment industry.

Allen “Mike” Frischkorn, Jr., Former President of AFMA

What is the Value of U.S.-Developed Films Imported from Canada?

Data collected by the Department of Commerce's Bureau of Economic Analysis on U.S. trade in services record private services by type. U.S. imports of services includes the line item "Miscellaneous disbursements" in 1999 of \$1.237 billion. This line item covers seven different types of miscellaneous disbursements, including "disbursements to fund production costs of motion pictures."¹³ As is also true of tourism, medical, and education services, when a U.S. person goes abroad to produce a movie, the result is a U.S. import of services. Thus, when a U.S. film company produces a film in Canada and exports it to the United States, the cost of production in Canada would be part of the \$1.237 billion "miscellaneous disbursements" for 1999. The precise amount for "disbursements to fund production costs of motion pictures." is unavailable. Yet, as one of seven items, \$200 million would be slightly more than a proportional share, and \$400 million would be a disproportionately large share of the total.

How do these official government data on film imports from Canada compare with industry estimates of U.S.-developed films produced in Canada? Stephen Katz & Associates, in its report "1999 Motion Picture and Movie-of-the-Week Production Survey," collects data on U.S. films produced in Canada. He notes the importance of feature film productions lasting six weeks or longer, since these films have "on average a considerably higher budget than the shorter length productions."¹⁴ Katz noted in his survey that, in 1999, 60 of these six-weeks-or-longer productions were made in Canada. Films with a "higher budget" usually are films made by one of the major studios. According to the Motion Picture Association of America, the average cost in 1999 to its member companies of making a feature film was \$51.3 million.

If we consider the official government import statistics for films from Canada to be \$200 million, this would translate into about four high-budget feature films imported from Canada in 1999. If we accept Mr. Katz's estimate of \$35 million per high-budget feature film in Canada (his contention is that major studios spend less in Canada), this would translate into approximately six high-budget feature films imported from Canada in 1999. If we consider the official government statistics to be \$400 million, this translates into either eight or twelve high-budget feature films imported from Canada in 1999. Yet, according to Mr. Katz, there were 60 high-budget feature films produced in Canada in 1999. Most industry observers believe that a majority of these films were U.S.-developed.

According to Katz's survey, there were 54 feature films in production less than 6 weeks produced in Canada in 1999. If we assume that the average expenditures for a low-budget film was \$5 million, then this would translate into 40 low-budget films imported from Canada if we

¹³ Bureau of Economic Analysis, U.S. International Services, Cross-Border Trade in 1999 and Sales Through Affiliates in 1998, Survey of Current Business, October 2000, Table 1, Private Services Trade by Type.

¹⁴ Stephen Katz & Associates, "1999 Motion Picture and Movie-of-the-Week Production Survey," 2000. Mr. Katz maintains a database of film starts, production locations, and other industry information. All industry sources interviewed consider his database to be very accurate.

accept \$200 million as the total official film import statistics from Canada. If we accept \$400 million as the official import statistic, then this would allow 80 low-budget film imports.

Finally, for MOWs, the category of film production which by broad consensus has experienced the most runaway production, Mr. Katz reports that there were 154 made in Canada in 1999. Again assuming average expenditures of \$5 million per MOW, this would allow for either 40 or 80 MOW imports from Canada, depending on whether we accept official total film import statistics to be \$200 million or \$400 million.

What is clear from this discussion is that any combination of high-budget feature film, low-budget feature film, and MOW, as analyzed by Mr. Katz, would produce total film import figures from Canada considerably higher than what the official imports statistics would seem to indicate. For example, if \$200 million is the correct official import figure, this would allow for five or six high-budget films and 25 MOWs or lower budget films. If \$400 million is the correct official import figure, this would allow for 11 or 12 high-budget films and 50 MOWs or lower budget films. Yet, according to Mr. Katz, there were 60 high-budget films produced in Canada in 1999 and a combined 208 low-budget films and MOWs, and most industry observers believe that a majority of these are U.S.-developed. If Mr. Katz's data are accurate, and most industry observers believe that they are, official import statistics on film imports from Canada are greatly underestimated.

Importance of the Motion Picture Industry in Six Key States

As might be expected, the motion picture industry is especially significant for several state economies – California, New York, Texas, Florida, Illinois, and North Carolina. These six states account for about 88 percent of national revenues generated directly by the motion picture industry in the United States. They also account for almost four-fifths of total employment and 65 percent of the total number of establishments classified in the industry.

California – With the largest concentration of motion picture activity, California accounts for about 70 percent of total revenues and 60 percent of the total employment in the industry nationwide.

The California motion picture industry represents over one-fifth of information industry establishments in the state, and between 11 and 15 percent of total California information industry receipts, employment and payroll.

New York – This state hosts the second largest concentration of motion picture economic activity, accounting for more than 13 percent of the state's information industry establishments, and supports almost 7,400 jobs directly and perhaps as many indirectly.

Texas – The Texas motion picture industry accounts for over 4 percent of its information sector establishments, and generates annual revenues of about \$360 million.

Florida – The expanding Florida motion picture industry in 1997 accounted for 7 percent of information sector establishments and payrolls of almost \$100 million.

Illinois – The Illinois motion picture industry is a significant factor in the state’s economy, accounting for some 7 percent of the state’s establishments in the information sector, and annual receipts of over \$600 million.

North Carolina – This state’s motion picture industry accounts for some 4 percent of the state’s information sector’s establishments and \$84 million in annual revenues.

**The entertainment industry, including TV, film and commercials, is one of the necessary engines driving California’s economy, “ says Assemblymember Kuehl. “Thousands of technicians, crewmembers, lab technicians, independent vendors, local actors and directors depend on this industry for their livelihood, and they, in turn support their local economies as homeowners, car buyers and consumers.
– California State Senator
Sheila James Kuehl**

Indirect Benefits -- The Multiplier Effect

In addition to the substantial direct economic benefits reaped by direct, contracted employers and expenditures made by film production companies, the indirect benefits of a film or television production are substantial. As any local Film Commissioner knows, motion picture and television production brings with it a significant “ripple” effect that can have a positive economic impact throughout a community in a wide range of industry sectors. For example, production for the film *Tin Cup*, which required ten weeks to film in Houston, incurred expenditures of \$22,000 on dry cleaning,

\$121,000 on hardware and lumber, and \$498,000 on location fees to privately owned establishments.¹⁵ In another case, one transportation coordinator reported spending over \$300,000 on fuel alone (from local gas stations) in the course of two movie productions.

In 1997, the Chicago Film Office commissioned a study of the economic impact of one production in Chicago.¹⁶ The production on which the study was based was shot primarily on location in Chicago, used a predominantly Chicago-based crew, had a local production budget of \$14 million, and spent approximately 15 weeks filming for a total of 90 production days. The direct economic impact of the production was calculated at over \$12.5 million, while the indirect impact was estimated at over \$21 million, almost twice the amount of the direct expenditures.

¹⁵Industry Source

¹⁶ Arthur Andersen LLP, “Economic Impact Study for the Chicago Film, Television & Commercial Economic Development Coalition”, September 1997.

Efforts to measure the indirect impact of film and television production are described in the adjacent box on multipliers on the next page.

Export Side -- Impact on Balance of Trade

Big Bang for the Buck: Non-film Expenses for Features Add Up

In addition to personnel employed from the local film industry itself, an average of 300 different non-film businesses also provide goods and services for each production. The following list illustrates the variety of non-film expenditures for a recent feature motion picture filmed in Texas. The identity of the film cannot be released for reasons of confidentiality, but it is a good example of the impact on the general Dallas/Fort Worth economy.

- | | |
|--|---|
| ● Private Residence Rental - \$136,000 | ● Catering/Food & Beverages on set - \$186,851 |
| ● Hotel Rentals - \$291,000 | ● Office Supplies - \$17,000 |
| ● Short-term Crew Lodging - \$98,000 | ● Mailing/Express mail - \$7,000-10,000/wk. |
| ● Car Rental - \$420,000 | ● Telephones (equipment & calls) - \$111,000 |
| ● Freeway Tolls - \$22,000 | ● Cell Phone Use - \$66,000 |
| ● Set Dressing/Props - \$127,000 | ● Arts Supply - \$3,500 |
| ● Wardrobe - \$128,000 | ● Film - \$3,000 |
| ● Furniture Rental (production office)- \$49,000 | ● Local Transportation/Limo service - \$6,000 |
| ● Party Rents - \$32,000 | ● Printed Forms - \$2,500 |
| ● Airline Tickets - \$350,000 | ● Courier Service - \$5,000 |
| ● Lease (production office-5 months) - \$105,000 | ● Locksmith - \$4,000 |
| ● Gas/Oil/Vehicle Maintenance - \$60,000 | ● Store employees - Over 50 checks to store employees for OT, allowing stores to remain open for all-night filming. |
| ● Crane Rentals - \$70,000 | |
| ● Utilities (production office) - \$25,000 | |
| ● Construction Materials - \$31,350 | |
| ● Janitorial Services - \$50,400 | |
| ● Waste and Trash Removal - \$24,462 | |
| ● Outhouses/Dumpsters - \$20,000-\$30,000 | |

U.S. international sales of filmed entertainment are a significant and growing component of our overall surplus in trade in services. Export revenues from U.S. films and related services have been on the rise throughout the last decade as foreign demand has skyrocketed. U.S. movies continue to dominate international trade in motion pictures, including film rentals (a percentage of box office receipts), videocassette rentals and sales, and sales of television rights (including pay television).

However, although the distribution of U.S. films and television programs overseas contributes substantially to the U.S. trade surplus in service, the problem of runaway film production could undermine this positive position because runaway film production is counted as an import of services into the United States. For a few services, an import into the United States

is considered to occur when the U.S. consumer travels abroad to consume the service. This is true of film production, so that when U.S. film production companies travel to Canada and then export the film to the United States, the United States is considered to have increased its imports of services from Canada. The U.S. Trade Deficit Review Commission made note of this with reference to the U.S. trade deficit with Canada of over \$30 billion per year.¹⁷

In theory, the potential increase in the services trade deficit would be offset to the extent that lower production costs allow the U.S. industry to make more films and thus generate higher export revenues through foreign sales. If this were the case, there could be an argument that it is better to export more films that have some foreign inputs rather than not export them at all. However, it is impossible to determine which films would not have been made but for their location in Canada or another foreign country. Furthermore, to our knowledge, no studies have been conducted that would attempt to measure this phenomenon.

¹⁷ U.S. Trade Deficit Review Commission

A Multiple of Multipliers

The multiplier is a coefficient that determines how much the input-output level of an economy will change as a result of a given change in investment spending. A multiplier of two would mean that a given investment would lead to total input-output equal to twice the size of the investment. This multiplier effect occurs because the economy is characterized by repetitive, continuous flows of expenditures and income. In recent years, several multipliers applicable to all or part of the film industry have been used.

The lowest of these multipliers is 1.798, which the Bureau of Economic Analysis computed for “Amusements and recreational services,” industry number 76, in the industry classification used for the National Income and Product Accounts. The Department of Commerce’s Bureau of Economic Analysis published this multiplier in its input-output accounts of the U.S. economy for 1996. The range of multipliers published in the input-output accounts is from a low of 1.22 for owner-occupied dwellings, to 3.04 for livestock and livestock products. The highest multiplier is 3.71 for “employment” in general. This is the figure that the Regional Economics Applications Laboratory furnished to Economics Research Associates, which then used it in its own study of filming television commercials in Chicago.

A number of other multipliers have been used for the film industry. The Monitor Company, in its report on runaway film production, used a multiplier of 3.1 for wages and a multiplier of 3.6 for goods and services. These numbers are taken from the Regional Input-Output Modeling System II (often referred to as RIMS II) created by the Bureau of Economic Analysis. Ernst & Young questioned the use that Monitor made of the RIMS II multiplier, asserting that more appropriate multipliers would be 1.99 for California, and 3.02 for the United States. Other multipliers include 2.12 for “both the income and labor effects attributable to the independent film industry;” which Arthur Andersen Economic Consulting used in its study of independent film making performed for the American Film Marketing Association. Finally, multipliers of 2.33 for the output effects and 2.61 for the earnings were used by the Economics Research Associates used in its study of television commercials in Chicago.

There appears to be widespread disagreement among economists over the correct multiplier to apply to the film production industry. These differing numbers suggest the need, noted by many industry participants, for further study to apply a more accurate multiplier and more consistency in the collection of data on the film industry.

Sources: Bureau of Economic Analysis, Arthur Andersen Economic Consulting, Economic Research Associates, Monitor.

Chapter 3

ECONOMIC LOSSES FROM RUNAWAY PRODUCTION

Over the past 10 years, the film and television production industry has seen significant growth worldwide. Yet, despite nominal growth in the U.S. industry during the same period, this growth has not kept pace with that of foreign competitors. This relative decline has had a negative impact on U.S. market share in the film and television production industry, and has led to substantial losses in potential revenues and employment opportunities.

One of the key indicators of this trend is in runaway film production. In the last decade, the number of U.S.-developed film productions (both theatrical and television) produced abroad has grown significantly. According to the Monitor report, 29 percent of U.S.-developed films were produced outside the United States in 1990, whereas by 1998, this figure had grown to 37 percent (see figure 1).¹⁸

The runaway film phenomenon has affected various segments of the industry differently. The television industry has been greatly impacted, seeing substantial growth in runaway production over the past decade. For example, although the percentage of total U.S.-developed feature films produced abroad only increased slightly from 1990 to 1998, the number of U.S.-developed

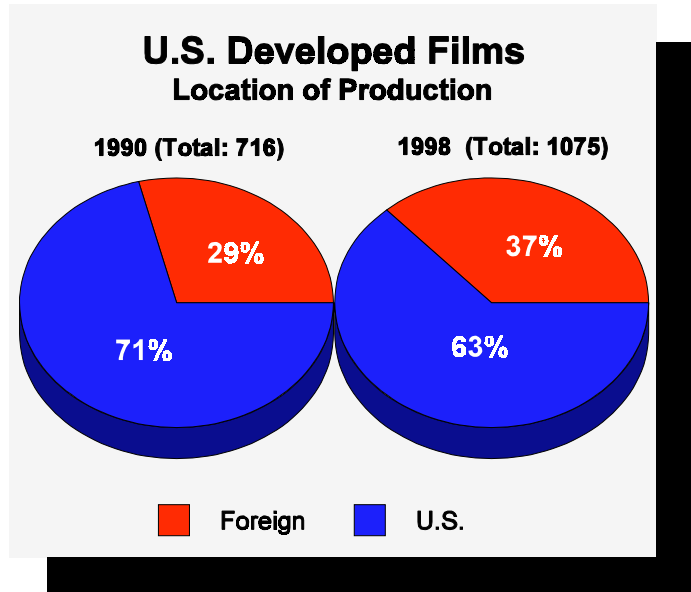


Figure 5

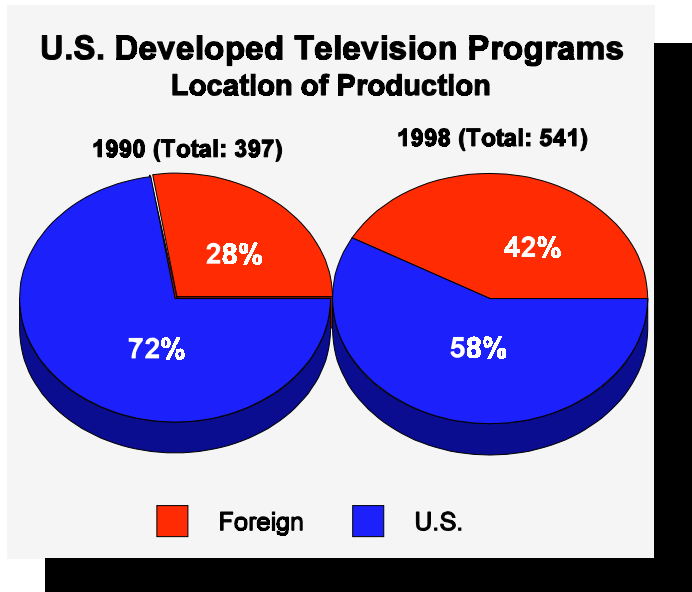


Figure 6

¹⁸ Monitor Report, p. 7.

television programs produced abroad increased from 28 percent in 1990 to 42 percent in 1998 (see figure 2).¹⁹

Impact on Movies of the Week

The most dramatic shift from U.S. to foreign production occurred with respect to Movies of the Week (MOWs). The Association of Imaging Technology and Sound (ITS) estimates that domestic shoots of MOWs made for broadcast on U.S. networks and cable systems declined over 33 percent in the last six years, while MOWs made for broadcast on U.S. television and cable networks shot at foreign locations increased by over 55 percent. Six years ago, 62 percent of these productions were shot in the United States. As of the 1999-2000 season, the figure was 41 percent (see figure 3).²⁰

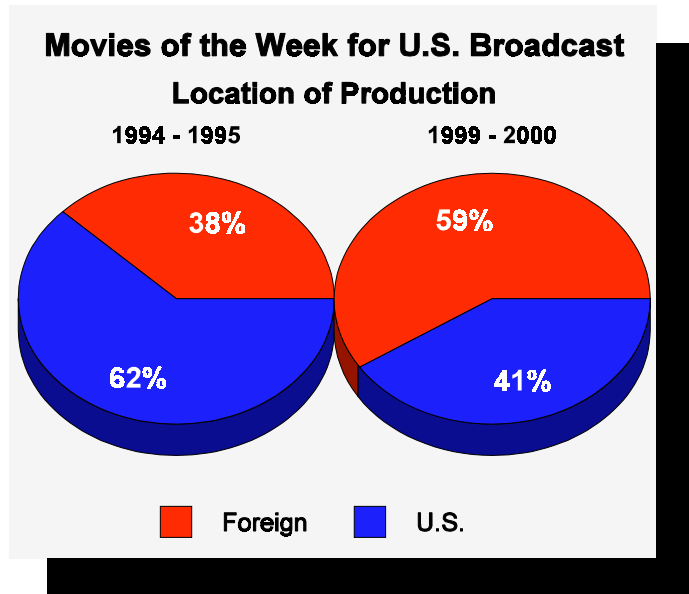


Figure 7

This increasing trend in MOW production abroad may have broader ramifications for other types of film production, including feature films. ITS has concluded that foreign production centers have built the necessary knowledge and technical infrastructure to compete for larger budget productions internationally.²¹ For further discussion of this issue, see chapter 5.

Creative vs. Economic Runaways

There are two major reasons that U.S.-developed films are produced abroad. The first reason concerns creative aspects of the film, such as the need or desire for a particular setting or “feel.” Such “creative” runaways have long been part of the industry and present fewer concerns than the second type of runaway production, the “economic” runaway. Economic runaway films are produced abroad, not for artistic reasons, but because of reduced production costs arising

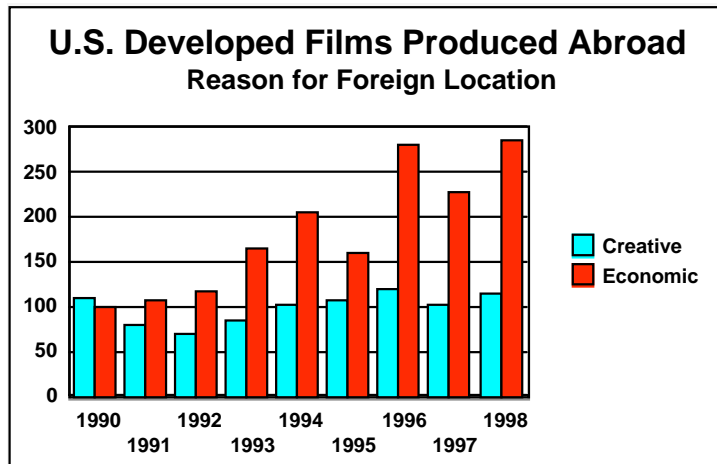
¹⁹ Data derived from the Monitor Report.

²⁰ Letter from Robert Solomon, Chairman, Governmental Affairs, Southern California Chapter of the Association of Imaging Technology and Sound (ITS) to Michael Fink, Federal Research Division, Library of Congress, July 5, 2000.

²¹ Solomon letter, July 5, 2000.

from a variety of factors including reduced location costs, wage rate differentials and government incentives designed to attract foreign film production.

