

**The Migration of Feature Film Production
From The U.S. to Canada and Beyond
Year 2001 Production Report**

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The Migration of Feature Film Production From The U.S. To Canada Year 2001 Production Report

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Edited by Mark A. Rosenthal

Executive Summary

This is an in-depth follow-up study to our Year 2000 Production Report on the global production of theatrical length motion pictures released in U.S. theatres (“Theatrical Releases”), a microcosm of overall U.S. entertainment production. The current report covers the period from 1998 through 2001, inclusive. The respective production year typically corresponds to the year prior to release date.

- For the 2001 release year, 76.6% of gross production expenditures were in North America.
- Gross production expenditures in the U.S. declined for the fourth straight year, dropping \$683 million (-17%) from \$3.93 billion in 1999 to \$3.24 billion in 2001. For the same period Canada expenditures grew \$617 million (144%).
- The estimated economic loss to the U.S. Economy since the Canadian rebates is \$4.1 billion equating to an average of 25,000 jobs a year.
- Since the rebates, feature films in Canada with gross budgets in the \$10.1 to \$50 million range have increased by \$439 million (141%), from \$311 million in 1999 to \$750 million in 2001. The gain from 2000 to 2001 was \$154 million (26%).
- A significant change in North America production in 2001 occurred in films with gross budgets greater than \$50 million. Overall, North America spending in this range decreased \$621 million (-26%) from a peak of \$2.4 billion in 2000 to \$1.8 billion in 2001. In the U.S., gross spending declined \$512 million (-25%) from \$2.02 billion in 2000 to \$1.51 billion in 2001.
- Over the four-year study period, 85% of the feature films with budgets of \$10 million or less were shot in the U.S. compared with 15% in Canada.
- In 2001, the average budget in the U.S. declined by \$3.9 million (13%) from \$31.2 million in 2000 to \$27.3 in 2001. In Canada, for the same period, there was a decline of only \$0.8 million (-3%) from \$27.6 million in 1998 to \$26.8 million in 2001.
- Films shot in Canada continued a poor showing at the domestic box office relative to films shot in the U.S. Overall, the % Ratio of Box-Office to Estimated Budget

(BO:B), was -1% in Canada in 2001. In the U.S. in 2001, it was a four-year high of 39%.

A Brief Historical Perspective

The United States has a 100-year reputation, heritage and legacy as the leader in the production of entertainment product, including theatrical length motion pictures. It is home to many of the world's best artisans and crafts people. Employment in the production industry is coveted and, over the years, has produced a deep labor pool of talented and experienced individuals. The U.S. production infrastructure is both extensive and state-of-the-art. Our locations, facilities and resources are world renown. However, in the face of aggressive subsidies by the Canadian Government, both on a National and Provincial level, the benefits of the U.S. production infrastructure has failed to abate a increasing loss of domestic business in the manufacture of this important, creative product.

The Majority of Feature Films Continue To Be Shot In North America

Based upon the figures in *Table 1*, an average of 79% of total Theatrical Release gross budget expenditures were made in North America over the four-year study period.

It should be noted that gross budgets in Eastern Europe increased \$178 million (593%), from \$30 million in 1998 to \$208 million in 2001, with the greatest growth from 2000 to 2001.

Table 1

Estimated Budgets Of Domestic Theatrical Releases (\$ million)