An examination of runaway film production conducted by the Monitor Group shows that, between 1990 and 1998, the number of films shot abroad for creative reasons has remained fairly stable. During the same period, the number of films shot abroad for economic reasons increased dramatically – from 100 films in 1990 to 285 films in 1998, an increase of 185 percent in just eight years (see figure 4).²²



Loss Estimates

Figure 8

Although arriving at estimates for the overall economic impact of runaway film production are difficult, most studies conclude that runaway film production leads to substantial economic losses for the United States. This negative economic impact is measured both in terms of direct production losses, and such indirect factors as post-production revenues, taxes, and wages to below-the-line support workers that are necessary to producing a film but are not officially categorized as film-related workers (*i.e.*, production support workers, such as carpenters, movers and loaders, and truckers and caterers). In particular, estimating the losses attributable to indirect workers presents the greatest difficulties. Because such support workers are not directly tied to film and television production, alternative employment opportunities may readily exist, particularly when the economy is robust. As a result, the actual economic loss of runaway film production on some indirect workers may not be the full cost associated with job loss or underemployment. Instead, the cost may only reflect the lost wage potential associated with the decreased demand for such workers' services. However, if the local economy is not strong, or in times of economic downturn when alternative employment opportunities are limited, the economic loss incurred by runaway production associated with indirect production workers will approach the cost associated with those workers' unemployment.

²² Monitor Report, p. 7.

Loss of Film Production Expenditures

Ten of the 14 original movies show by the Showtime cable network were made [in Canada]. And despite its name, 14 of 23 films made for the USA Network were not made in the United States.

New York Times, Monday, May 10, 1999

While loss estimates vary significantly, a number of studies, including those conducted at the behest of those individuals benefitting from runaway film production, show substantial economic losses to the United States resulting from runaway film production. A study funded by the Screen Actors Guild and Directors Guild of America, the Monitor Report, estimates that \$2.8 billion worth of direct expenditures on U.S. film and television production was lost in 1998 through runaway

production. The Report also calculated an additional \$5.6 billion loss in indirect expenditures and wages and \$1.9 billion in lost taxes, for a total estimated loss of \$10.3 billion. Another study, commissioned by the Directors Guild of Canada in response to the Monitor Report, derived a much smaller, though still significant, economic loss of \$1.74 billion.²³ For MOWs alone, the Association of Imaging Technology and Sound estimates that approximately \$775 million in direct production and post-production revenues have been lost to foreign production in the last five years.²⁴

Loss of Employment

The negative economic impact of runaway film production has a direct impact on employment opportunities, especially for below-the-line support workers in the industry. A May 1999 report by the Film and Television Action Committee concluded that, if the State of California were to lose a relatively low budget, \$18 million feature film to foreign flight, it would lose \$7 million and 592 jobs for both above-the-line and below-the-line workers.²⁵

²³ William Wilson and Chad Coalier, "A Review of the Monitor Group Report on the Economic Multiplier for the U.S. Film and Television Production Spending," *Ernst & Young LLP*, May 2000, 3. This report also provides details on the exact economic impact model (i.e., IMPLAN versus RIMS II or REMI) used for evaluating the multiplier effect in the film and television industry.

²⁴ Letter from Robert Solomon, ITS, to Michael Fink, Library of Congress, July 5, 2000, pp. 6-7. ITS, a trade association of post-production and digital media companies, has also studied runaway film production. The ITS study concludes that the trends of runaway production have continued to increase into the 2000 television season; that the loss of U.S. direct production revenues to foreign location shoots as compared to production levels five years ago now exceed \$200 million per year; and that profit margins in the post production industry have declined by over 55 percent in the last three years.

²⁵ Employment data on film and television production is an important indicator of the effects of runaway film production. Researchers of runaway film production, however, agree that reliable data on the employment effects of runaway film production are hard to find and data comparisons from State to State are even harder to find. There are several reasons for the difficulty. First, even in periods of high production a substantial number of film-

In its own study, the Chicago Film Office estimated that for every \$10 million of lost or gained revenue, 2,500 jobs are similarly lost or gained.²⁶ This tie between the negative economic consequences of runaway film production to job losses is bolstered by the Monitor Report, which asserted that “During the last ten years, a total of 125,000 full-time equivalent positions were lost due to economic runaway [film production].” The study concludes that this trend is increasing.

Effect of Runaway Production on Local Tourism

There are also long-lasting economic consequences to runaway film production that are even harder to quantify – such as the increase in local tourism that comes about with the locality’s link to the film or television production (see text box on Georgia).²⁷ Southfork-- the setting for the television series “Dallas”–, located outside of Dallas, continues to draw hundreds of thousands of visitors a year, long after the series ended in 1991. And tourists continue to visit to the Ponderosa Ranch in Incline, Nevada, near Lake Tahoe, even though the Cartwrights rode off into the sunset more than 25 years ago.

related workers, both above the line and below the line, are without work at a given point of time. This is because most production jobs are attached to a particular project, and begin and end with that production. Accordingly, permanent employment is less common in film-related work than in most other sectors of the economy. In addition, a significant portion of the employment stemming from film-making, is not exclusively related to the film and, as a result, is not officially collected in the statistics regarding film and television employment. This includes support workers, such as carpenters, movers, loaders, truckers and caterers which are critical to film production but are categorized in other industries.

²⁶ Chicago Film Office and the Illinois Film Office’s “Report on Production and Economic Activity by Film U.S. Members”.

²⁷ See “Spotlight on Clint Eastwood,” Hersh, Allison, [Savannah Scene](http://www.savannahgeorgia.com), available on “Midnight Links,” www.savannahgeorgia.com; and “Georgia - Showing in a Theater Near You,” Cruce, Jennifer, *Focus*, Spring 1999, Center for Economic Development Services, Georgia Tech. The *Forrest Gump* bus stop illustrates the importance of “authenticity” to the film fan or tourist. Although the movie scene was set in Alabama, fans still seek out the bus stop bench filmed in downtown Savannah.

Georgia On My Mind

Georgia has benefitted considerably from films shot in its state. Over 400 films have been filmed on location in Georgia since 1973, generating substantial revenues for the economy according to the state's Film and Videotape Office. In addition to the economic benefits associated with the film shoots, in a number of cases, Georgia has retained long-lasting benefits from tourism associated with the film locales. The most notable boost in tourism came about with the release of *Midnight in the Garden of Good and Evil*, which was set and filmed in Savannah. Tourism to Savannah increased approximately 15 percent following the release of the book. Following the release of the movie, it was up by as much as 40 percent. As Mayor Floyd Adams noted prior to the film's release:

The economic impact of the "Midnight" movie is expected to be tremendous, as millions of theater-goers around the world will be exposed to Savannah's lush, hypnotic beauty and to its quirky, vibrant people. Once people are able to see it and visualize the beauty of Savannah, people will want to come and see it. This is a major economic boom for us.

Midnight in the Garden of Good and Evil was not the first film shot in Georgia to bring with it lasting economic consequences. *Deliverance*, filmed in north Georgia, resulted in a dramatic boost in the area's nascent tourism and white water rafting industry – one Rabun County outfitter grew from a two-person operation to a \$1.3 million business employing 60 people. Tourists also flock to other Georgia film sites including Juliette (*Fried Green Tomatoes*), Covington (*In the Heat of the Night*), and probably the nation's most famous bus stop (*Forrest Gump*).

The Effect of Runaway Film Production on Primary Film Production States

California, New York, North Carolina, Florida, Texas, and Illinois are considered the leading film and television-production states. While many people associate the problem of runaway film with California, other states have also been adversely affected by runaway film production. For example, the Midwest Office of the Directors Guild of America, which monitors production activity in both the Midwest and the Southeast, observed a 15 to 20 percent drop in feature film and television production in these regions in 1998 and 1999 compared to 1996 and 1997.

So many people out there wrongly think that this is a Hollywood issue. It's not. It's a Chicago issue. It's a Texas issue. It's a New York issue. It's a national issue.

– Rep. Jerry Weller (R-III.)

Measures of trends in film and television production are varied, and include total expenditures by the film industry, the number of film starts, productions taking place, use of sound stages, off-lot shooting, and production days. A one-time joint venture is the dominant business organization for making a movie, and although major studios may initiate the production, a large number of small firms generally supply the goods and services. These services come from the locality where the film is made and are provided by workers which the industry classifies as below-the-line. These below-the-line firms and workers are those most likely to suffer from the direct and indirect effects of runaway film production.

Our economy has been shifting from an economy based on capital or labor to one that is increasingly based on knowledge and skills. In this environment, particularly with the dependence of the entertainment sector on the high tech industry, we have to begin to think of arts and artistic excellence as part of our economic plan, as deserving of the same governmental support as any other activity which creates jobs and contributes to our tax base.

California State Senator Adam B. Schiff, March 1999

California

The State of California is the historical and contemporary center of the entertainment industry, both in the United States and for the world. According to a 1998 report released by the Motion Picture Association of America (MPAA), the entire U.S. entertainment industry generated 226,000 jobs directly in 1996 and

dispensed \$27.5 billion in total expenditure (\$12 billion in total payroll expenditures and \$15.5 billion in total vendor expenditures; personal income and sales taxes totaled \$895 million.) Remarkably, Los Angeles County alone accounted for \$25.6 billion in total economic activity (\$11.2 billion in total payroll expenditures and \$14.3 billion in total vendor expenditures). Indeed, in 1996, the entertainment industry in California accounted for 81 percent of all motion picture starts in the United States and 80 percent of television programming.²⁸ Such activity contributed significantly to California's emergence from the recession of the early 1990s.

However, as with the rest of the United States, California has been significantly affected by runaway film production. The total economic impact on California of runaway film production can be estimated by determining the type and amount of film and television production flight taking place from 1990 to 1998. The Monitor Company report determined that runaway production is "being driven increasingly by runaway television productions." The study notes that television production flight grew 230 percent from 1990 to 1998. The report points out that "in general, productions that are running away are smaller-budget productions (telefilms and feature films with budgets under \$25 million), which represent 75 percent of the total number of economic runaways."²⁹

²⁸ See Motion Picture Association of America, *State of the Industry: The Economic Impact of the Entertainment Industry on California*, 1998, p. 2.

²⁹ Monitor Report, p. 8-9.

Stephen Katz & Associates (SKA) of Los Angeles has also collected data documenting production flight for California and the United States, and published the results in “1999 Motion Picture and Movie of the Week Production Survey.”³⁰ SKA collected data from trade publications, production reports, casting information, State and regional film offices, and personal contacts. The Survey reported that 39 movies of the week (MOWs) were filmed in California in 1998; that figure dropped to 36 in 1999. About half of the MOWs filmed in the United States are filmed in California.

These figures are particularly compelling when compared to production growth in other countries. For example, as MOW production decreased in California, Canada’s MOW production increased from 122 productions in 1998 to 154 in 1999. A more telling statistic is the total number of weeks of MOW production during 1999: California had a total of 152 weeks of MOW production, whereas Canada had 696 weeks of production. Canada is also making inroads on large budget feature film production. In 1999, in the category of feature films with a production schedule of more than six weeks, Canada had 523 weeks of production compared to California’s 569 weeks.³¹

Other studies support these conclusions. For example, the Entertainment Industry Development Corporation’s 1998-99 report on locations for MOWs (including made-for-television and made-for-cable)³² supports the conclusion that Canada has expanded its share of the MOW market vis-à-vis the United States and in particular California. The EIDC data show that the United States and Canada shared the MOW market equally in 1997-98, at 45 percent

³⁰ These SKA data cover much of the United States, but focus on California.

³¹ Data courtesy of Steve Katz Associates/ECO 2000. Data collected by Katz are not based solely on information from trade publications. They tally all known productions with budgets, permits, titles, crew, and other industry indications for the number of weeks shot on specific locations, regardless of whether the production was released. The data track productions with multiple shooting locales, including those filmed both in the United States and Canada that may be double-counted. Katz is a board member of ECO 2000 Group, an industry think tank dedicated to promoting alternative production wage scales as a means of retaining film production in Los Angeles and throughout the United States.

The duration of film production is very significant in economic terms: a production lasting six weeks or more typically requires a budget in excess of \$20 million. According to the survey’s calculations, in 1999 Canada captured over a third of feature films lasting more than six weeks. This trend may indicate that larger budget films are increasingly being produced in Canada, and that runaway production has not been limited to television production in the past three years. It also suggests that Canada has developed the infrastructure necessary to support both feature and television production. Survey figures for Canada in 1999 suggest a trend towards that country’s emergence as a successful competitor in the feature film market.

³² Although there is a similar methodology between EIDC data and the data compiled by Katz (both contacted film offices and production companies to cross reference titles and productions), EIDC data only show those movies that were aired by television and cable networks. Data collected by Katz concentrate on the number of weeks in production during 1998 and 1999, as opposed to productions filmed for that season, and include titles that were not aired.

each, with Canada logging in a slightly higher percentage in 1998-99 (46 as opposed to 43 percent for the United States).³³

New York

After four years of strong growth, New York City, which claims the majority of film and television production in the State, experienced declines in 1999 in feature film and television production. Direct expenditures, which had risen from \$2.4 billion in 1995 to almost \$2.6 billion in 1998, dropped back to \$2.5 billion in 1999. Indirect expenditures followed a similar pattern, rising from \$4.6 billion in 1995 to more than \$5.9 billion in 1998, and declining to \$5.8 billion in 1999. In terms of total shooting days, for both film and television productions, the number of days increased from 21,187 in 1995, to 22,851 in 1998, and dropped to 22,029 in 1999. Feature film production saw the greatest decline, 5 percent, between 1998-99 in terms of total expenditures,³⁴ although this figure may be related to a 20 percent overall decrease in U.S. studio production. In 1999, television production filled some of that void, accounting for more than 50 percent of film and television production in New York City, worth nearly \$1.3 billion.³⁵

The decline of New York feature film production can be traced at least in part to the financial attractiveness of other venues, particularly Canada, due in part to government incentives which lower production costs, such as those associated with labor. For example, the production president for the film *American Psycho*, contemplated shooting entirely in New York, but ended up shooting only some exterior footage there prior to completing the film in Toronto.

³³ Two reasons are often cited for the shift in production to foreign locations - government incentive programs and lower production costs, both of which are discussed in more detail later. Many Canadian incentives in 1997-1998 affected the 1998-1999 season (see Incentive Programs in Other Countries). The EIDC report suggests that it is “possible the U.S. film industry has taken advantage of Canadian subsidies to the fullest extent possible for them at this time. Limitations on shooting in Canada could include personal preference by talent or producer, equipment limitation, or Canadian workforce saturation.”

Location shooting in California (also known as “off-lot production”) was down 8.3 percent in 1999 compared to the previous year, dropping from a high of 13, 980 production days in 1996 to 11,542 production days in 1998 (EIDC data). Some anecdotal evidence suggests that high production costs in California may contribute to this development. For example, Joel Silver, who produced *The Matrix*, *Die Hard*, and *Lethal Weapon*, points to the pervasive culture of “price gouging” in Hollywood. Silver mentioned that within one year, the daily cost of renting a parking lot jumped from \$500 to \$5,000.

³⁴ New York State Governor’s Office for Motion Picture and Television, May 2000.

³⁵ Data from the Mayor’s Office of Film Theater & Broadcasting, New York, New York..
<www.ci.nyc.ny.us/html/filmcom/home.html> Indirect economic impact was calculated using a multiplier of 2.3

The move to Canada saved \$1.5 million to \$2 million on a \$10 million to \$12 million budget, representing a significant percentage of savings.³⁶

This past June, the Boston Consulting Group (BCG) prepared a study at the request of the New York City Investment Fund and the New York City Comptroller's Office. The report examines New York's competitive position in the industry and assesses next steps to support and expand its position. Total direct and indirect spending in 1999 was approximately \$10.1 billion for the film industry, which provided over 170,000 jobs in New York City (see figure 5).³⁷ Information provided by both the Mayor's and Governor's offices supports these figures and highlights the importance for New York to attract film and television production. The Mayor's Office of Film, Theater & Broadcasting (MOFTB) indicated that film and television production helps to support New York's 78,000 freelance professional and technical workers and some 4,000 production-related businesses.

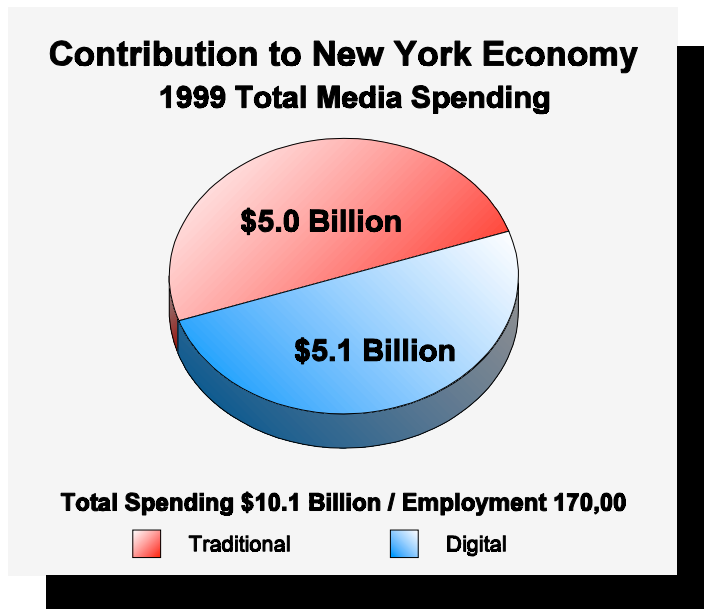


Figure 9

Both the MOFTB and the Governor's Office for Motion Picture and Television Development maintain that the City has been losing business because of increased and unfair competition coming from Canada. They refer to Canadian labor rebate programs as the primary threat to New York's and arguably the nation's film and television industry. Echoing this position, the BCG report also highlights the competition coming from Canada, naming Canada as the most aggressive country in providing direct subsidies. As part of its recommendations, the report encourages New York to develop government incentives, policies and priorities to protect its film production industry and ensure its continued growth and success.

The Film Commissioner for the MOFTB indicated that, despite the tremendous incentives already provided by the city, including concessions made by the unions, New York cannot compete with provinces in Canada that provide significant rebates on labor costs. While

³⁶ Emily Denitto, "NY Film Boom Skids to Halt After 5 Years: Hollywood Cuts, Canadian Incentives Fuel Slowdown, First Layoffs Appear," *Crain's New York Business*, July 5, 1999, 1.

³⁷ Boston Consulting Group, *Building New York's Visual Media Industry for the Digital Age - Findings and Recommendations*, June 2000. Reprinted with the permission of Commissioner Reed-Scott of the MOFTB.

New York City provides incentives for items such as free parking, free permits, a sales tax exemption for consumables, free police service, and no fee locations, New York City's Commissioner of MOFTB argues that this is still not enough to overcome the unfair advantages being provided by Canada. During recent testimony before the City Council, Patricia Reed Scott, New York City's Commissioner from the MOFTB, expressed the difficulty of competing with cities like Toronto, Montreal, and Vancouver, that provide direct rebates of 22 percent of labor costs. She reiterated this position in her meeting with the Department of Commerce staff.

In 1997, Canada began to provide both national and provincial rebates to film and television productions hiring Canadian labor. These rebate programs are beginning to make an expanding and damaging challenge to U.S. film and television production centers. A national slowdown in the volume of film starts began in 1999 and is more apparent in 2000. At the same time, the MOFTB indicated that the full impact of the labor rebates are increasing for the first time most rapidly among the major studio productions. In 1997, only two independent feature films set in New York City were jointly filmed, or production was split (split production) between New York and Toronto. More recently, the number of split productions has been increasing, particularly among the major studio productions. In 1998, 5 features were being split with Toronto (4 independent, 1 major studio); in 1999, 8 features were split (5 independent, 3 major studios); and just this past year, another 8 features were split (1 independent, 7 major studios) (see figure 6). It is important to note that not only a shifting toward the major studios is taking place, but the higher distribution of production spending is going to Canada.(see figure 7). For example, last year, of the \$74 million spent on film production split between New York and Toronto, approximately 63.2 percent or \$46.8 million of the production budget was spent in Toronto.

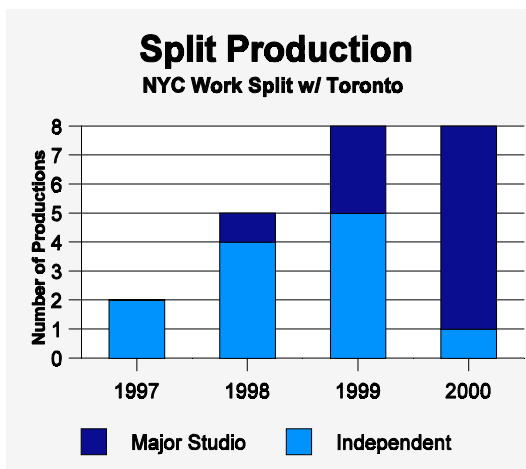


Figure 6

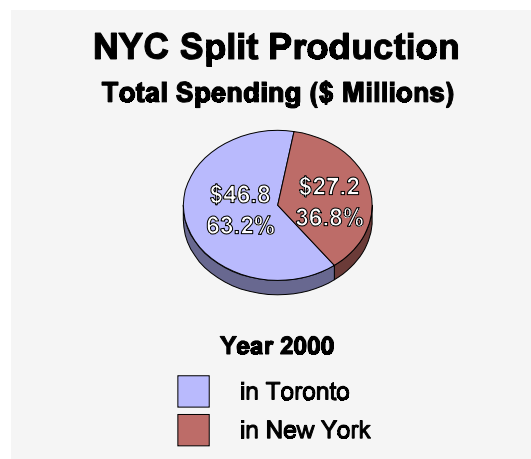


Figure 7

The Film Commissioner for the State of New York argued that competition from Canada has contributed to a change in dynamics within the industry. Costs today have become a significant factor in determining the location of filming production.

Historically, the studios used to contact the city to arrange for filming. Today, the Office of Motion Picture and Television Development says the city is finding that it must aggressively lobby the studios to encourage New York as a filming location. New York's industry representatives are no longer negotiating with the directors or producers; they are now negotiating with the budgeting offices and accountants when courting the studios.

North Carolina

Since 1985, North Carolina has, for the most part, maintained the third-place ranking among U.S. states in film and television production. In that 15-year span, North Carolina has attracted more than 500 features, six network television series, and more that \$5 billion in production revenues. North Carolina's success is seen as the result of a heavy recruiting effort state-wide to attract film and television production. North Carolina has an industry infrastructure that includes six studio complexes, 27 soundstages, over 300 production and service companies and a working crewbase of more than 1,500 professionals. Indeed, in the early 1980s, a significant amount of film and television production moved from California to North Carolina.

The Wilmington area alone has hosted over 300 features, mini-series, movies of the week and 6 TV series (153 episodes), along with numerous commercials and music videos. According to the Association of Film Commissioners International 1997 survey, Wilmington not only generated more film revenue than all U.S. cities other than Los Angeles and New York, but also did more business than 45 states. The film and television industry represents approximately 11 percent of the total area economic base.

Interview finding by New York's BCG report:

"Cost Consultants have boiled everything down to the bottom line. Budgets are set and it is up to us to meet the cost requirements."

- Commercial Producer

"50% of scripts already have a star or director attached to them, and will be driven by artistic requirements and star demands [intangibles]. The 50% of scripts without talent attached will be more cost driven."

- Feature Film Producer

"Location decisions tend to be a trade-off between costs, script and talent...a script can drive the decisions as can A-list talent, but without those factors, cost will be the primary concern."

- Feature Film Producer

"Our incentive is to make shows as cheaply as possible so the studio's risk is minimized. However, there are certain things that I won't compromise on, like the energy of a location which you can't fake."

- Television Producer

However, recent data on North Carolina show a trend toward decreasing revenues from film production in the last three years. The State saw an 25.2 percent drop in production revenues from \$440.0 million in 1996 and 1997 to \$329.0 million in 1998. That drop continued in 1999, with production revenues that year at \$300.2 million, a decline of 8.8 percent from 1998 (see figure 8).³⁸

In North Carolina, as in other states, productions of MOWs, rather than major productions, appear to be the type of production most affected by runaway film production. In 1996, 28 MOWs were produced in North Carolina, 6 in 1997, and 4 each in 1998 and 1999. According to the North Carolina Film Office, a sizable number of the lost MOW productions have gone to Canada, though some have gone to other states (*e.g.*, South Carolina, Virginia, and Maine).

The Wilmington Regional Film Commission (WRAC) has also supplied data relating to runaway film production showing that film production revenue dropped in the Wilmington region by 63 percent from \$242 million in 1996 to \$89 million in 1999, with the sharpest drops in MOWs, from 20 productions in 1996, to 2 in 1999. Feature films numbered 8 in 1996, increased to 10 the following year, and dropped to 5 in 1999.³⁹

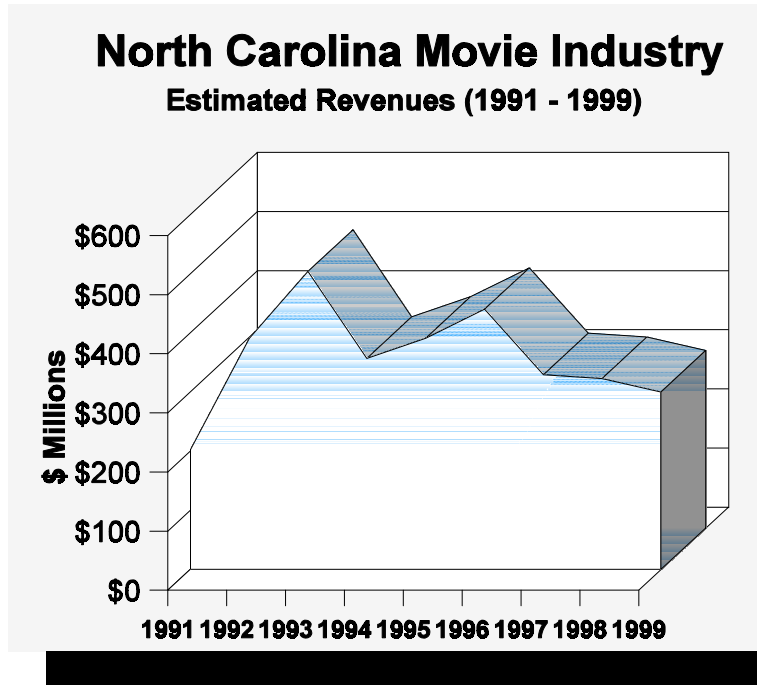


Figure 8

We have lost a lot of MOWs and TV series in recent years, but one positive, so far, is the 100 percent increase in local productions this year over last.

-- Bill Arnold, Director, North Carolina Film Office

³⁸ Telephone interview with Bill Arnold, Director, The North Carolina Film Office, December 27, 2000 and telephone interview with Randy Schumacker, Marketing Specialist, The North Carolina Film Office, April 14, 2000. North Carolina Film Office *On Location 2000*, with revised 1999 data. Estimates do not detail specific budgets or filming days/weeks. Web site: www.ncfilm.com.

³⁹ Letter and table from Johnny Griffin, Director, Wilmington Regional Film Commission, to the U.S. Department of Commerce, July 26, 2000.

Florida

The film and entertainment industry is a vital part of the Florida economy. In January 2001, the Florida Office of the Film Commissioner released a year-long study of the film and entertainment industry in Florida.⁴⁰ This report provides detailed information on the industry throughout Florida and how Florida compares to other states in relative size of the industry over time. The report's comparative analysis of the industry between states concludes that the film industry is no longer just located in California. The film industry in Florida as a whole produces approximately \$3.9 billion in revenues in the state in 1999/2000, from a variety of different segments and areas.⁴¹ The film and entertainment industry accounted for over 3,500 establishments in the State and over 39,000 full-time employees in 1999/2000. Although the state has increased its shares of employees, payroll and establishments in motion picture and video production, the state has experienced a slowing of growth.⁴²

Feature film starts in Florida decreased from a high of 21 in 1996 to a total of eight in 1998,⁴³ the lowest number of feature film "starts" in the state throughout the 1990s. The Florida Film Commission, has noted that the bulk of lost productions in the past year are MOWs; only one MOW was produced in the entire state in 2000. In this area, Canada is taking most of the productions. As with the rest of the United States, runaway productions have become an increasing problem for the state of Florida.

The largest sector in the entertainment industry in Florida is television and cable, accounting for 47 percent, followed by motion picture and video (24 percent). Although motion picture and video is second to television in revenues, it has the highest concentration of employees.⁴⁴ Due to the fact that there are several large metropolitan areas in the state of Florida, the data on the film and entertainment industry can vary between areas in the state. Orlando has had three years of growth, beginning in 1997, and is a major contributor to the region's economy. According to Darrell Kelley, president and CEO of the Economic Development Commission of Mid-Florida Inc., in the face of increased competition from foreign markets, "film and television production has become one of the top five industries in Metro Orlando – fast outpacing growth from other industries when it comes to employment, salaries, and revenues. The region's solid

⁴⁰Florida Office of the Film Commissioner, "An Economic Assessment of the Florida Film and entertainment Industry," January 2001.

⁴¹*Ibid.*

⁴²*Ibid.*

⁴³ John Brinsley, "Eyes Wide Shut," *Los Angeles Business Journal*, August 2-8, 1999, 12. The data were actually compiled by the California Film Commission - Florida's Film Commission has only recently been reestablished after a three-year hiatus.

⁴⁴Florida Office of the Film Commissioner, "An Economic Assessment of the Florida Film and entertainment Industry," January 2001.

infrastructure, excellent crew base, facilities and variety of locations have all contributed to these trends. Metro Orlando is competing for projects on a global level more than ever before.”⁴⁵ Orlando hosts a number of major studios, not the least of which are Disney/MGM, Universal, and Nickelodeon.

Palm Beach has experienced steady growth, mostly because of television and episodic productions.⁴⁶ These productions increased from 58 in 1997 to 98 in 1999. According to the Palm Beach County Film Office, Palm Beach County ranks third behind Miami and Orlando in total film and television production expenditures.

The Northwest Florida/Okaloosa-Walton Commission, although operating on a much smaller scale, has also seen significant growth; expenditures went from \$2 million in 1996 to nearly \$19 million in 1997, although the blockbuster film *The Truman Show* was responsible for most of the growth. The years 1998 and 1999 were not as successful as 1997 in terms of total expenditures. The commission also reported a gain of 20,000 jobs in the past three years. Most production in the Okaloosa-Walton region focuses on commercials and magazine photography.

Texas

In the period 1995 to 1999, Texas saw both feature and MOW production, the largest contributor to expenditures and jobs in the Texas film and television, drop substantially. The Texas Film Commission claims that production has very likely fled to Canada to take advantage of the incentives. Between 1985 and 1991, Texas hosted an average of 7.4 MOW per year. Yet, between 1992 - 2000, that number dropped by almost half -- to 4.8 per year. Incoming inquiries from MOW production companies about filming specific MOWs in Texas have dropped off as well, down

from 25 in 1992 to 15 in 2000. Miniseries production has fallen from a high in 1994 of four with combined budgets of \$52 million, to only one in the last four years with

Lone Ranger Rides Away		
Films Scouted for location Texas but Filmed in Canada		
CHEATERS	2000	\$ 5 million
MISSION TO MARS	1999	\$90 million
BEST IN SHOW	1999	\$ 6 million
TEXAS RANGERS	1998	\$30 million
YOU KNOW MY NAME	1998	\$10 million
DUETS	1999	\$15 million
WHERE THE MONEY IS	1998	\$18 million

⁴⁵ “Film and Television Industry Has Yet Another Solid Year in Metro Orlando,” *Orlando Film and Television Commission*, February 17, 2000.

⁴⁶Based on data collected by Film US, a non-profit trade association representing film commissions throughout the United States.

a budget of \$7 million. The Texas Film Commission is able to identify seven feature films since 1997 that researched Texas and chose to film in Canada. The combined production budgets for those films exceeded \$170 million. According to the Houston Film Commission, total expenditures in the Houston area during 1999 were \$13 million, less than half the 1998 expenditures.⁴⁷

Television production in Texas has also declined by more than half since 1995, with the biggest declines coming after 1997 (see figure 9). In 1996, Texas hosted 10 national TV series on network or cable; by 1999, that number was down to three. The number of TV specials and pilots is also down. In 1997, there were four TV specials and three pilots filmed in Texas. Since 1997, there have been only three TV specials (one each year), and only two pilots in the last three years. The Dallas/Ft. Worth Film Commission reported a drop in TV movies, series and miniseries from nine in 1995 to one in 2000.

At the Commerce Department's field hearing held in Texas on December 18, 2000, representatives of motion picture and television production companies and unions reported that they are seeing increasing numbers of producers scouting in Texas to gather material and research that they intend to use on productions in Canada. Many in the industry invest significant resources in helping a producer scout in order to make the best pitch possible for shooting in Texas. One production manager reported working at no charge for a full month on one production, only to learn the producer chose to film in Canada. Data from the Houston Film Office indicate this is a growing problem. Between

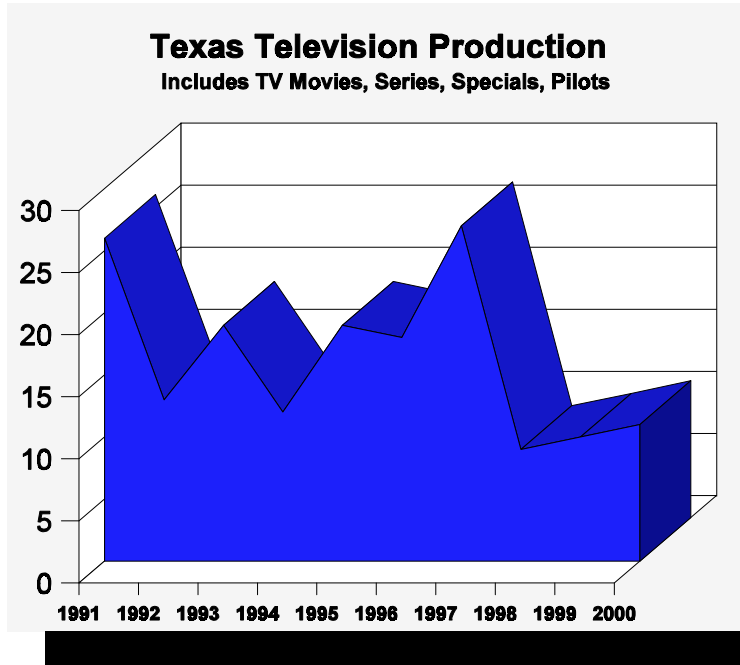


Figure 9

We've had extreme cases, where producers, having opted to shoot Texas scenes in Canada, call us up to request Texas license plates to give the scene an "authentic feel."

– Texas Film Commission

⁴⁷ Houston Film Commission, in *Film US* report on production and economic activity by Film US members.

1994 and 1998, approximately 10 - 15 percent of the shows that scouted in Texas ultimately filmed there. In 1999, only 3 percent chose Texas. Of particular disappointment to the Texas industry, and an exceptional illustration of the runaway film phenomenon, was losing the feature film *Texas Rangers* to Canada, given that the movie was set in Texas and was about the founding of these Texas icons. Participants in the field hearing also noted that Texas traditionally received a significant amount of repeat business from producers who came to Texas. Some expressed concern that if Texas is unable to compete for the “first” film, they would of course be less likely to win the follow-up work.

Illinois

Feature film production appears to drive the Illinois film and television industry, which is centered in Chicago. The fact that Chicago captures the majority of productions in the state no doubt explains why the Chicago Film Office and the Illinois Film Office reported nearly identical data on both feature and television production and total expenditures. Both film offices reported that, with the exception of 1998, total expenditures on productions (including features, episodic productions, and MOWs)⁴⁸ have increased since 1995. In 1995, expenditures were \$22 million; in 1996, \$100 million; in 1997, \$104 million; in 1998, \$83 million; and in 1999, \$124 million.

Despite the generally increasing expenditures in the Illinois/Chicago film and television industry, the evidence suggests that the state has experienced lost production. There are reports of producers scouting Chicago, but then shooting in Toronto, and of producers and production companies in Toronto querying Chicago authorities on how to replicate Chicago scenery. Unlike North Carolina or Florida, locales in the Illinois region are easy to duplicate north of the border.

The Chicago Film Office reports a decline of 33 percent in total shooting days between 1998 and 2000. In 2000, total shooting days were 619, down from 928 in 1998 (see figure 10). This decline was driven largely by a loss of 260 shooting days for television. Because feature films are a large part of the Illinois/Chicago industry,

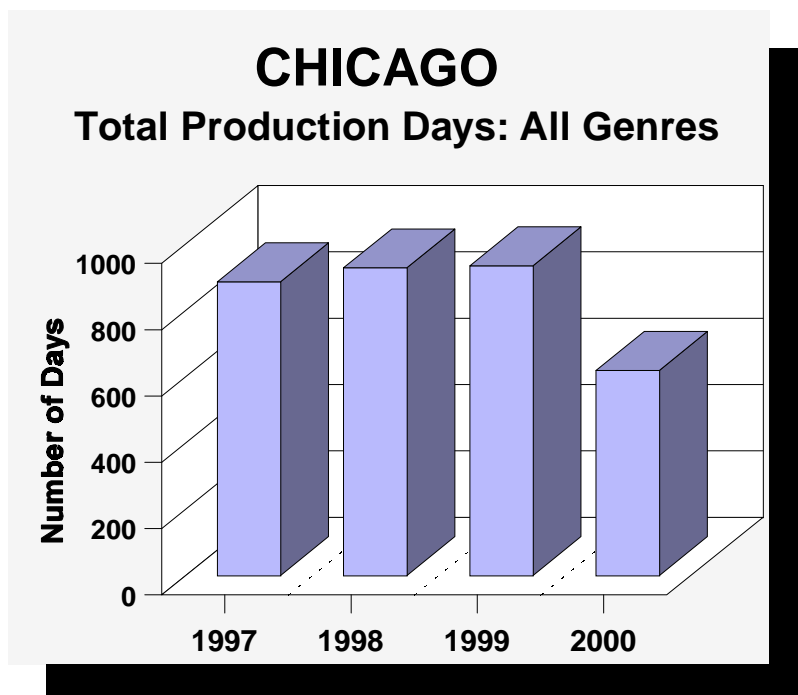


Figure 10

⁴⁸ The Illinois Film Office included videos in its computing of total expenditures.

runaway production takes a significant amount of revenue away from the State. Additionally, while the number of feature films shot in Chicago has remained relatively constant, the number of films set in Chicago but actually filmed in Canada is increasing. The following are specific examples of feature film and television series that have been set in Chicago but shot in Canada for financial reasons:

Gone With the Wind		
Flight of Chicago Films to Canada		
<i>LAKEBOAT</i>	Filmed in Toronto.	Budget \$9 million.
<i>ANGEL EYES</i>	Filmed in Toronto.	Budget \$18 million.
<i>ROLLERBALL</i>	Filmed in Montreal.	Budget \$50 million +.
<i>THE CHEATING SCANDAL</i>	Filmed in Toronto	Budget \$7 million.
<i>DUETS</i>	Filmed in Vancouver.	Budget \$15 million.+
<i>LADIES MAN</i>	Filmed in Toronto.	Budget \$20 million..

Several TV Series written with Chicago locations in mind have shot in Canada. “Due South” and “Falcone” (Toronto) were Chicago-based stories. Budgets on these projects were \$12 million. “Soulfood,” the TV Series based on George Tillman’s feature film of the same name (which was shot in Chicago), is being produced in Toronto.

During a Department of Commerce field hearing conducted December 20, 2000, local representatives in motion picture, television, and commercial production companies relayed their personal stories. Most reported that their businesses were being threatened by increased competition from Canada, particularly the wage credit program. One participant had already been forced to close his business, and others were not sure whether they would be able to stay in business much longer.

The effects of lost production are taking a toll on Chicago’s motion picture and television production industry. Chicago’s *Show* magazine found that when it began printing the latest edition of its *Annual Production Bible*, a directory of companies in the industry, more than 70 percent of the firms listed in the previous edition published only 15 months before were no longer in business. Even with the emergence of new technologies in the industry, the replacement rate for new companies was only 25 percent.

Production of commercials has been an area where Chicago held a longstanding cost advantage. According to a study recently commissioned by the Midwest Chapter of the Association of Independent Commercial Producers, commercial production in Chicago in 1999 contributed almost \$60 million in direct economic impact and 693 equivalent full-time jobs. Commercial production does not generally meet the minimum dollar requirements to qualify for Canada’s wage credits and other incentives.

However, Chicago's commercial production is increasingly threatened by lower-cost Canadian productions. The burgeoning movie and television industry and its accompanying infrastructure in Canada are leading to increasing commercial production north of the border. This is particularly troubling to the industry because many in the industry rely on commercials to sustain their businesses between feature films and other larger projects. Without a robust commercial industry to sustain these businesses, the infrastructure to support motion picture and television production in Chicago may no longer be available. According to the Chicago Film Office, the number of production days for commercials dropped 64% from 297 in 1997 to 107 in 2000. Participants in the Chicago field hearing expressed great concern for the future of commercial production in Chicago if this trend is not reversed.

Chapter 4

Principal Foreign Destinations of Runaway Film Production and the Growth of Foreign Film Industries

The principal destinations of U.S. runaway production are Canada, the United Kingdom, Ireland, and Australia. These countries have four main traits in common, they are all English-speaking, they all have a skilled workforce, they each offer a variety of incentive programs to the film industry, and the film markets in each are growing rapidly. Of these countries, Canada is by far the largest host to U.S. film production. The estimated value of U.S. production in Canada ranges from US\$573 million⁴⁹ to US\$2.24 billion in 1998.⁵⁰ Either way, this value is significant. In addition, there is a clear trend towards an increase in U.S. film production in Canada. (See charts below.) The second largest destination, the United Kingdom, reported the value of U.S. filming to be US\$647 million in 1999⁵¹, also a significant value. In Australia, the best estimate of U.S. production is close to US\$175 million per year,⁵² while in Ireland, U.S. filming in 1998 reached US\$53 million.⁵³ The growth and significance of the film market in each of these countries is described in detail below. The role of incentive programs in the issue of runaway film production will be discussed in the next section titled *Incentive Programs in Other Countries*.