| | All Productions | | | | Studio Financed | | | | Independently Financed | | | |
|----------------|-----------------|-------|-------|-------|-----------------|-------|-------|-------|------------------------|-------|-------|-------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Worldwide | 5,557 | 5,029 | 5,450 | 5,599 | 4,154 | 3,995 | 3,602 | 3,425 | 1,403 | 1,035 | 1,848 | 2,175 |
| North America | 4,357 | 3,966 | 4,387 | 4,291 | 3,443 | 3,302 | 2,891 | 2,657 | 914 | 664 | 1,496 | 1,634 |
| % of Total | 78.4% | 78.8% | 80.5% | 76.6% | 82.9% | 82.7% | 80.3% | 77.6% | 65.1% | 64.2% | 81.0% | 75.1% |
| Asia | 47 | 105 | 131 | 117 | 0 | 89 | 125 | 0 | 47 | 16 | 6 | 117 |
| % of Total | 0.8% | 2.1% | 2.4% | 2.1% | 0.0% | 2.2% | 3.5% | 0.0% | 3.3% | 1.5% | 0.3% | 5.4% |
| Australia/NZ | 113 | 116 | 298 | 65 | 80 | 115 | 275 | 53 | 33 | 1 | 23 | 13 |
| % of Total | 2.0% | 2.3% | 5.5% | 1.2% | 1.9% | 2.9% | 7.6% | 1.5% | 2.4% | 0.0% | 1.2% | 0.6% |
| Eastern Europe | 30 | 85 | 70 | 208 | 15 | 85 | 0 | 208 | 15 | 0 | 70 | 0 |
| % of Total | 0.5% | 1.7% | 1.3% | 3.7% | 0.4% | 2.1% | 0.0% | 6.1% | 1.1% | 0.0% | 3.8% | 0.0% |
| Europe | 204 | 90 | 275 | 440 | 101 | 7 | 102 | 145 | 104 | 83 | 173 | 295 |
| % of Total | 3.7% | 1.8% | 5.0% | 7.9% | 2.4% | 0.2% | 2.8% | 4.2% | 7.4% | 8.1% | 9.4% | 13.6% |
| Mexico | 269 | 85 | 3 | 65 | 265 | 85 | 0 | 26 | 4 | 0 | 3 | 39 |
| % of Total | 4.8% | 1.7% | 0.1% | 1.2% | 6.4% | 2.1% | 0.0% | 0.8% | 0.2% | 0.0% | 0.2% | 1.8% |
| U.K & Ireland | 486 | 450 | 245 | 414 | 202 | 312 | 175 | 336 | 284 | 138 | 70 | 78 |
| % of Total | 8.7% | 8.9% | 4.5% | 7.4% | 4.9% | 7.8% | 4.9% | 9.8% | 20.3% | 13.3% | 3.8% | 3.6% |
| Other | 49 | 132 | 39 | 0 | 47 | 0 | 33 | 0 | 2 | 132 | 5 | 0 |
| % of Total | 0.9% | 2.6% | 0.7% | 0.0% | 1.1% | 0.0% | 0.9% | 0.0% | 0.1% | 12.8% | 0.3% | 0.0% |

Canada Continued to Increase its Share of North American Production

As can be seen in *Table 2*, the dramatic shift in production in North America from the U.S. to Canada continued in 2001, albeit at a reduced pace. Since the June 1998 revision of the Canadian Production Services Tax Credit (PSTC) and other rebates and incentives, the overall value of production in Canada has risen in total dollar volume by \$635 million (154%). The U.S. has suffered a corresponding fall in annual production expenditures from 1998 to 2001 of \$683 million (-17%).

Gross production dollars in the U.S. in 2001 declined by \$121 million (-4%) from \$3.37 billion in 2000 to \$3.24 billion in 2001. This represents an estimated loss to the economy for the year of \$2.6 billion and 27,313 jobs. Since the inception of the Canadian rebates, the loss of production expenditures in this segment of the entertainment industry alone has cost the U.S. economy an estimated \$4.1 billion and an average of 25,000 jobs per year.

Table 2

Feature Films That Shot In The U.S. and Canada

| | United States | | | | Canada | | | |
|-------------------------------|---------------|------|------|------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Number Of Feature Films | 127 | 123 | 108 | 119 | 23 | 18 | 37 | 39 |
| % of Total | 85% | 87% | 74% | 75% | 15% | 13% | 26% | 25% |
| Estimated Budgets (\$billion) | 3.93 | 3.55 | 3.37 | 3.24 | 0.43 | 0.41 | 1.02 | 1.05 |
| % of Total Budgets | 90% | 90% | 77% | 76% | 10% | 10% | 23% | 24% |

The Majority Of Theatrical Films In Canada Have Budgets Greater Than \$10 Million

As can be seen in *Table 3* and *Table 4*, U.S. production most affected by the Canadian rebates are feature films with gross budgets in the \$10.1 to \$50 million. Since the Canadian rebates took effect, films shot in Canada with gross budgets in that range, increased by \$439 million (141%), from \$311 million in 1999 to \$750 in 2001. In 2001, Canada saw an additional \$154 million increase (26%) over 2000.

In the U.S., in the \$10.1 to \$50 million-budget range, there was a \$435 million improvement (38%) from \$1.11 billion in 2000 to \$1.58 in 2001. This increase may be more of an aberration than a trend as a large number of the films released in 2001 were made during the period of accelerated production, that began in June of 2000, in anticipation of protracted writer and actor strikes. Overall, production in the U.S., in this range, lags \$332 million (-17%) behind the 1999 peak of \$1.9 billion.