CANADA

The Canadian film industry has grown rapidly in the 1990s, and U.S. filming in Canada has increased significantly during this period. However, U.S.-origin productions are widely recognized as making an overwhelmingly significant contribution to the growth of the Canadian film industry.

According to *Profile 2000*, a Canadian industry publication, film and television production in Canada reached over CAN\$3.6 billion (US\$2.4 billion) in 1999. This figure represents an approximate 20 percent increase over the previous year (1997-98) and a tripling

⁴⁹ Pamela Brand, National Executive Director, Directors Guild of Canada, letter dated May 29, 2000. It should be noted that the total value of U.S. production in Canada as measured by the DGC is based solely on the number of films registered with the Commission.

⁵⁰ Monitor Report, p.3. The figure of US\$2.24 billion of lost U.S. production to Canada is calculated as 80 percent (representing the share of U.S. production the Monitor Report attributes to Canada) of US\$2.8 billion, the total amount the Monitor Report estimates as lost to runaway production.

⁵¹ Fiachra Gibbons, "Tax Could Make Film Industry a Sleepy Hollow," *The Guardian* [Manchester], February 7, 2000, 6.

⁵² Australian Film Commission, *National Production Survey 1998/1999*, 25.

⁵³ Audiovisual Federation of IBEC, *The Economic Impact of Film Production in Ireland—1998*, 1.

since 1992-93 (see figure 11).⁵⁴ *Profile 2000* further reports that the Canadian film and television industry supported approximately 100,000 direct jobs in Canada in 1998-99, an increase of 13 percent over the previous year. Foreign location shooting, the majority of which can be presumed to be U.S. productions,⁵⁵ totaled CAN\$1.1 billion (US\$740 million), an increase of 34 percent over the previous year and an almost five-fold increase during the period 1992-98.

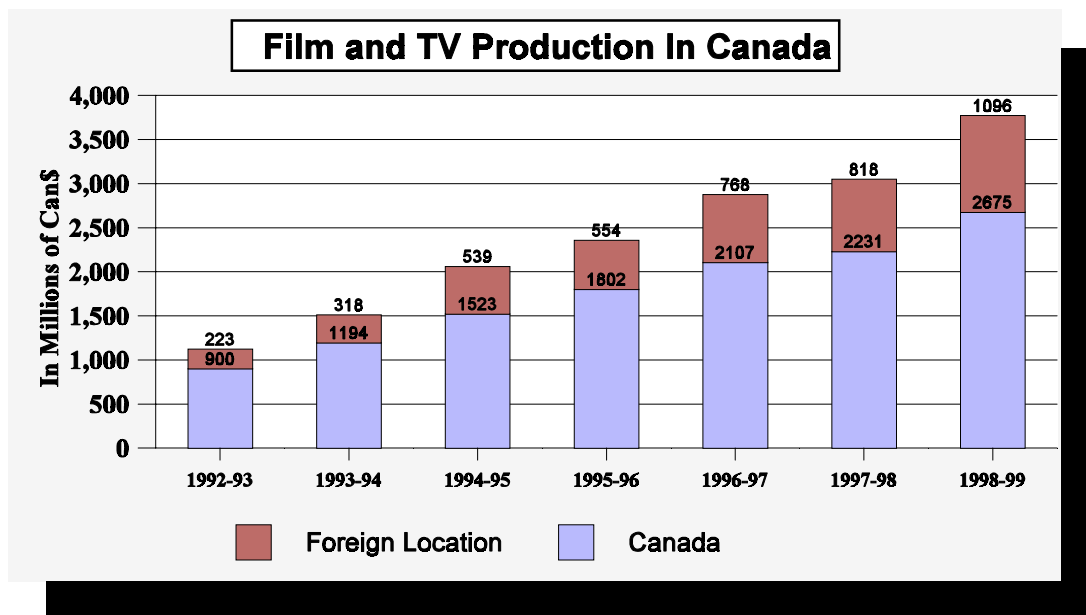


Figure 11

Canada has been very successful in building a domestic film industry based largely on the activities of U.S. film makers. In fact, *Profile 2000* states that “penetration of foreign markets is likely a necessary condition to drive an expanding base of film and television production in Canada.”⁵⁶ “Penetration of foreign markets” would result both from export of Canadian filmed entertainment, and from foreign film makers making films in Canada.

⁵⁴ Figures are reported by fiscal year, which is April to April (therefore, for example, 1998-99 figures are 3/4 from 1998, 1/4 from 1999), and reflect PWC estimates based on data from various Canadian government cultural organizations. Because this study concentrates on feature and television drama films, “other” productions, such as “broadcaster, specialty and pay television in-house production and non-CAVCO certified production estimates,” which are included in the *Profile 2000* report, are not included here. Source: Based on information from Canadian Film and Television Production Association and l’Association des producteurs de films et de télévision du Québec, *Profile 2000*, February 2000, 19.

⁵⁵ Pamela Brand, National Executive Director, Directors’ Guild of Canada, letter dated June 6, 2000.

⁵⁶ *Profile 2000*, 30.

British Columbia, Ontario, and Quebec are the three largest film- producing provinces in Canada, comprising over 90 percent of total production dollars in 1998-99 (see figure 12).⁵⁷ A more detailed profile of film and television production by Canadian province is available from most of the provincial film commissions. The following analysis is based on information

provided by the three leading film production provinces: British Columbia, Ontario, and Quebec. Note that reporting methodologies vary from province to province. The figures included below are not intended for a precise comparison, but rather to characterize the industry in each province.

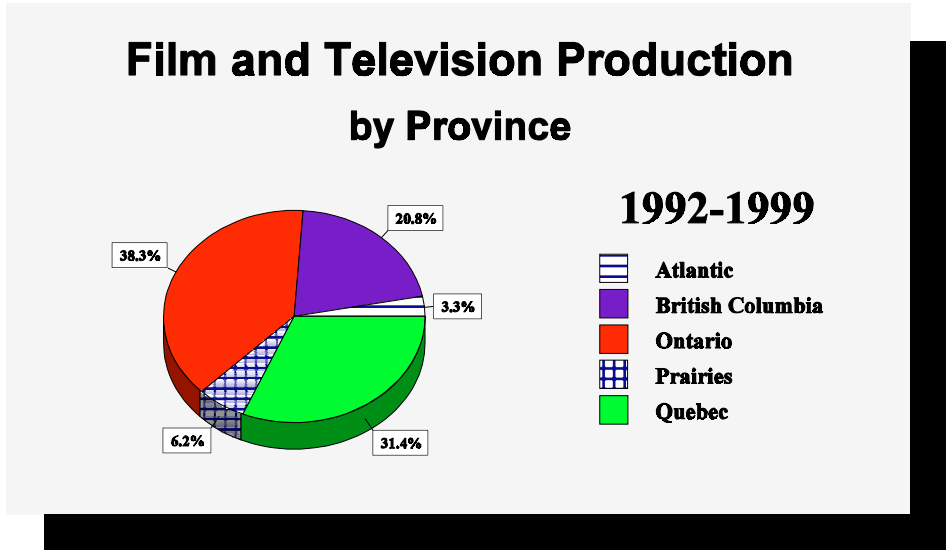


Figure 12

British Columbia

Over the past decade, British Columbia’s film industry has grown by approximately 469 percent. In 1999, a total of CAN\$1.07 billion (US\$) was spent on 198 productions in the province. Of this amount, Canadian production activity accounted for \$405 million. This represents a 14 percent increase from 1998, with a total of 116 Canadian productions filmed in British Columbia. This included 32 feature films, 10 television movies, mini-series, and pilots, and 10 television series. Foreign activity for this period accounted for CAN\$664 million, representing a 50 percent increase from 1998. In 1998, foreign film production accounted for 54 productions and jumped to 82 in

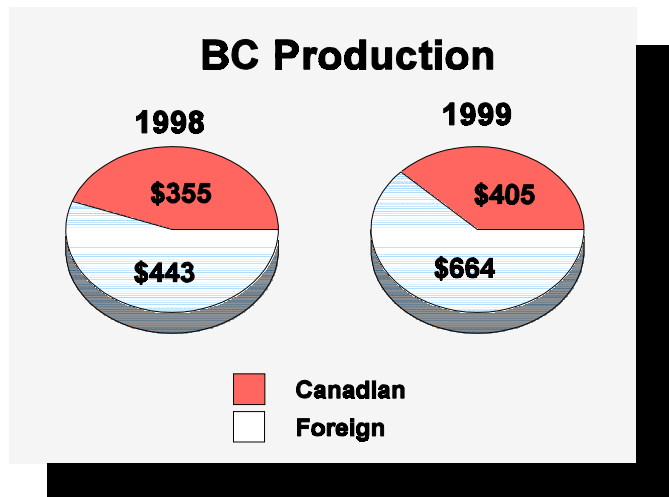


Figure 13

Source: US&FCS

⁵⁷ Source: Based on information from Canadian Film and Television Production Association and l’Association des producteurs de films et de télévision du Québec, *Profile 2000*, February 2000, 7.

1999 (see figure 13). This included 22 feature films, 50 television movies, mini-series, and pilots, and 10 television series.

In terms of the number of productions, foreign features and television dramas doubled from 1998 to 1999. In 1999, the production of the 22 foreign features hosted by British Columbia was worth CAN\$338 million (US\$228 million) – half of total production expenditures – in the province, and the 50 foreign television movies/mini-series/pilots, was worth CAN\$207 million (US\$139 million) – about 60 percent of total production expenditures – to the province (see table 1, Appendix).⁵⁸

Table 1. British Columbia Film Production, 1995-99

Year	Production Dollars Spent in the Province (million CAN\$), including Features, TV Mini-Series, Movies, Pilots, and TV Series			Number of Productions		
	Canadian	Foreign	Total	Canadian	Foreign	Total
1995	114.30	318.51	432.81	35	60	95
1996	175.06	361.84	536.90	35	67	102
1997	206.06	424.53	630.59	38	63	101
1998	314.75	439.21	753.96	49	48	101
1999	364.82	664.09	1028.91	62	82	144

A surge in production followed closely with the introduction of provincial production credits in June 1998. British Columbia boasts of 70 post-production facilities, 50 shooting stages, and the infrastructure and crew to support 35 projects simultaneously.⁵⁹

Ontario

⁵⁸B.C. Film Commission, “Breakdown of 1999 Productions Shot in British Columbia,” March 1999, <<http://www.bcfilmcommission.com/filminfo/break99.htm>> Table1 Source: Based on information from the British Columbia Film Commission website <<http://www.bcfilmcommission.com>> and Ministry of Small Business, Tourism and Culture, “B.C.Film Production Tops \$1 Billion,” News Release, February 8, 2000.

⁵⁹B.C. Film Commission, “Quick Facts about the BC Motion Picture Industry,” <<http://www.bcfilmcommission.com/filminfo/qfbcmpi.htm>>

For several years, Ontario has been the second-largest Canadian film production center and rival to Chicago and New York for U.S. television movie production, reporting production expenditures of CAN\$934 million (US\$629 million) in 1999 (see figure 14). This represents a 25.7 percent increase from the previous year's expenditures of CAN\$743.2 million (US\$501 million). Of this amount, CAN\$442.7 million (US\$298 million), or 47 percent, is attributed to foreign production. This is nearly half of the production dollars spent in Ontario in 1999. Foreign production projects included 21 feature films, which had expenditures of CAN\$215 million (US\$145 million), and 58 television dramas, with expenditures of CAN\$178 million (US\$120 million). In 1998, foreign production jumped 57.2 percent; and in 1999, the increase was 27.6 percent (see figure 15).⁶⁰

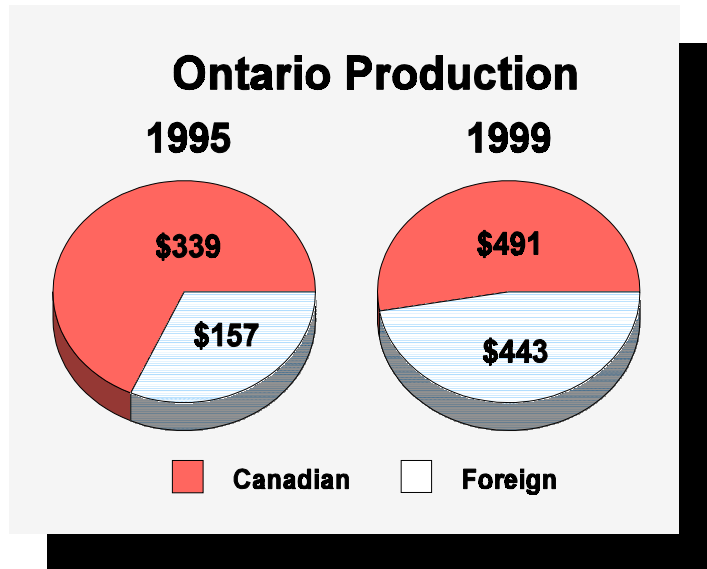


Figure 14

Source: US&FCS

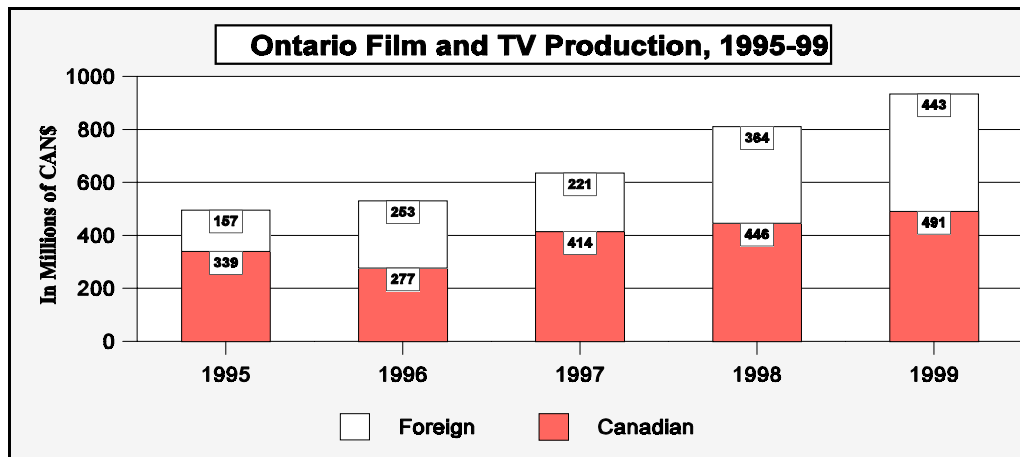


Figure 15

⁶⁰ Source: Based on information from the Ontario Film Development Corporation <<http://www.ofdc.on.ca>> and Ontario Film Development Corporation, "Ontario Film and Television Production Reaches New Heights in 1999," News Release, January 26, 2000. Includes features, television mini-series, movies, pilots, and television series.

For the first six months of 2000, production value in Toronto was already up by 15.2 percent when compared to the same time period the previous year. Production in Toronto through June 2000 was valued at CAN\$352.8 million (US\$238 million) compared to CAN\$306.2 million (US\$206 million) through June 1999. These figures do not include production value for TV commercials, animation or special effects. In total, there are approximately 550 new projects at 1,587 locations, accounting for a total of 3,229 shooting days. For the year 2000, 61 percent of the production shooting taking place in the province originated from the United States -- the remaining 39 percent are Canadian (see figure 16). These figures are all up from the previous year. The industry employs approximately 10,000 people directly, another 10,000 indirectly, and it helps to keep Ontario as one of the largest film and television production centers in North America.

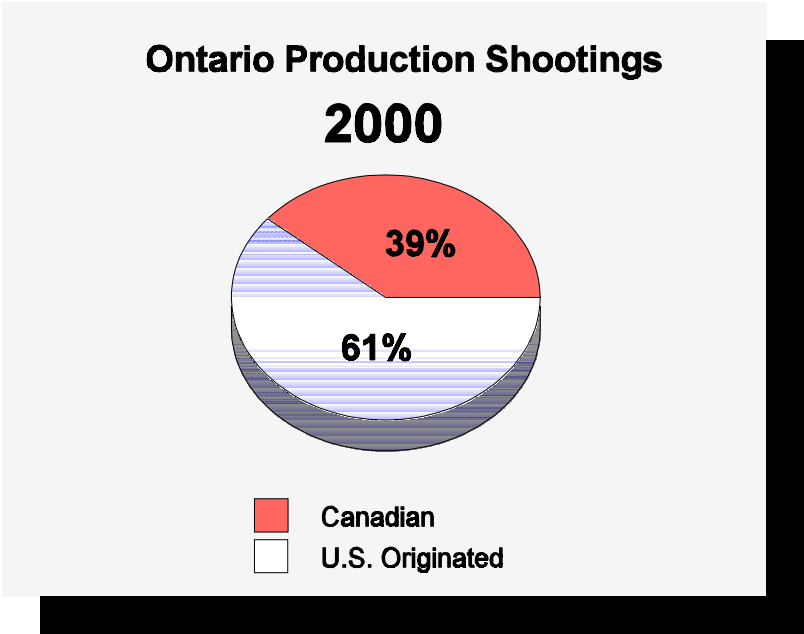


Figure 16

Quebec

Film production statistics for the province of Quebec are neither complete nor easily comparable with national or other provincial film production statistics. The Quebec film market is unique in that the provincial government stresses and heavily supports French-language programming. As a result, Quebec attracts less U.S. film production than do British Columbia and Ontario. The Quebec film and television industry remains concentrated in Montreal due to its pool of specialized workers, facilities and equipment. Almost all production shoots in the province are filmed in Montreal, with some productions filmed in Quebec City. Both locations are able to recall New York, Paris, or small New England town scenes that make them an attractive alternative to filming in the original locations. Montreal ranks fourth among 13 North American metropolitan regions in the entertainment industry, after Los Angeles, Minneapolis and Toronto. Spending related to local film and television production was reported to be CAN\$695 million (US\$468 million) in 1998, 80 percent of which was domestic and the remainder U.S. (CAN\$139 million; US\$94 million). In that year, “economic spinoffs” of the film industry were reported at CAN\$1.5 billion (US\$1.01 billion).⁶¹ In 1999, Quebec surpassed

⁶¹Connie Irrera, “Canada - Opportunities in Film Industry - IMI991014 Market Research Reports: International Market Insights (IMI),” USDOC, International Trade Administration, October 14, 1999, 2.

Ontario and has taken second place in total film production in Canada, with reported film production revenues of CAN\$725.4 million (US\$488 million).⁶²

UNITED KINGDOM

The United Kingdom has a history of attracting U.S. film production, although it is usually ranked behind Canada in terms of total foreign production expenditures. In 1999 alone, U.S. motion picture production in the United Kingdom amounted to some US\$647 million out of an estimated US\$919 million in total foreign investment, a 35 percent increase over 1998 (see figure 17).⁶³ The foreign companies working in the country usually focus on feature film production.

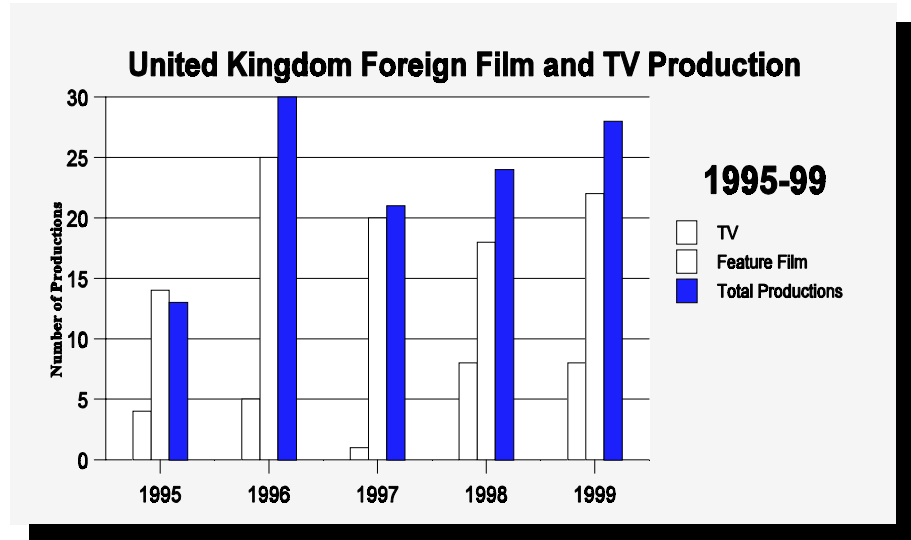


Figure 17

The U.K. motion picture industry, like the Canadian film industry, has realized tremendous growth. The foreign feature films being produced in the country have taken over the large studios, and domestic production of domestic films is increasingly taking place in smaller, previously underutilized studios. Studio space has expanded significantly, and Britain now boasts the largest studio space in Europe. The United Kingdom has also become a dominant force in post-production and special effects technology. Films shot entirely in the United States do post-production work in Britain because of the quality of the service there as well as of lower costs.⁶⁴ The British Film Commission established a Los Angeles Liaison Office in 1998 to further promote the U.K. film industry.

⁶²David B. Zitzerman, et al, *Location Canada: A Guide to Producing in Canada and Doing Business with Canadians*, (Toronto: Goodman Phillips & Vineberg, March 2000), 2.

⁶³U.S. production expenditure figure calculated using a 1999 exchange rate of .6180 (see table 2). Original figure of U.K.£400 million taken from Fiachra Gibbons, "Tax Could Make Film Industry a Sleepy Hollow," *The Guardian* [Manchester], February 7, 2000. Total foreign investment figure reported in Adam Dawtrey, "U.K. Pic Investment Up 35% in 1999," *Variety*, February 7, 2000, 25. Source for Figure 12 is based on information from the British Film Commission.

⁶⁴See "Working in the U.K.," on the British Film Commission (BFC) website, <www.britfilmcom.co.uk>

AUSTRALIA

Australia is another major foreign location for the U.S. film industry production. The Australian film industry, however, is characterized as having a generally weak, and unprofitable domestic sector that is highly subsidized by the government. At the same time, the industry has a growing foreign and co-production sector. According to the Australian Film Commission, from 1997-98 to 1998-99, foreign film production in Australia more than doubled in terms of total dollar (Australian) value, and co-productions tripled.

The production of U.S. made-for-television movies in Australia has surged since the latter part of the 1990s – from two movies in 1995 to six movies in 1998 (see figure 18). What has perhaps drawn attention to U.S. filming in Australia is the fact that U.S.

productions shot in Australia have been successful at the box office -- among them are blockbusters such as *The Matrix*, *The Thin Red Line*, and *Star Wars 2*. Producer Rick McCallum also plans to film *Star Wars 3* in Australia.

Foreign film companies are attracted to Australia by a growing film production infrastructure and lower costs (including labor rates that are reportedly 25 to 35 percent less than in the United States).⁶⁵ Other factors include English as the native language, availability of highly skilled technical workers, reverse seasons, and varied location terrains, including cities, jungles, deserts, and mountains. Australia has stepped up its campaign to attract foreign film production. Ausfilm, an organization tasked with promoting filming in Australia, was created in 1994 and opened an office in Los Angeles in September 1996.

Australian officials actively seek to draw production from Hollywood inasmuch as U.S. films and television shows make up a large proportion of the Australian viewing fare. According to an article in the *Los Angeles Times* in July 1999, “They [Australians] argue that the

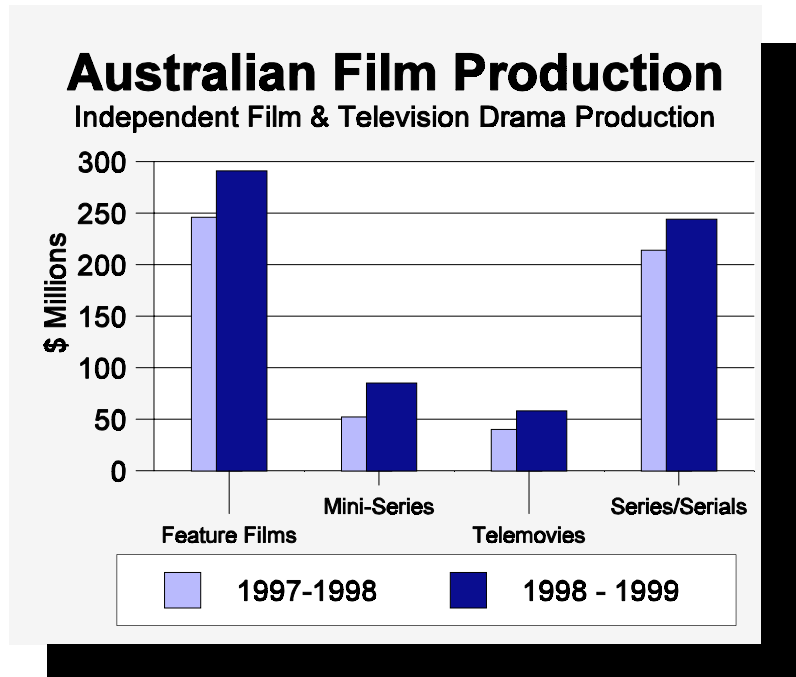


Figure 18

⁶⁵Jennifer Johnson, “Australia - Film Production - ISA980401,” Market Research Reports: Industry Sector Analyses (ISA) USDOC, International Trade Administration, <www.stat-usa.gov> April 1, 1998, 5.

entertainment business is an international one and that the U.S. should expect to share production with other countries.”⁶⁶ This argument appears to resemble that made by the Canadians.

IRELAND

The Irish film industry is comparatively small. Nonetheless, Ireland is ranked in the top ten countries for production of U.S. films abroad. In 1998, U.S. investment in the Irish film industry totaled IR£ 37.4 million (US\$53 million), an increase of 82.4 percent from 1997. Ireland considers U.S. film makers the “most important” among non-Irish investors: U.S. investment makes up over 25 percent of total funding for the Irish film industry.⁶⁷ The Minister for the Arts, Heritage & the Islands, indicated that production spending in Ireland had already exceeded the US\$61.9 million spent in 1999, even without the final numbers for 2000, which include several projects certified and others awaiting approval.

The Irish are actively courting the U.S. film industry and are willing to take extra steps to attract film makers to their shores. In February 2000, the Irish Minister of Arts and Heritage for Gaeltacht and Islands, spent four days in Los Angeles marketing Ireland as a prime location for filming. During the trip, the Minister visited 20th Century Fox, Warner, MGM, HBO, and the Locations trade fair. This was the third such visit by the Minister to Los Angeles.

We were contacted by Mel Gibson’s people, who said they had a wonderful time making “Braveheart” in Ireland, and gave us some contact numbers. So we made a few calls, the Irish army volunteered their services, and we were able to make our movie.

**– Steven Spielberg
Director, “Saving Private Ryan”**

A number of factors has improved the Irish film industry’s position recently: the extension of incentive programs; favorable exchange rates; the Minister’s concerted efforts to attract U.S. films; the involvement by the current James Bond actor, Pierce Brosnan, in the Screen Commission’s Board, and the establishment of his Irish Dreamtime production company; and the success of such films as *Braveheart*, *Saving Private Ryan*, *Angela’s Ashes*, and *Moll*

⁶⁶James Bates and Robyn Dixon, “Hollywood Is Beating a Path to Australia,” *Los Angeles Times Business*, July 11, 1999, C17.

⁶⁷Audiovisual Federation of IBEC. iv, 1.

Flanders, which were filmed all or partly in Ireland. One additional factor that was highlighted by a U.S. film producer which helped entice his company to film in the Emerald Isles was the establishment of a quota by the European Union (EU) limiting the number of foreign films. These quotas are primarily aimed at the United States. Therefore, filming in Ireland exempts the movie from the EU quotas and provides greater access to the EU market.⁶⁸ In total, film production is on the rise in Ireland, and the country is beginning to present itself as a very attractive location and viable option for shooting U.S. film production (see figure 19).

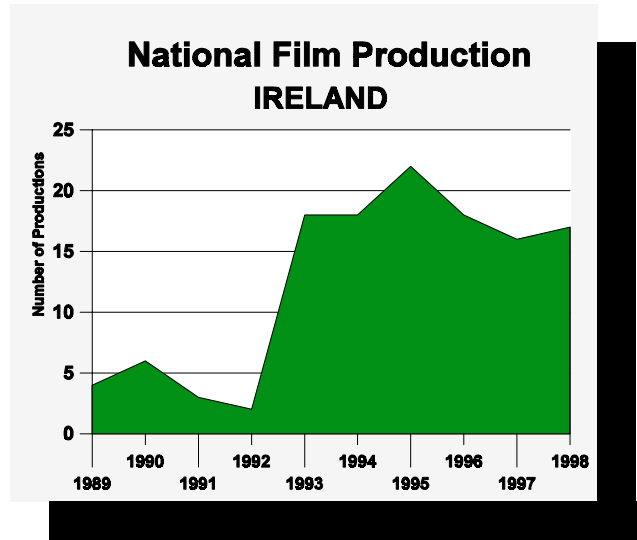


Figure 19

Growth in the Film Industry Abroad

There has been tremendous growth in the film industry over the past few years in Canada, Europe and Australia. Although the U.S. film industry has also grown during the same period, it appears, based on the research of this study, that the rate of production growth abroad has outstripped the rate here at home (see figures 20 and 21).⁶⁹ Nonetheless, although the basis for comparison may not be identical, we believe that available information is useful in identifying trends and showing the differences in relative growth rates among countries.

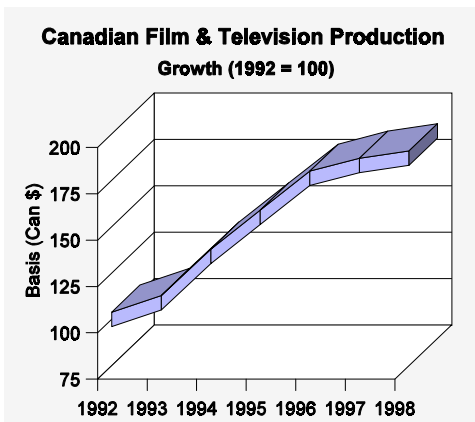


Figure 20

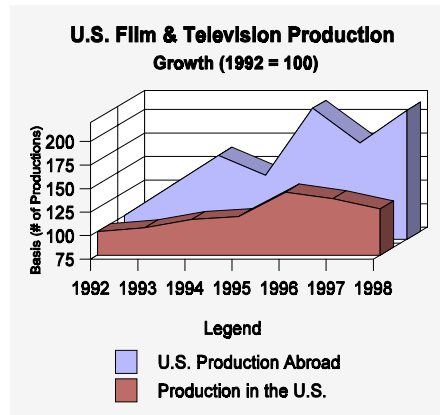


Figure 21

⁶⁸AFMA Newsletter, First Quarter 2001

⁶⁹ Figure 20 data is based on value of production in Canada. Figure 21 data is based on quantity of production in the United States and quantity of U.S. production overseas.

The difficulty in assessing growth trends with any precision is that most countries do not track, in any uniform way, domestic production. The data we have identified tend to rely on different measures. For example, some data are based on production days, some on the number of actual productions, and some on industry employment. The examples in Figures 18 and 19 illustrate our contention that foreign production growth rates are outstripping those in the United States. Figure 18 shows the growth, in Canadian dollars spent, of all film and television production in Canada. Figure 19 shows film and television production data for the United States in terms of number of films made. Figure 14 suggests that production in the United States experienced only moderate growth, while both total Canadian growth in film production and U.S. production abroad experienced very heavy growth rates. Further, the figure shows that the growth rates of both total Canadian production and total U.S. production abroad are almost identical -- approximately 100 percent.

While the analysis has focused on the top destinations for runaway film, there are many other countries (*e.g.* Mexico) that are presenting themselves as very attractive locations for filming. These countries have recognized the potential of this industry and have begun to take steps to attract U.S. film production, which is necessary to develop a competitive industry. This will most likely exacerbate the problem of runaway film in the future.

Chapter 5

GLOBALIZATION AND TECHNOLOGY

Globalization Hits the U.S. Film Industry

The International Monetary Fund (IMF) defines globalization as “the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders.”⁷⁰ In a sense, the globalization that has had such a profound effect on other U.S. industries over the last few decades has belatedly reached the film industry.

Film production has been on the rise all over the world. As countries increase film production, they develop the infrastructure and technological expertise required to maintain a viable film industry. These developments increase the competitive pressures on traditional industry leaders, mostly in the United States. Indeed, ten years ago, it was difficult and inefficient to produce a film in many countries because of the lack of infrastructure (such as adequate sound stages) and the lack of a skilled labor force. However various countries have built an infrastructure and developed technical expertise, other competitive advantages that they may enjoy, such as lower labor rates, suddenly come into play.

A number of factors have encouraged U.S. film production to move abroad, including growing worldwide consumer demand for filmed entertainment, construction of new state-of-the-art studios abroad, favorable financing and tax incentives from foreign governments, the formation of international production companies, and new technology that has both led to the replacement of some U.S. film workers and facilitated the movement of high-quality film production to nontraditional locations. Film budgets are increasingly consumed by high production costs both above and below the line and by increased emphasis on marketing. At the same time, the meteoric expansion of television channels worldwide via cable has brought huge demand for productions that typically require lower budgets. Foreign film industries have seen the window of opportunity that these circumstances have opened and, with the help of government programs, have moved in to claim their share of the action. All of these factors have transformed what used to be traditionally American television and feature film production into an increasingly widespread global industry.

Cost Competitiveness of the United States

Many people in the film industry talk about exchange rates and runaway film production, attributing runaways to the dollar’s purchasing power abroad. They often cite Canada as an example, where the current exchange rate of U.S.\$65-\$.70/Can\$ gives U.S. movie producers significant more purchasing power in Canada than in the United States.

⁷⁰IMF Staff, “Globalization: Threat or Opportunity?” Issues Brief, April 12, 2000, <<http://www.imf.org/external/np/exr/ib/2000/041200.htm>>

We take this concern about purchasing power essentially to be about cost and the cost competitiveness of the United States and other countries such as Australia, Canada, Ireland and the United Kingdom as locations for making movies. We note first that exchange rates are only one determinant of total cost (measured in dollars). Prices are also a fundamental determinant of costs, and we therefore consider both prices and exchange rates in analyzing the issue of cost.

Our analysis of cost necessarily focused on trends (i.e., changes) in costs, since cost differentials across borders, *per se*, certainly cannot explain runaway film production.⁷¹ If a fundamental or a cause of runaway production in the last decade was a decline of production costs (in U.S. dollars) in relative terms in the principal destination countries, one would expect to see costs in Canada, Ireland, the United Kingdom, and Australia trending downwards vis-a-vis those in the United States. While a complex regression analysis would be required to test whether differences in relative costs were in fact *driving* runaway production, a task that is beyond the scope of this paper, we have examined in the most general terms whether there is reason to believe that changes in relative costs may have been a major factor.

Keeping these points in mind, we can take a look at IMF exchange rate and consumer price index (CPI) data for the United States, Australia, Canada, Ireland and the United Kingdom (UK). In table 1, for the time period 1985-2000, we have calculated percentage changes in the exchange rate (e), measured in US\$ per foreign currency unit, and the U.S. and foreign country CPI (USCPI and FCPI, respectively). The CPI serves as a proxy for an index of total movie production costs. Three-year moving averages of the underlying variables were used to smooth the data, and we assumed that all costs were incurred in the currency of the country in which the production takes place. Using these percentage changes, we calculated values for the statistic R, which is the change in the total cost of production in the foreign country in question (in US\$) relative to the change in the total cost of production in the United States, where R is given by the following formula:

$$R = (1 + \% \Delta \text{FCPI}) * (1 + \% \Delta e) / (1 + \text{USCPI}).$$

A value of R greater than one means that the total cost of movie production has risen in the foreign country relative to the total cost of production in the United States over the specified time period (with costs declining relatively within R less than 1).⁷² The larger the divergence between R and 1 (in either direction), the larger is the relative change. From table 1, we see that costs for the 1990-2000 period essentially remained unchanged in relative terms in the UK and fell somewhat for the other three countries. For the more recent period, 1995-2000, we see similar patterns, except that the changes are even less pronounced. We do not see costs

⁷¹ That is, if costs (in U.S. dollars) are lower now in Canada than they are in the United States, but have always been lower and by the same amount, then that fact *alone* cannot explain runaway film production.

⁷² A value of R greater (less) than one does not mean that the total cost of production in the foreign country is greater (less) than the total cost production in the United States.

trending down significantly in relative terms in the principal destination countries for runaway film production.

Table 1

1985-1990	Exchange Rate	USCPI	FCPI	R
Canada	9%	20%	24%	1.12
UK	24%	20%	30%	1.35
Ireland	35%	20%	21%	1.36
Australi	-6%	20%	54%	1.21
1985-1995	Exchange Rat	USCPI	FCPI	R
Canada	-3%	43%	43%	0.97
UK	11%	43%	62%	1.25
Ireland	33%	43%	38%	1.29
Australi	-13%	43%	81%	1.09
1985-2000	Exchange Rat	USCPI	FCPI	R
Canada	-13%	61%	54%	0.83
UK	15%	61%	85%	1.33
Ireland	1%	61%	54%	0.96
Australi	-24%	61%	100%	0.94
1990-2000	Exchange Rat	USCPI	FCPI	R
Canada	-20%	34%	25%	0.74
UK	-8%	34%	43%	0.98
Ireland	-25%	34%	27%	0.71
Australi	--19%	34%	30%	0.78
1995-2000	Exchange Rate	USCPI	FCPI	R
Canada	-11%	13%	8%	0.86
UK	4%	13%	15%	1.06
Ireland	-24%	13%	11%	0.75
Australi	-13%	13%	11%	0.86

Source: IMF International Financial Statistics. Data based on three year moving average. Year 2000 data is an average of the first three quarters.

This somewhat oversimplified analysis that we have done is no substitute for the complex analysis that an economist would do to determine whether differences in relative costs have *caused* runaways. In fact, we are not addressing this question. We are merely suggesting that it

is not immediately apparent, based on the data we have examined, that there have been an significant and sustained changes in relative costs, whether owing to exchange rate or price changes, between the five countries examined and the United States over the last 15 years.

Finally, there are transaction and relocation costs that could create natural relocation barriers, which can be overcome only when the magnitude of the relative change in production costs is large enough and not thought to be short-term. However, in the new digital age, natural relocation barriers almost certainly are lower, and dollar-minded movie producers are likely becoming more sensitive to changes in relative production costs across borders. If relative changes in the cost of production are not of a magnitude sufficient to induce movie producers to relocate production, they at least help the process along. If relative changes in production costs are not sufficient to induce runaways, other factors could be at work, *e.g.*, newly constructed movie studios or the development of specific labor skills, changing movie producer interest in country-specific natural resource endowments (majestic mountains, roaring rivers), or newly-established incentive programs.

Rising Production Costs in the United States

Over the last decade, the major Hollywood film studios and independent production companies around the country have faced a period of decreasing profits, as domestic costs for production and distribution rose substantially. Between 1990 and 1999, average “negative costs” (total costs related to the acquisition and production of a movie prior to its release) almost doubled, going from \$26.8 million to \$51.5 million (see figure 22). At the same time, the average distribution cost for new feature films more than doubled, going from \$11.97 million in

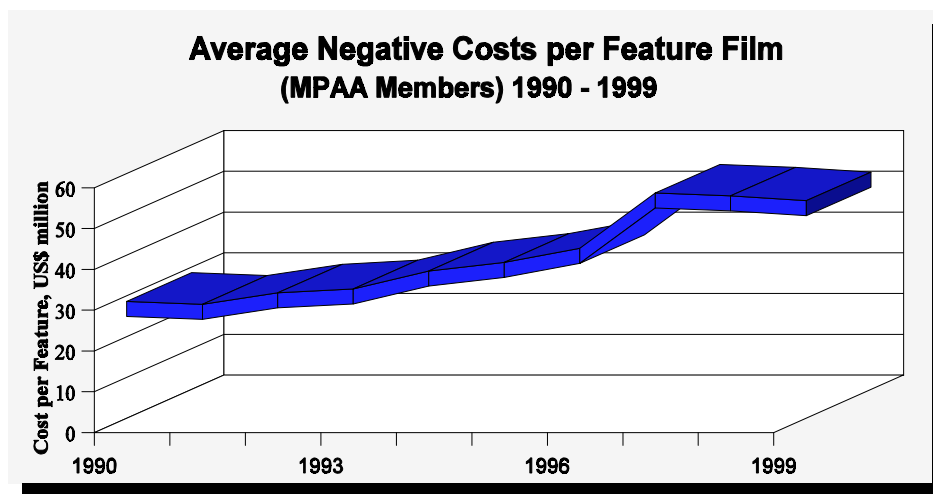


Figure 22

1990 to \$24.53 million in 1999 (see figure 23).⁷³ Over the period 1987 to 1997, operating margins (operating profit including depreciation but excluding interest divided by total revenues) for the major studios were down considerably. Margins went from 25 percent to 19 percent for Disney Studios and from 13 percent to less than 6.5 percent for Viacom. News Corporation (parent of 20th Century Fox) and Time Warner showed similar declines.⁷⁴

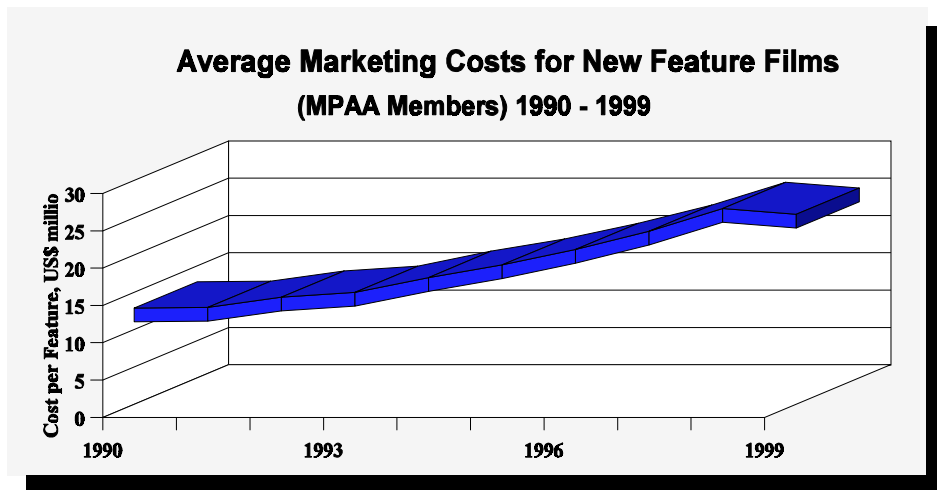


Figure 23

By the end of the 1990s, rising costs and lower operating margins led U.S. studio executives to conduct a major restructuring of their business practices in order to remain competitive. As one media analyst described it, studio executives found themselves “... in a race between the slower growth of their profits and their ability to restructure their balance sheets.”⁷⁵ The restructuring included aggressive cost-cutting, personnel layoffs, the introduction of more sophisticated market research, entry into strategic joint ventures, experimentation with risk-reducing financing alternatives, the production of fewer films, and, inevitably, moving production abroad. As a result of these measures, costs have in fact come down since 1998.

In the face of increasing production costs in the United States, many producers have turned to increasingly competitive foreign production sites. As a result, opportunity has opened up for countries, such as Canada, to move into the film market. Taking advantage of exchange rates, government-backed incentives, lower wage rates and lower costs in general, many foreign countries have been able to attract film productions that in the past would most certainly have stayed in the United States. The situation is expressed succinctly by Matt Miller, President of the

⁷³Motion Picture Association of America, <<http://www.mpa.org>>

⁷⁴Elizabeth Lesly Stevens and Ronald Grover, “The Entertainment Glut,” *Business Week*, February 16, 1998, <<http://www.businessweek.com/1998/07/b3565001.htm>>

⁷⁵Stevens and Grover.

Association of Independent Commercial Producers (AICP), in an open letter published in a number of film industry journals in July 1999:

American production is being challenged by emerging markets in a way we have never experienced before. While these markets don't have the infrastructure yet to go toe-to-toe with us, they are aggressively – and successfully – luring production away, based purely on cost effectiveness. We are entering a time in this industry's evolution when the American production community needs to be an aggressive competitor.⁷⁶

An additional source of increased film costs in the United States has been wage rates paid to both above-the-line and below-the-line workers. Industry restructuring has affected big-name film stars and directors. For example, Universal Studios persuaded Kevin Costner to waive his usual \$20 million fee and instead be paid based on the success of the film *For Love of the Game*.⁷⁷ As a general matter, wage rates for major talent, e.g., directors and marquee actors, are fixed. Major talent is paid the same regardless of where production takes place, whether in the United States or abroad.

Wage rates for below the-line-workers, who are largely represented by the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts (IATSE) and the International Brotherhood of Teamsters, have also risen in recent years. However, both these unions are made up of over 500 chapters in both the United States and Canada, and wage contracts for both countries are often negotiated for similar durations and with similar terms. Although the parent unions have the same interests for all of their workers, whether they are located in the United States or Canada, local chapters do have some autonomy and the ability to compete with each other at the margin. Different advantages accrue to workers on both sides of the border. On the one hand, wage contracts in Canada are often more restrictive from the point of view of the employer than those in the United States, giving Canadian workers more rights. Furthermore, a higher percentage of workers in Canada is unionized than in the United States. On the other hand, the absolute level of wages in Canada is lower than that in the United States, and even if similar terms are negotiated in both countries, Canadian workers will still emerge with lower wages than their U.S. counterparts. For these reasons, collective bargaining agreements do have an effect on the producer's overall costs, and wages remain higher in the United States than in Canada, but wage costs have been rising on both sides of the border because both U.S., and Canadian workers have negotiated for similar terms.

Finally, as discussed in chapter 3, the growth rate for U.S. film production has slowed, leading to reduced economies of scale for U.S. studios and independents. According to data from the Motion Picture Association of America, after hitting a high in 1997, the number of films released in the United States in 1999 was only 12 percent higher than the number of films

⁷⁶Matthew Miller, "Don't Panic Over Runaway Production. Do Something!" *Shoot*, July 16, 1999, 27.

⁷⁷Orwall and Lippman.

released in 1990. In April 1999, the *Wall Street Journal* reported that some individual studios had made numerous cuts in output in the 1990s. Walt Disney Studios reduced film production from its previous level of more than 30 films to fewer than 20, Universal Studios cut production to fewer than 20 films from over 35, and 20th Century Fox reported more than a 40 percent reduction in movie deals.⁷⁸

Technological Changes in the Industry⁷⁹

Within the last decade, exponential advances in technology have created dramatic changes in the way film entertainment content is produced. New tools and processes have been introduced which have enhanced the film maker's ability to entertain audiences. These new technologies and tools may well be contributing to the increase in the amount of foreign production of U.S. entertainment programming.

The ease of transmitting data over long distances quickly, combined with the addition of technical infrastructure and a skilled labor force, has enabled film makers to take advantage of lower labor and production costs in other countries. Ten years ago, it would have been inefficient to produce a film in many foreign countries, even if the country had lower labor costs. This is because the lack of infrastructure and a skilled labor force would have forced studios to transport capital equipment and technicians in order to produce a film of sufficient quality. Today new technologies have allowed the film production process to become *unbundled* – it is no longer necessary to have all of the people in the extensive chain of film production together in a single location.

The Film Culture

In order to have a viable production market, it is necessary to build and maintain a certain level of technological infrastructure and a skilled labor pool. The production process is inherently labor-intensive and detail-oriented. Furthermore, the availability of trained staff and technical infrastructure creates an intangible feeling of what film industry insiders refer to as a “film-friendly culture.” Although difficult to define, the film “culture” or “environment” is extremely important because the creative and technical process of producing film entertainment is a collaborative effort that requires input and cooperation from many different sources, including very creative artists and highly skilled technicians. To create quality film entertainment content, film production workers seek a culture that is conducive to this type of experience.

⁷⁸Bruce Orwall and John Lippman, “Cut! Hollywood, Chastened by High Costs, Finds a New Theme: Cheap – Major Studios are Making Fewer Movies – for Less; Will ‘Mr. Limpet’ Swim? – Becoming Costner-Conscious,” *Wall Street Journal*, April 12, 1999, A1.

⁷⁹ The material in this section is based on an unpublished essay by Robert Solomon, Senior Vice President of the Encore Group in Santa Monica, California, and Chairman of Governmental Affairs of the Southern California Chapter of the Association of Imaging Technology and Sound, an association of post-production film companies.

Technology and Post-Production Activities

New film production centers have developed abroad in part because advances in technology have enabled them to train a labor force, build the necessary technological infrastructure, and create a film-friendly culture with a speed and ease that has never before been possible. Most of the technological advances in the production process revolve around the ability to “post-produce” film entertainment content electronically. Post-production is a term of art that refers to important processes, such as editing, color correction, sound engineering, and creation of computer-generated images (CGI) and combining (or “compositing”) CGI with live action visual images. Post-production processes generally occur after the film has been shot.

Certain elements of the production process have remained relatively stable throughout these recent advances in technology. For example, the original capture of visual images has continued to be done through the medium of film, which is a technology and process that has existed for many years. Historically, film makers have had to work with the actual, physical film medium in order to manipulate or enhance visual images that they captured in the shooting of that film. For contemporary filmmakers however, electronic post-production allows them to scan film images at high resolution onto a videotape format. The quality of the scanners or “telecines,” which are high-speed film scanners, and the videotape formats themselves, has continued to improve. It is now possible to capture and store more visual detail with new compression algorithms, such as MPEG 2 and 4, as well as many proprietary methods that allow for the storage of a higher quality of visual and audio information. Today’s videotape formats allow for the storage of high definition visual images and multiple tracks of audio and other information as data on the videotape. Once the original film’s visual images have been transferred into one of the videotape formats, technological advances have given post-production artists the ability to create, enhance or supplement the original visual images captured during the filming process. The artists use powerful computers with the large amount of storage space necessary to work with and manipulate files that store these visual images.

Another development has been the move of post-production facilities from their historical large production centers. The facilities were geographically fixed due to the complex construction and infrastructure necessary to connect all of the disparate pieces of specialized equipment that were configured to perform certain processes. Given the amount of capital investment required to build these facilities, economic realities often required operating these facilities around the clock to generate the amount of revenue necessary to support the facility. These facilities required a large pool of potential customers -- the film producers who would be shooting at nearby sound stages. In fact, there was a mutual dependence created between the sound stages, which required geographically proximate post-production facilities to attract production, and the post-production facilities, which required a sufficient amount of local film production to support the substantial capital investment in their plant and equipment.

Software, Computers, and the “Box”

Software developers have capitalized on the availability of affordable and powerful computers and the advances in storage capacity by writing new software programs that provide

artists with the tools necessary to do their work on a computer. Previously, such post-production work as dailies editing, sound engineering, and visual effects were done at large post-production facilities that contained many different pieces of specialized equipment. The large post-production facilities would often be required to be physically proximate to the production site, as many of these processes would happen concurrently with production and required the input of individuals who were also at the set. Today's combination of high-powered computers, storage space, and specialized software is often referred to in the industry as a "box" environment. The "box" refers to the compressed space where all of the tools are available to do post-production work, *i.e.*, only one box is needed rather than the many pieces of specialized equipment which could only be used in conjunction with other pieces of specialized equipment.

Today's "box" environments do not require the same technical, physical infrastructure as the large post-production facilities that are becoming increasingly outdated. In fact, the "box" environments are remarkable for the ease with which data can be transported over long distances and the ease with which specialists working on different aspects of the post-production process can collaborate over long distances. Nowadays, once visual information captured on film is converted to a digital format, it can be transferred throughout the world using fiber optic networks. These networks are capable of transferring large files of data quickly and securely over long distances.

Virtuality, Not Proximity

As noted earlier, the process of creating film entertainment content is inherently collaborative. In times past, directors, producers, directors of photography, sound supervisors, visual effects supervisors and many other specialists would physically supervise or review most of the post-production functions. This review process would require that the individuals be geographically proximate in order to make the collaboration possible. Contemporary technologies however now make it logistically feasible for individuals from all around the world to collaborate and participate in the post-production process, no matter where they happen to be located.

One of the results of these technological changes is that filmmakers now have a much larger pool of potential post-production service providers. They can continue to use the facilities that are geographically proximate to their production site or they can look for smaller facilities in new markets. Managers of new production facilities that have emerged around the world have been able to train operators on new "box" equipment and enable them to market their services around the world as well as locally. This has allowed new production markets to build a technical infrastructure without relying solely on local production. Once a certain level of technical infrastructure is in place, these new markets can build sound stages and attract production that would require some local post-production services.

Location Shooting Without the Locale

Technology has also allowed film makers to eliminate the necessity of certain types of location shooting. The production costs associated with filming in a sound stage versus location shooting are dramatically different. In a sound stage, film makers can be located anywhere in the world and are able to work in a controlled environment. With location shooting, film makers incur many additional costs because of transportation, logistical and environmental factors that can affect bottom line costs as well as the production schedule.

Film makers now have the option of shooting higher quality “green screen” scenes in a sound stage. A green screen, which is a technology that has existed for many years, is shot with the actors and certain props being filmed against a green background. With new technologies, film makers can now more realistically isolate the actors or props and “composite” or place them against a different background. With these tools available, they can film more scenes in a sound stage.

In addition, new digital tools make it more economically and technically feasible to shoot at certain locations which can be digitally converted to appear like other locations. For example, a producer could film in a large foreign metropolitan area and digitally replace license plates, billboards, signs, and other elements in the scene to make them appear like their American counterparts. The ability to create the visual image of another location has provided film makers with increased flexibility in choosing production locations.

Animation and High Definition Video Cameras

Two additional examples of the profound effect that technology is having on film production are animation and the new high definition video cameras that have been introduced into the market during the last year. The United States once dominated the animation field, but today, little animation is done in the United States. One of the reasons is that new digital ink and paint technologies allow working digitally, rather than individually drawing and painting each cell, as was the historical practice. Concerning video cameras, one of the most stable of elements of the film-making process has been the use of film to capture the original visual images. This has been a consistent process for many years. For many television-based shows, once the visual images have been captured on film, they are “scanned” or transferred into a videotape format called “dailies.” Once the dailies have been transferred, they allow directors and actors to review and approve the recently shot scenes. Film does not provide the director or actors with any immediate feedback on the scenes they have just captured. For that reason, dailies are usually time-sensitive, i.e., the film must be transferred to a videotape format to allow for the director, actors and others to review the scenes shot to see if they are acceptable. Since sets must be broken down and actors released depending on whether the scene was captured to their satisfaction, the timeliness of dailies is an important element in the production process.

Many foreign production centers did not have the local film processing ability and telecines (high speed film scanners) necessary to produce dailies. Until recently, this has limited the viability of foreign production centers. The cost and technical expertise required to process

film and operate a telecine can only be obtained at a cost of millions of dollars and years of training.

Given current advances, including the recently developed ability to capture visual images in high definition video that is coming closer to emulating the look and feel of film, film makers can avoid the dailies process. With high definition video, they would have the ability to immediately “review” the scenes shot by rewinding the videotape rather than waiting for the film to be processed and subsequently transferred to videotape. This eliminates the advantage of having a local technical infrastructure capable of producing dailies.

Training for the Digital Age

Another aspect of the traditional film making process that has been affected by new technologies is training. Many of the individuals who participate in an entertainment production would refer to their skills as a trade. Traditionally, practitioners often developed their trades in a union environment, which facilitated an individual’s development of the necessary learned skills through apprenticeships and on-the-job experience. Today, many of the processes performed by a post-production artist have remained the same but the tools utilized to perform these functions have changed dramatically. As the medium of the work product has changed, *i.e.*, working with data files as opposed to an actual physical film, the skills of the post-production artists require different backgrounds and technical training. The changes in the tools that are utilized to perform these post-production functions have presented opportunities for new post-production markets to appear with newly trained workforces that have bypassed the historical “apprenticeship” programs that have existed in Hollywood for many years. This new workforce consists of individuals who have attended technical schools or government-sponsored programs that provide the required training to operate the new generations of equipment.

For example, historically the learning curve associated with developing the skills to become an on-line editor was substantial. As such an editor was required to understand and work with up to 20 different types of manufacturing equipment, all with different user interfaces working in conjunction with one another to create the desired effect. Today’s computers utilize common user interfaces and software tools to combine many of these tasks. This has greatly reduced the learning curves associated with becoming an on-line editor. This reduced learning curve, when combined with formal training through government-sponsored school programs, has allowed many foreign production centers are able to gain the necessary expertise to staff productions with local workers at a substantially lower cost than having U.S.-based workers travel to the foreign production site. This has increased their ability to attract foreign production, and these trends are continuing today.

Digital Television

A significant portion of domestic production shot in foreign locations is production intended for television. The U.S. post-production community which makes up the backbone of the entertainment industry's technical infrastructure is an industry that has developed over many years. The industry has successfully incorporated new technologies into its work flow process. With each new major technology shift, opportunities are created for new entrants in the marketplace. The new entrants have a competitive advantage to the extent that they are able to build facilities based on these new technologies. Existing facilities must continue to use the previous generation of equipment until it is depreciated or paid for. As a result, their ability to quickly adopt new technologies is often hampered by the significant economic investment in prior generations of equipment.

The Federal Communications Commission (FCC) has implemented a plan to transition the nation's television broadcast system to one that is digital and high definition capable. The level of resolution that a post-production facility will work at is often determined by the intended venue for the programming. If broadcasters intended to broadcast high definition television programming, this requires the post-production facility to work in high definition rather than standard definition.

Currently, much of the film footage that is transferred to videotape (the standard way of producing television programming) is transferred in at standard definition. This means that the existing post-production facilities equipment is capable of working at a lower amount of resolution than would be required to work in a "high definition." Transitioning an existing standard definition post-production facility to one that is high-definition-capable requires a complete replacement of the facility's existing post-production equipment. This "technology shift" has created new opportunities for competition with new facilities being built to be high-definition-capable while existing post-production facilities struggle to transition to high definition while carrying a substantial investment and usually corresponding debt related to their standard definition infrastructure.

Chapter 6

INCENTIVE PROGRAMS IN OTHER COUNTRIES

Foreign governments around the globe increasingly recognize the tangible and intangible benefits of attracting film production to their countries. Many have taken steps to actively attract film production, primarily from the United States, through financial incentives.⁸⁰ Indeed, many of the top destinations for runaway production previously outlined, Australia, Canada, Ireland, and the United Kingdom, offer substantial government incentive packages. These incentives have contributed to the propensity of the U.S. film industry to produce U.S. films abroad in recent years.

CANADA

The Canadian government (federal and provincial) offers a number of programs in support of the country's film industry. As highlighted in the Ernst & Young "Guide to International Film Production", the support of the film industry through Canadian government incentive programs is a "well-known national legacy".⁸¹ In October 2000, the Minister of Canadian Heritage announced a new Canadian Feature Film Policy. This policy establishes several new incentive programs and nearly doubles the federal government's investment in Canada's feature film industry from C\$51 million to C\$100 million.⁸²

As part of a comprehensive program to encourage growth in the domestic film industry, both Federal and provincial governments in Canada offer a wide range of incentives to both assist domestic producers and attract foreign production. These packages may include direct financial and tax incentives, labor credits, and aggressive marketing campaigns promoting Canada as a destination for production. According to the Monitor Report, U.S.-developed productions located in Canada have been able to realize total savings, including incentives and other cost reducing characteristics of producing in Canada, of up to 26 percent, with approximately 60 percent of the direct savings coming from "below-the-line" labor cost differences.⁸³ The Canadian incentive programs have been so successful, that it appears that the

⁸⁰This report examines a number of practices that various governments have instituted to attract film production to their countries. The analyses and conclusions here are not intended to address the consistency of any of the government practices discussed with either U.S. laws or international rules.

⁸¹*The Ernst & Young Guide to International Film Production*, 1999 Edition, p. 129-130.

⁸²"The Government of Canada Announces Its New Feature Film Policy", *News Release, Canadian Heritage*, http://www.pch.gc.ca/culture/cult_ind/film-video.htm.

⁸³Monitor Report, p. 23 and Exhibits 22 and 23.

Canadian incentive system may be used as a model for other countries in the future that are attempting to build a film industry.⁸⁴

At the federal level, the Canadian government offers tax credits to compensate for salary and wages, provides funding for equity investment, and provides working capital loans. At the provincial level, similar tax credits are offered, as well as incentives through the waiving of fees for parking, permits, location, and other local costs. While these programs at both the federal and local levels typically require Canadian establishment, Canadian-controlled corporations, and/or a threshold of costs incurred in Canada, these programs have become less stringent over time. Many have argued that Canada has utilized their cultural exclusion under the NAFTA to defend such programs, but there is much debate on the validity of such cultural claims. For example, Congressman Jerry Weller of Illinois, concerned with the application of this exemption, pointed out that a movie filmed in Canada starring Dennis Rodman and set in Chicago was labeled Canadian cultural content.⁸⁵

Canadian experience suggests that administering tax incentive programs is not without problems. Cinar Corporation of Montreal, a producer of children's programming, has been under investigation since early in 2000 concerning whether the company falsely claimed film tax credits. The primary allegation has been that Cinar put the names of Canadian authors on screenplays in fact written by U.S. authors. As of the end of the year, the investigation was not yet completed, but the scandal has shaken the Canadian administration of film tax credits.⁸⁶

Foreign film makers can also take advantage of Canadian tax shelters, which were phased out in 1997, but reintroduced in 1999. These shelters allow Canadian financiers to offer structured film-financing incentives of three percent to four percent of non-Canadian labor expenditures (NCLE), in addition to production services tax credits. Because taking advantage of the NCLE tax shelter requires complex film financing arrangements, typically only large U.S. studios use the shelter arrangement.

All of these Canadian cities [Toronto, Montreal, and Vancouver] directly rebate 22 percent of the labor costs to each and every production they attract.

Commissioner Patricia Reed Scott

Testimony by the Commissioner of the Mayor's Office of Film, Theatre & Broadcasting before the New York City Council

⁸⁴*MPA Seeks Incentives in Mexico*, David Robb, undated, 2000 Back Stage and BPI Communications, Inc.

⁸⁵Jeffrey Gentleman, "Trying to Keep the Movies From Moving, Runaway Film Production Issue Is National, Congressmen Say", *Los Angeles Times*, Valley Edition, January 20, 2000.

⁸⁶*The Sins of Cinar*, *The Montreal Gazette*, March 17, 2000, and Odile Tremblay, *L'Oeil du Cyclone*, *Le Devoir*, November 6, 2000.

U.S. film makers appear to benefit the most from Canada's federal and provincial Production Services Credits. These credits "are designed to promote and encourage foreign production in Canada, and thereby develop and grow Canadian production service industries."⁸⁷ The Federal Production Services Credit, announced in October 1997 and effective in 1998, provides an 11 percent refund on qualifying Canadian labor expenditures.⁸⁸ Assuming that labor expenditures total about 50 percent of production costs, such a credit can mean a potential savings of 5.5 percent (11 percent of 50 percent) on total production costs. There are no Canadian content requirements; U.S. producers qualify primarily through contracting for production services directly with Canadian companies. Expenditure criteria determine eligibility: a minimum of CAN\$200,000 (US\$135,000) per episode for a television series or pilot production, or CAN\$1 million (US\$675,000) for any other type of film or television production, including a feature film. All ten Canadian provinces have implemented similar measures. These credits can be combined with federal credits up to a certain maximum level (see Canadian incentive table below).

The Canadian government, particularly at the provincial level, has actively advertised their incentive packages and other benefits to producers. Many provinces have elaborate websites to highlight the benefits for companies willing to shoot their productions in Canada. Ontario's website is a good example. The province's website not only highlights the tax breaks, the local support and incentives, but provides extensive information on local companies, wages and salaries, listing of locations that provide the appearances of U.S. and international settings, and even an exchange rate converter between two currencies--the U.S. and Canadian dollar.

"In some provinces, production houses get a tax credit of as much as 35 percent for money they spend on labor. In Ontario, the figure can be 50 percent. Couple that with generally lower costs in Canada and a strong U.S. dollar, and the result is the defection of productions to Canada.

Source: The Washington Post, November 5, 2000

According to information from provinces where foreign film production data is readily available, U.S. film production surged after the introduction of provincial tax credits. For example, in British Columbia, foreign production growth, in terms of percentage change from year to year in production dollars spent in the province, was in the teens in 1996 and 1997; that growth percentage slumped to 3.5 percent in 1998 and then grew 51.2 percent in 1999. The British Columbia Credit was enacted in June 1998. For the fiscal year ending March 31, 2000,

⁸⁷David B. Zitzerman et al., March 2000, 8.

⁸⁸Based on conversations with industry representatives, these credits result in dollars being reimbursed to production companies notwithstanding tax liability and without the need to file tax returns some months later and then wait for the refunds. This reduces the amount of financing required and makes the credits more valuable.

the British Columbia Film Commission (BCFC), the provincial government's domestic film and television tax credit program, issued tax credit eligibility certificates totaling \$9.7 million to production companies and supported 51 film and television projects, representing \$112 million worth of production in British Columbia. In July 1999, the province announced a CAN\$50 million (US\$34 million) expansion program for sound stages in Vancouver, CAN\$14 million (US\$9 million) of which are in the form of a government loan from the province.⁸⁹

In a press release this past summer, the British Columbia Film (BCF), the province's film development agency⁹⁰, announced production commitments for 2000/2001. The agency has already committed CAN\$2.5 million (US\$1.68 million) in equity financing to produce 35 film and television projects through its Television and Film Financing Program (TFFP). In addition, nine television series and 3 feature films are to receive production support, 22 broadcast singles/documentaries have financing commitments, and 2 projects, a feature film (Protection) and a documentary special (Lilith Fair), will receive support through completion funding. This announcement by the BCF relates to funding commitments made through British Columbia's TFFP and the Market Incentive Program (MIP)⁹¹ and does not include activity through the provincial government tax credit programs Film Incentive BC and the Production Services Tax Credit.

Encouraging B.C.'s domestic film and television industry as we head into the 21st century is an important government priority.

– Ian Waddell

Minister of Small Business, Tourism and Culture

Press Release: January 6, 2000
Announcing BCF Commitments for 1999/2000

Similar to British Columbia, where foreign film production had dropped in 1997, Ontario saw a 65 percent surge in 1998. The Ontario production credits, specifically the services tax credit (OPSTC), were introduced in November 1997. Similarly, film production credits were introduced in Quebec in February 1997. Notably, provinces with less-developed film production infrastructures (Manitoba, Saskatchewan, and Nova Scotia) are attempting to boost their film production industry by offering incentives of over 20 percent.

⁸⁹Dave McNary, "U.S., Canada Film-Production Brouhaha Advances a Frame," *Daily News* [Los Angeles], B1.

⁹⁰ Financial assistance comes from the Province of British Columbia through the Ministry of Small Business, Tourism and Culture.

⁹¹ The Market Incentive Program was closed in November 1998. Funding commitments, however, have extended beyond this closing date.

CANADA	INCENTIVE PROGRAMS FOR FILM PRODUCTION
Federal	<p>Film Production Service Tax Credit (PSTC): This is a tax credit equal to 11% of salary and wages paid to Canadian residents, with no cap on the amount. Eligibility: Available to taxable corporations with a permanent establishment in Canada whose primary business is the production of film and videos. Production costs must be at least C\$1.0 million for a film, or C\$100,000 for a pilot or episode of less than 30 minutes.</p> <p>Canadian Film or Video Production Tax Credit (CPTC): This credit is equal to 25% of eligible labor costs, to a maximum of 12% of total production costs. Total production costs are reduced by provincial tax credits and other grants. Eligibility: Available to Canadian-controlled taxable corporations whose primary business is Canadian films and videos. A minimum of 75% of production costs must be paid to Canadian individuals and 75% of production must take place in Canada.</p> <p>Canadian Television Film (CTF) Fund: An equity investment program, with a budget of C\$200 million per year, to enhance the Canadian broadcasting and production sector's capacity to make and distribute television programming in the two official languages. (Generally, foreign co-production companies cannot qualify for CTF funds.)</p> <p>Culture Industries Development Fund (CIDF): Provides loans from C\$20,000 to C\$250,000 for working capital, expansion projects, and special initiatives for Canadian-owned cultural businesses. (Foreign-owned companies cannot generally use this program.)</p> <p>Feature Film Fund: This fund, which is administered by Telefilm Canada, assists the development and production of English- and French-language feature films destined for theatrical release.</p> <p>Multimedia Fund: This fund supports the development, production and marketing of educational and entertainment multimedia products intended for the general public and is administered by Telefilm Canada.</p> <p>Feature Film Distribution Fund: This fund is aimed chiefly at recognized Canadian distributors, providing lines of credit for use in acquiring the distribution rights to Canadian feature films.</p> <p>Versioning Fund: This fund serves to make Canadian works more widely accessible in both official languages, on television and in movie theaters.</p> <p>Canadian Production Marketing Fund: This fund has two components: national (test marketing, launch, advertising and promotion) and international (promotional campaigns, advertising in specialized publications, marketing, etc.).</p>
Alberta	<p>Film Project Grants: The Alberta Film Commission offers grants of up to C\$500,000 per project per year.</p>
British Columbia	<p>Film Production Services Tax Credit: A credit of 11% of the labor costs paid to taxable Canadian residents and corporations. Taxable Canadian corporations or foreign-owned corporations with permanent facilities in British Columbia are eligible for this program. Production costs must be at least C\$1.0 million for a film, or C\$200,000 for an episode of a series.</p> <p>"Certified Canadian" Film Incentive BC Tax Credit: A tax credit of 20% of labor costs, which are capped at 48% of production costs. An additional 12.5% regional credit for doing principal photography outside of Vancouver. All claimants must be BC-based production companies and 75% of production and post-production must be done in British Columbia. The film must be "certified Canadian" by meeting four out of ten "Canadian content criteria."</p>
Manitoba	<p>Film Production Tax Credit: Rebates 35% of approved Manitoba labor expenditures, up to a maximum of 22.5% of eligible production costs.</p> <p>Winnipeg Film Incentive Package: Free parking, waivers of permit fees and location fees.</p> <p>Deeming Provision: If there are no qualified production personnel available in Manitoba, then production staff can be brought in from outside the province, as long as training is taking place. If this is the case, salaries will be considered for the Film Production Tax Credit.</p>

New Brunswick	<p>Labor Incentive Tax Credit: The credit is equal to 40% of wages paid to New Brunswick residents, up to a maximum of 50% of total production costs of a film. The eligible film production company must have permanent facilities in New Brunswick and have less than C\$25 million in assets.</p> <p>Film Development & Production Assistance: Up to C\$500,000 available per project to New Brunswick-controlled corporations.</p>
Newfoundland & Labrador	<p>Labor Tax Credit: The amount of the credit is 40% of the eligible Newfoundland/Labrador labor expenditures, to a maximum of 25% of the total production costs. Eligible labor must be resident in Newfoundland/Labrador, though in some cases the residency requirement may be waived. There is an annual tax credit maximum of C\$1.0 million per project, and C\$2.0 million per associated group of corporations.</p>
Nova Scotia	<p>Film Tax Credit: For production in the Greater Halifax Region, the amount of the credit is 30% of eligible Nova Scotia labor expenditures, up to a maximum of 15% of total production costs. (Outside of the Halifax Region, this is 35% and 17.5%, respectively.) This credit is available only to Canadian taxable corporations with a permanent establishment in Nova Scotia.</p>
Ontario	<p>The Ontario Film Development Corporation (OFDC) administers a tax credit program worth an estimated C\$50 million a year. The OFDC administers four tax credits based on eligible Ontario labor expenditures.</p> <p>Ontario Film & Television Tax Credit: A rebate of 20% on labor costs, available to Canadian-controlled, Ontario-based production companies.</p> <p>Ontario Production Services Tax Credit: An 11% refundable tax credit on Ontario labor costs, available to foreign-based and domestic productions. A bonus of 3% is provided for projects with at least five production days in Ontario, and at least 85% of production days outside of the Greater Toronto Area.</p> <p>Ontario Computer Animation & Special Effects Tax Credit: A 20% rebate of qualifying labor expenditures. Available to Canadian or foreign-owned corporations.</p> <p>Ontario Interactive Digital Media Tax Credit: This 20% refundable tax credit on labor costs is eligible for projects involving interactive digital media.</p>
Prince Edward Island	<p>Development Loan Programs: Loans are available to qualifying companies that are provincially or federally incorporated and which have headquarters on PEI. Though no tax credits for labor are available, loans are available to finance development and production of film or video projects on PEI.</p>
Quebec	<p>Film Tax Credits: An 11% refundable tax credit for film or television productions, applicable to labor costs. There is also a special 31% tax credit for certain labor expenditures related to computer animation and special effects. Minimum production costs are C\$100,000 for a 30-minute TV episode, C\$200,000 for a longer episode, and C\$1.0 million for a film production.</p> <p>Refunds of Provincial Sales Tax: A refund to non-residents of the 7.5% tax on the cost of goods and services.</p> <p>Quebec City Film Incentives: Granted to foreign film producers when billing for municipal services. This eliminates the 20% administration fee, as well as approximately 30% of the gross cost of municipal services provided.</p>
Saskatchewan	<p>Film Employment Tax Credit: A rebate of 35% of total wages of all Saskatchewan labor, up to 50% of eligible production costs. There is additional 5% bonus for Saskatchewan labor expenditures for productions based in smaller centers and rural areas.</p> <p>Deeming Provision: If there are no qualified production personnel available in Saskatchewan, then production staff can be brought in from outside the province, as long as training is taking place. If this is the case, salaries will be considered for the Film Employment Tax Credit.</p>

Source: Research conducted by the US&FCS – December 2000 and Canadian Audio-Visual Certification Office Information Bulletin

A study conducted by the Boston Consulting Group on behalf of the City of New York identified the criteria evaluated by industry when selecting a production location (see figure 24). While the information collected indicates that minimal consideration is given to government policies and incentives, the study also shows that significant consideration is given to the cost of labor. In Canada, where significant rebates are provided for labor costs, the study would indicate that when considering to shoot production in Canada, government policies and incentives would play a ver

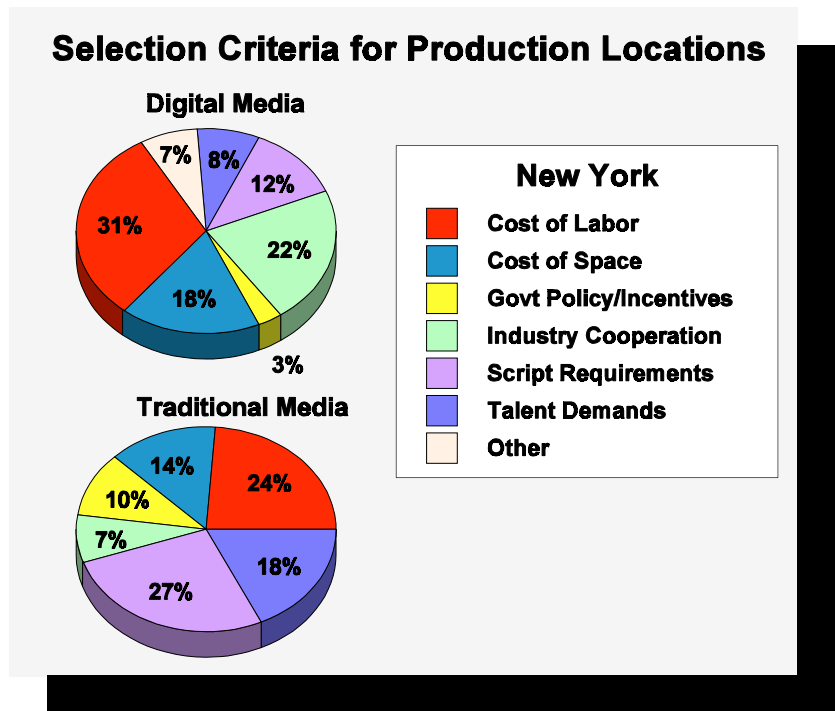


Figure 24

important role in attracting production. The labor component received an importance weighting of approximately 24 to 31 percent, which clearly suggests that labor rebates would be a ke determinant in deciding a production location. Canada’s labor rebates provide a tremendous incentive for producers to take their work north.

UNITED KINGDOM

The United Kingdom (U.K.) has been successful in attracting foreign investment in the film industry through an array of programs offering taxation assistance, investment and financing arrangements. One of the major incentives is a 100 percent tax write-off for both feature film and made-for-television production is provided if specific criteria are met: majority use of U.K. or European Union nationals or residents for production purposes, use of U.K. studios for production, and supply of half of all technical production equipment by U.K. companies. The United Kingdom imposes no minimum cultural requirement qualifications. Additionally if a foreign production cannot qualify for a 100 percent tax write-off, it can apply for benefits under a U.K. sponsored “leaseback” scheme. In a “leaseback” transaction, a non-qualifying foreign production company sells its film rights to a leasing company, which, in turn, leases back the film rights to the production company. The transaction allows the U.K. lessor to take advantage of tax reliefs; the value of the benefits are divided between the U.K. partner and the foreign production company.⁹²

⁹²For a detailed summary of the benefits covered, see Michael F. Dell et al., *The Ernst & Young Guide to International Film Production: An Overview of Business Incentives and Tax Matters* (New York: Ernst & Young LLP, 1999).

In addition to the tax incentives, the U.K. government established in April 2000, the British Film Council (BFC) under the umbrella of the Department of Culture, Media and Sport. The BFC serves as a lottery distributor⁹³ for film production and is responsible for :

- The British Film Commission (promoting inward investment) ;
- The Arts Council of England's Lottery Film Department (investing in film production)
- The British Film Institute's Production Department (investing in film production)
- British Screen Finance (a publicly supported film investment company, which will be incorporated into the Film Council)
- The British Film Institute (BFI) (an independent body funded by the Film Council to deliver cultural and educational opportunities for the public).

Various incentive programs are available under the auspices of the British Film Council and range from providing funds for development including writer's, writer's research fees, and other aspects of development of the production to providing production funds for commercial viable projects. According to the BFC, generally funding is repaid to the BFC either through premiums on its loans, or through a profit sharing role taken by the BFC commensurate with its participation in the project. Some of the programs administered by the BFC are available to individuals; however, most of the funded programs are available only to companies or corporations. In addition, though funding is targeted at the British film industry, foreign production companies may be eligible for certain programs. Specific programs funded by the BFC include the *New Cinema Fund* and the *Premiere Fund*.

Other programs are offered in Britain as follows:

- 100% capital allowances write-off in the first year on expenditures on production and acquisition of British films with budgets under a certain amount and, film franchises financed by national Lottery funds and grants for British film production
- 'Sale and leaseback' arrangements are offered by British banks, while other financial institutions offer portfolio investment in the form of risk capital spread across a parcel of films
- British Screen Finance (British Screen) offers commercial loans for film projects from British film makers which are unlikely to receive commercial backing. Investments are offered up to \$810,000 per project or 30 percent of its budget, whichever is lower.
- The ECF is administered by British Screen and offers funding for production companies based in Britain whose film project qualifies as British under the terms of the 1985 Films Act.

⁹³The British Film Council's role as lottery distributor means that its annual budget depends on how many lottery tickets are sold. Partial proceeds from the sale of lottery tickets are distributed to the Council for further distribution under its programs. These Lottery funds are also used to finance projects in England, Northern Ireland, Scotland and Wales.

Regional programs that are offered in the United Kingdom include:

- The *Moving Image Development Agency* (MIDA) which funds Liverpool-based and other film production companies which spend at least twice the level of any investment made by the fund in the Merseyside area in North West England.
- *Glasgow Film Fund* which supports productions filmed around Glasgow. Funding is available for film production companies in the region, or produced by or with a Glasgow-based company.
- Funds may be provided by *Yorkshire Media Production Agency* for production loan financing to feature and short films and to television and multi-media projects. Some funding is available to media production and companies which are based outside the region, provided they agree to spend in the area at least double the amount of money they receive as a loan.
- *The Manx Scheme* (Isle of Man Film Commission) is aimed at low and medium-budget films. It offers tax credits for film producers. To qualify for this program, at least 20 percent of the production costs have to be spent on the island using island-based companies and individuals.

Finally, the European Union announced in mid-December 2000, that it had earmarked EUR 50 million (approximately \$45 million) in a *Venture Capital for Creative Industries* fund “to help European media companies compete with Hollywood and Silicon Valley.”⁹⁴ The money will be provided by the European Investment Bank (EIB), in cooperation with the European Investment Fund, over three years in the form of loans, credit lines, and backing for venture capital funds in order to support small- and medium-sized film production companies with low-cost loans, and for larger recipients to build high-tech studios and digital installations.⁹⁵ This money may aid state and regional programs as well.

AUSTRALIA

Although the Australian government is a major financial supporter of the domestic film industry, it offers few federal incentives to foreign producers. Australian film incentives at the federal level for feature or television films have requirements for Australian content as well as significant participation of Australian partners. Australian state-based incentives, however, do not always have such restrictions. In fact, state-based incentives ranging from payroll tax rebates and exemptions to producers are very attractive to foreign film makers.

Queensland

The Pacific Film and Television Commission in Queensland, with the assistance of the Queensland State Government, offers payroll tax rebates and cast and crew salary rebates for productions filming in Queensland. The Queensland payroll taxes are fully refunded for projects spending at least \$A3.5 million (US\$2.0 million) in Queensland with no Australian content

⁹⁴Geitner, Paul, “EU Bank to Help European Media,” *Associated Press*, December 19, 2000.

⁹⁵For more information, see European Investment Bank press release on December 19, 2000 which can be found at: <http://eib.eu.int/pub/press/2000/sp021.ht> (Last visited 20 December 2000).

requirements or restrictions on foreign film companies. Cast and crew salary rebates of 8 percent to 10 percent are available only for below-the-line workers. The exact rebate amount is based on the value of the production's expenditures in Queensland. Queensland also offers free police and fire services during production.

New South Wales

Payroll tax rebates are available for certain productions filmed at Fox Studios in Sydney. In addition, the New South Wales Film and Television Office (FTO), which is funded by the New South Wales government, provides financial assistance and other aid to productions filmed in New South Wales. While some of this aid is specific to Australian productions, such as the *Regional Film Fund* which begins January 1, 2001, other production aid may be available to foreign filming companies.

South Australia

Payroll tax exemptions are available for feature films shot mostly in South Australia. In addition, the South Australia Film Corporation, a government-financed organization, provides loans, grants, and other funding opportunities.

Tasmania

The state government in Tasmania offers payroll tax exemptions and funding for film productions through a state agency, *Screen Tasmania*. Funding guidelines for *Screen Tasmania* indicate that priority is given to funding Tasmanian projects or projects which will benefit Tasmania. Although projects originating outside Tasmania may apply for aid, the project must be primarily filmed in Tasmania and generate "substantial employment opportunities for the local industry."⁹⁶ Funding from *Screen Tasmania* may be provided for production, (equity investment or loan), script development (*Screen Tasmania* will share in copyright ownership), producer's assistance (limited recourse loans which are repayable on the first day of filming at an interest rate to be determined by the board), and industry and cultural development, including marketing assistance (grants).

Victoria

Victoria's newly established Production Investment Attraction Fund (PIAF) is available for productions that spend a minimum of 70 percent of their total production budget in Victoria and spend a minimum of \$A3.5 million (US\$2.0 million) in the state. In addition, a *Regional Victoria Film Location Assistance Fund* (RLAF) was established to provide \$A100,000 (US\$57,000) annually to promote filming in regional Victoria. Projects considering a regional Victoria location (i.e., outside of Melbourne) for filming for a duration of at least one week may apply for funding.

⁹⁶Information found on *Screen Tasmania* website, available at: <http://www.screenttas.tas.gov.au/funding/guidelines/general.html>, visited December 27, 2000.

IRELAND

Ireland is becoming an increasingly attractive country for international film production. Due to the unique countryside, the weakened currency, the generous tax incentives, and avoidance of the EU quotas, more and more producers are considering Ireland for their film production. In an effort to cultivate a healthy foreign and domestic film industry, the Irish government offers the Section 481 tax incentive ((S481) formerly Section 35), a non-refundable subsidy of up to 12 percent for film production. With Ireland's government ratifying the EU Co-production Convention, films produced in Ireland not only gain access to the 20 European countries, but to the support measures provided by each of these countries as well. However, government support for Section 481 has been erratic, which has made U.S. film makers uneasy about filming in Ireland. In fact, Section 481 has been gradually reduced since 1996, and until 2000 was being extended only for one year at a time.

Given that Hollywood production planning is done 12 to 18 months in advance of the start of filming, a one-year tax incentive that had suffered cutbacks stimulated little interest among U.S. studios. In fact, Kevin Moriarty, managing director of Ardmore Studios, a major Irish production facility, blames the uncertainty surrounding Section 481, along with increasing competition from Australia and Canada for U.S. films, for a drop of more than 50 percent in activity at his studios in 1999.⁹⁷ A Film Industry Strategic Review Group came to the same conclusion in August 1999. Referring to the report, Irish Screen Commission Chief Executive Roger Greene commented:

The single most important issue for the inward production industry (foreign or U.S. companies wishing to produce here) is the recommendation to renew Section 481 for a further seven years. . . . Long-term tax incentives are vital for the industry as a whole – indigenous and incoming. Because of the uncertainty about the future of S481 this year, foreign producers have shied away from Ireland as a potential location. The impact of this, coupled with a general downturn in production world wide, has meant a considerable reduction in production in Ireland for 1999.⁹⁸

⁹⁷Hugh Linehan, "Whatever Happened to the Irish Film Industry?" *The Irish Times*, July 30, 1999, <<http://scripts.ireland.com/search/newspaper/features/1999/0730/fea4.htm>>

⁹⁸Screen Commission of Ireland. "August – Statement from the Screen Commission of Ireland on the Report from the Film Industry Strategic Review Group," referring to recommendations in *The Strategic Development of the Irish Film and Television Industry 2000-2001, Final Report of the Film Industry Strategic Review Group to the minister for Arts, Heritage, Gaeltacht and the Islands* (Dublin: August 1999), 13, 18, <<http://www.screencommireland.com/news~inx.htm>>

Today, however, Section 481 has been renewed for another five years and helps to maintain the tax relief level at 80 percent.⁹⁹ Since Section 481 was extended by the Minister of Finance, production is reported to have increased. In February 2000, 11 films were reported in production or post-production, and in May 2000, 18 films were awaiting certification by the Department of Arts and Heritage.¹⁰⁰ All 18 of the latter films had applied for the Section 481 tax incentive. Most recently, the Minister for the Arts, Heritage, & the Islands indicated that with several projects already certified and additional projects still awaiting approval, figures for the year 2000 (US\$66.5 million) have already exceeded 1999's production spending of US\$61.9 million. The tax incentives, coupled with the ability to avoid the EU's quotas, have made Ireland an extremely attractive location to shoot production.

“Although production costs are rough equivalent to those in the United States, Irish tax incentives make filming there very attractive.”

**– Roger Corman
President of New Concorde**

Source: AFMA Newsletter Jan 01

Filmmaker and President of New Concorde, Roger Corman, has established a presence in Ireland. Today, with the help of grant money from the Irish Government, Concorde has constructed a state-of-the-art studio (Concord Anois) featuring two major sound stages, post production facilities, full wardrobe and a manor house for cast and crew. This studio has shot 11 films with an additional four in pre-production. The studio has been very successful and Corman has even rented out his studio and recruited others to film in Ireland. Mark Amin, Chairman and CEO of Trimark Pictures indicated that when Corman first suggested Ireland for a location to shoot *Warlock*, he was very skeptical. However, after careful consideration, financial incentives being the driving force, he was pleased with the results of filming in Ireland.

“.....Needless to say, the financial incentives were the real driving force.”

Comments by Mark Amin, Chairman and CEO of Trimark Pictures regarding his decision to shoot production in Ireland.

Source: AFMA Newsletter Jan 01

THE NETHERLANDS

In the Netherlands, funding for film production is made available through the government-funded Dutch Film Fund (Nederlands Fonds voor de Film) which is responsible for coordinating national support to the film industry in the Netherlands. Various methods of funding may be provided including loans for development, production and distribution of fiction

⁹⁹From AFMA newsletter article.

¹⁰⁰ Michael Dwyer, “Film Production Upsurge with 18 Planned Projects,” *The Irish Times*, May 20, 2000, <<http://scripts.ireland.com/search/newspaper/ireland/2000/0520/hom13.htm>>

films and documentaries, and animation films. Generally speaking, the loans are made available through a Dutch-based producer and support for development is only available for essential Dutch projects.¹⁰¹ In addition to film development assistance, the Fund also sponsors a marketing and promotion program that directs as much as \$30,000 per year in matching funds for distribution purposes.¹⁰²

In 1998, the latest year for which data were available, the Dutch Film Fund, as well as other publicly-financed organizations, significantly contributed to feature film production. In addition to the Fund, aid is provided by the COBO-fund,¹⁰³ the Dutch Cultural Broadcasting Promotion Fund,¹⁰⁴ national Dutch broadcasting companies,¹⁰⁵ Eurimages,¹⁰⁶ and others.

In addition to programs which are offered on a country-wide basis, there are some regionally specific programs in the Netherlands. In Rotterdam, for example, the Rotterdam Film Fund (RFF) provides grants for the production of feature films, documentaries and TV productions made partly or entirely in the Rotterdam region. Funds for these grants are provided by the Rotterdam Development Corporation. In addition to grants, the RFF also may provide interest free loans and 'extra development contributions'. Funds disbursed by the RFF may be granted to Rotterdam-based producers, producers based elsewhere, and foreign producers with

¹⁰¹ Information found on the website: <http://www.filmfund.nl/> Last visited December 26, 2000.

¹⁰² *Holland Film*, "New Dutch film promo scheme launched; Rotterdam fetes 50+ Dutch films" Found at <http://www.hollandfilm.nl/news/014.ht> Last visited December 26, 2000. [*Holland Film*, which is affiliated with the Dutch Film Fund, is the official promotion agency for Dutch Film abroad. The organisation, financed from public funds, offers a wide variety of services for Dutch film-makers and producers to enhance the perception of Dutch film-making worldwide.]

¹⁰³ COBO Fund: The COBO Fund encourages co-productions between national broadcasters and independent film producers. [Found on *Holland Film* website at: <http://www.hollandfilm.nl/factsfigures/index.ht> , last visited December 26, 2000]

¹⁰⁴ The Dutch Cultural Broadcasting Promotion Fund provides grants to encourage the development and production of cultural radio and television programs. The programs concerned are mainly cultural programs, largely of Dutch origin with a high degree of artistic merit and are to be broadcast by one of the national broadcasting companies, an educational broadcaster, or a religious denomination with national broadcast time. Moreover, these programs need to be in the Dutch language for at least 60%. The fund provides grants for the production of programs, initiatives to develop them and to improve the quality of cultural programming in general. The budget amounts for at least one sixteenth of the income from advertising on national public television. [Found on *Holland Film* website at: <http://www.hollandfilm.nl/factsfigures/index.ht> , last visited December 26, 2000]

¹⁰⁵ National broadcasting companies: The participation of one of the national broadcasting companies is required to be eligible for the COBO- and the Dutch Cultural Broadcasting Promotion Fund. [Found on *Holland Film* website at: <http://www.hollandfilm.nl/factsfigures/index.ht> , last visited December 26, 2000]

¹⁰⁶ EURIMAGES is the European Coproduction Fund in which 24 member States of the Council of Europe participate. Its aim is to promote through financial assistance the coproduction, distribution, exhibition and other forms of exploitation of creative cinematographic and audio-visual works [Found on *Holland Film* website at: <http://www.hollandfilm.nl/factsfigures/index.ht> , last visited December 26, 2000]

co-producers based in Rotterdam. One of the conditions to receive aid under the RFF is that 50 percent of the sum that is borrowed must be spent in the Rotterdam region. Further conditions include that of this fund, at least 25 percent must be used in the audiovisual sector (staff, facilities, materials) and 25 percent in other sectors.¹⁰⁷

SOUTH AFRICA

In South Africa, the majority of funding for film is provided through the government-developed National Film and Video Foundation (NFVF), established in October 1999. The NFVF oversees film policy, public funding, promotion of South African films, and awards yearly government funded grants for film development and production for features and shorts. The NFVF offers funding in the form of grants or low-interest loans to individuals, companies, and organizations for a variety of film- and video-related expenses, including: education and training, development funding, production funding and marketing and distribution and is currently discussing the possibility of funding in the areas of information, research, advice and endorsement. Also, in certain cases, the NFVF may enter into equity arrangements with companies whose production will yield commercial success.

The NFVF also provides aid in the form of grants or repayable loans for local and international marketing and distribution purposes. In order to qualify, independent producers and local distributors must be in possession of locally-produced, completed film and television product. The following aspects of film marketing and distribution qualify for support:

- Test screenings
- Film launches
- Entry costs and freight costs for the submission of films to local and international festivals and markets
- Travel to local and international markets
- Theatrical exhibition costs (print and advertising)
- Video promotion costs (launches, video sleeves, catalogues, posters)
- International film and video marketing costs.

In the case of production funding, priority is given to South African-owned production companies that have reasonable experience and to new and emerging filmmakers that would not otherwise have the opportunity to participate in the local film industry. Other criteria taken into consideration include:

- Credible track record in production
- Distribution intent or financial commitment from other partners
- Guaranteed rural or township exposure on screen
- Language diversity
- South African perspectives and leading roles for South African actors

¹⁰⁷Information found from Rotterdam Film Fund website at:
<http://www.rff.rotterdam.nl/site/eng/rff/financieel.ht>, visited December 26, 2000.

For commercial film production, the NFFV will fund a maximum of 25 percent of the budget through an equity investment scheme. Qualified applicants include those with proof of South African identity.

Foreigners may apply for NFFV funding, though they must be able to explain how their project, organization, or skills would benefit the development of the South African film and television industry.¹⁰⁸ Other criteria and priorities taken into consideration when funding is being considered include:

- Positive impact on the local film industry
- Advancement of people from historically disadvantaged communities
- Projects or organizations that are of national importance;
- Proposals that contain local content

OTHER COUNTRIES

This program summary is intended to highlight the programs being utilized by countries that are the primary benefactors for runaway film production. What is clear from this study is that many countries outside the United States have recognized the importance of the industry and have developed programs and incentives to attract U.S. film production to their shores. The programs and incentives are particularly aimed at courting U.S. film production to overseas locations. While the benefit and impact of the various programs can be debated, it is undeniable that these programs threaten the market position of the U.S. industry and jobs of the U.S. workers they employ.

¹⁰⁸ Information taken from the National Film and Video Foundation website at: <http://www.nfvf.co.za/>, visited December 27, 2000.

Chapter 7

CONCLUSION

Although the precise impact is difficult to quantify, the data and anecdotes analyzed for this report present a compelling case that the runaway film problem could threaten to disrupt important segments of a vital American industry and the thousands of workers who depend on it. Not only would this have a serious effect on local communities and families around the country, it could also turn out to have an adverse impact on an important and influential aspect of American popular culture.

Many Players Involved

The factors leading to runaway film and television production that we have identified in this report – globalization, rising costs, foreign wage, tax, and financing incentives, and technological advances – combine to tell a story of a substantial transformation of what used to be a traditional and quintessentially American industry into an increasingly dispersed global industry. The dispersal is as remarkable for its diversity of causes as it is for its diversity of players. The players have for the most part reacted to global, economic, and technological forces largely, though not exclusively, beyond their control. Production companies have taken advantage of lower costs in other countries, but they have done so often to seek operating efficiencies when the alternative may have been bankruptcies and even more layoffs. Unions and guilds have sought to maximize wages and benefits for their members in order to obtain a higher standard of living for their members' families and local communities.

Foreign governments may have stepped in to harness some of the forces for change, but the certainly have not created all of them. Indeed, governments have gone beyond harnessing the forces of global economic and technological advances by creating wage and tax incentives that may have tipped the scales in their favor. However, nothing in our research indicates that foreign incentives were the primary factor in determining the location of film and television production. But there is no doubt that, when combined with all the other factors discussed, government incentives constituted an important consideration.

Ongoing U.S. Efforts on Behalf of the Film Industry

Expanding Markets for US. Films

International distribution of filmed entertainment, the natural result of film production, has been a sensitive issue for several years in international trade negotiations. The United States has generally taken the position that distribution of filmed entertainment should be covered under existing trade agreements, notably the General Agreement on Trade in Services. The United States achieved limited success in negotiating coverage of film trade in the Uruguay Round; yet few countries made commitments in this sector, including the European Union and Canada. France and Canada have since proposed exempting cultural industries, including filmed entertainment, from international trade rules. This proposal is contrary to the U.S. position that

trade in cultural industries, including filmed entertainment, should be subject to international trade rules. As long as countries resist efforts to liberalize the distribution of films, many film producers will be forced to produce films abroad where many of our trading partners maintain film import quotas and other restrictions on film importation. The United States will continue its strong efforts to include film distribution in discussions related to services in international trade negotiations. By breaking down quotas and other trade restrictions on the free international flow of films, the United States will remove another incentive for U.S. film producers to move production sets abroad as a means of getting around film quotas.

As part of a recent World Trade Organization (WTO) submission laying out our services negotiating objectives, the United States included a paper on Audiovisual and Related Services. The paper calls on all our trading partners to make market access commitments for the audiovisual sector, under the auspices of the General Agreement on Trade in Services, that reflect the broader scope of the sector in today's digital environment.

At the same time, at UNESCO headquarters in Paris, efforts by Canada and France to create support for a proposal to remove cultural issues from the WTO and place them in a "new instrument," possibly UNESCO, found little support. The United States, although not a UNESCO member, made an intervention strongly opposing this idea.

The Export-Import (Ex-Im) Bank Loan Guarantee Program

In March 2000, the Ex-Im Bank and the American Film Marketing Association (AFMA) announced the Film Production Loan Guarantee Program. The program provides government-backed loan guarantees specifically for independent film projects, which are financed by loans secured by pre-sales contracts with independent foreign distributors. The goal is to increase the number of independent films produced in the United States and to boost job creation in the U.S. film sector. In early 2000, the independent film industry was estimated to support 148,000 U.S. jobs, with a \$2.5 billion payroll.¹⁰⁹ The loan program is targeted at film makers looking to produce films with budgets between \$1 million and \$15 million. One film financing expert estimates that 15 percent or more of loans currently not being made would be extended because of the loan guarantee program.¹¹⁰ In an effort to stem runaway production, the program requires that at least 50 percent of production costs must be of U.S. origin. As of December 2000, the program is close to becoming operational, but must await resolution of details concerning documentation.

Small Business Administration Loan Program for Independent Film Production

On December 14, 2000, SBA Administrator Aida Alvarez announced an SBA loan project to provide government-guaranteed backing for commercial loans to small independent film makers.

¹⁰⁹Remarks by Jackie M. Clegg, VP and COO, Ex-Im Bank of the US, "Independent Film Financing Program, Beverly Hills, California, March 16, 2000.

¹¹⁰Telephone conversation with Lew Horowitz, motion picture financier, April 13, 2000.

Alvarez and SBA officials signed partnership agreements with representatives of film making associations in New York City and Los Angeles, pledging mutual assistance to help small, independent film makers fund their creative projects. This project is designed to keep production of small, independent films at home, reducing the exodus of U.S. film production to other countries for financial reasons. The program recognizes intellectual property as collateral to secure SBA-guaranteed loans. In order to qualify for the program, all production must be done in the United States, and a portion of the distribution rights must be pre-sold. Loans requested under this program will be funded according to the rules and provisions of SBA's 7(a) guaranteed loan program, which last year provided a record \$10.52 billion in small business start-up or expansion capital.

Some industry representatives point out that, while helpful, the effect of reduced financing costs from the program amounts to only a fraction of the government economic incentives offered in foreign countries.

Industry Ideas to Alleviate the Problem of Runaway Film Production

We have compiled a list of the efforts made by industry, unions, and government to address some of the problems caused by runaway film production, and we have categorized the major proposals put forth by these individuals.

Improved Collection of Film Industry Data

There are almost as many methods for collecting film industry data as there are organizations collecting the data. The short-term nature of most film employment, the tendency of some film-related employment to fall outside of recognized employment classifications (i.e., dry cleaners, caterers, accountants, carpenters), and the collection of data at the local level by a wide range of methods, makes it extremely difficult to get a clear picture of the full economic impact of film production in the U.S. economy, the overall health of the industry, and the real effect of runaway film production. Current data collection does not address the full range of professions involved in film production, there is no clear measure of the economic impact of production (some look at production days, others production budgets, others the number of film starts), and multipliers are applied inconsistently. Much of the data collection on production days and budgets is done by local film commissions, but overall wage and employment data is generally tracked at the state level. Getting aggregate data at the national level is even more difficult. While many of the improvements to data collection (e.g., definition of effective measures and professions to include) need to be industry-led, there is room for coordination at the national level among various film commissions, unions, government agencies, and trade associations to collect and publish uniform and consistent industry data.

Government Incentives

Many industry observers have noted that foreign countries offer tax incentives to attract foreign film productions. Some industry observers have proposed that the United States or individual states offer comparable tax incentives to encourage production in the United States.

Industry participants point out that the currently available U.S. state incentives for film production are significantly less than the incentives offered by Canada, Australia, Ireland, or the United Kingdom..¹¹¹

International Trade Agreement Enforcement Actions

Some industry participants suggested a potential trade action against certain foreign government incentive policies. Other industry representatives are opposed to such action. However, all industry participants agree that many complex legal questions would have to be addressed first, such as whether international trade in film is subject to rules applicable to goods or services, whether there would be sufficient industry support to satisfy legal requirements, and whether the provisions in certain trade agreements regarding the safeguarding of national cultures would apply.

Creation of a U.S. Film Commissio

Several state film commissions have been pressing for the creation of a U.S. Film Commission to marshal resources for, and attention toward, the film industry at the national level. The United States is the only major county that does not have a federal-level government organization tasked with addressing the business of the film industry. The commission could coordinate with state film commissions on how to attract film production through streamlining bureaucratic processes, simplifying access to government-owned property for filming, and standardizing licensing and permitting procedures. It could help to resolve problems relating to film production and employment data and assist with uniform data collection. Finally, the commission could publish periodic economic analyses of the industry;

Government-Sponsored Training Programs

Several industry observers suggested developing and promoting government-sponsored training programs to ensure that new generations of artists and skilled technicians will always be available in the United States.

Congressional Hearings

Some industry observers have suggested that Congress hold public hearings on runaway film production in order to gain a better understanding of the causes and consequences of the problem and its effect on local communities, small businesses, and employment.

¹¹¹ A number of states offer a variety of incentives aimed at encouraging or attracting local film production, including sales tax exemptions on hotel stays over 30 to 60 days, sales tax exemptions on qualified production costs (usually for equipment and supplies but not for labor expenditures), streamlined procedures for obtaining permits and discounted rates for many city services (police, fire, and so on).

Toward the Future

Important segments of the film and television industry agree that there is a growing problem with runaway film production that needs to be addressed. A wide variety of public and private sector actions has been suggested, ranging from direct responses to more circuitous approaches. The proposals need further study, particularly to ensure that they are not mutually incompatible. Many of the more favored direct approaches involve efforts to achieve economic neutrality and level playing fields between countries by matching government incentives and imposing similar regulatory structures. Many of the indirect approaches rely on industry-driven programs or joint initiatives to address such problems as rising production costs. Most industry participants support proposals aimed at removing trade barriers, including cultural content rules, and the support the goal of improving market access for American films.