The greatest change in North America production expenditures, from 2000 to 2001, was in the category of films with gross budgets greater than \$50 million. Overall, North

America spending in this range decreased by \$621 million (-26%) from a peak of \$2.4 billion in 2000 to \$1.8 billion in 2001. In the U.S., gross expenditures decreased by \$512 million (-25%), from \$2.02 billion in 2000 to \$1.78 billion in 2001. Concurrently, in Canada, gross dollars fell \$109 million (-29%) from \$377 million in 2000 to \$268 million in 2001.

On average through the study period, of feature films shot in North America with budgets of \$10 million or less, 85% were filmed in the U.S. as compared to 15% in Canada. Reasons given for production in that range shooting so predominantly in the U.S. include:

- The availability of lower budget guild and union contracts.
- The average savings in Canada can decrease proportionately with budget.
- Producers are inclined to make their budget work in the U.S. so they can take advantage of the vast pool of available talent and crew, unique locations and advanced infrastructure.
- It is harder to get a good crew in Canada in the lower budget ranges.
- In the U.S., talent and crew who normally work on higher budget films are available to these productions.

Table 3

Budgets Of Films Shot In The U.S./Canada By Budget Range (\$million)

| | United States | | | | Canada | | | |
|-------------------------------|---------------|-------|-------|-------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Less or equal to \$10 Million | 219 | 195 | 199 | 155 | 48 | 17 | 49 | 29 |
| % of Total | 82% | 92% | 80% | 84% | 18% | 8% | 20% | 16% |
| \$10.1 to 50 Million | 1,410 | 1,911 | 1,144 | 1,579 | 309 | 311 | 596 | 750 |
| % of Total | 82% | 86% | 66% | 68% | 18% | 14% | 34% | 32% |
| Over \$50 Million | 2,299 | 1,448 | 2,022 | 1,510 | 73 | 85 | 377 | 268 |
| % of Total | 97% | 94% | 84% | 85% | 3% | 6% | 16% | 15% |

Table 4

Number Of Films Shot In North America By Budget Range

| | United States | | | | Canada | | | |
|-------------------------------|---------------|------|------|------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Less or equal to \$10 Million | 43 | 34 | 42 | 44 | 7 | 3 | 8 | 6 |
| % of Total | 86% | 92% | 84% | 88% | 14% | 8% | 16% | 12% |
| \$10.1 to 50 Million | 53 | 69 | 40 | 56 | 15 | 14 | 24 | 29 |
| % of Total | 78% | 83% | 63% | 66% | 22% | 17% | 38% | 34% |
| Over \$50 Million | 31 | 20 | 26 | 19 | 1 | 1 | 5 | 4 |
| % of Total | 97% | 95% | 84% | 83% | 3% | 5% | 16% | 17% |

The Migration Of Production By Region

This section compares total gross budget dollars between U.S. production centers and Canada. The purpose is to create a baseline and look for trends and averages in regional production.

California/Canada

As can be seen in *Table 5*, in comparing films in California and Canada, with gross budgets of \$10.1 to \$50 million, each area's share of expenditures was 50%, on average, for 2000 and 2001. Over a four-year period, an average of 71% of the total expenditures for Theatrical Releases with budgets equal or less then \$10 million were in California and 29% were in Canada.

Table 5

Films Shot In California/Canada By Budget Range (\$million)

| | California | | | | Canada | | | |
|-------------------------------|------------|------|-------|-------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Less or equal to \$10 Million | 100 | 63 | 82 | 78 | 48 | 17 | 49 | 29 |
| % of Total | 68% | 79% | 63% | 73% | 32% | 21% | 37% | 27% |
| \$10.1 to 50 Million | 815 | 839 | 520 | 841 | 309 | 311 | 596 | 750 |
| % of Total | 73% | 73% | 47% | 53% | 27% | 27% | 53% | 47% |
| Over \$50 Million | 1,033 | 914 | 1,511 | 1,107 | 73 | 85 | 377 | 268 |
| % of Total | 93% | 91% | 80% | 81% | 7% | 9% | 20% | 19% |

New York/Canada

Based upon the figures in *Table 6*, in comparing total gross budgets in New York State and Canada, New York decreased by \$527 million (76%) from a peak of \$695 million in 1999 to \$167 million in 2001. For the same period Canada grew \$635 million (154%).

Table 6

Films Shot In New York/Canada By Budget Range (\$million)

| | New York | | | | Canada | | | |
|-------------------------------|----------|------|------|------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Less or equal to \$10 Million | 71 | 23 | 72 | 22 | 48 | 17 | 49 | 29 |
| % of Total | 60% | 58% | 59% | 44% | 40% | 42% | 41% | 56% |
| \$10.1 to 50 Million | 111 | 542 | 151 | 145 | 309 | 311 | 596 | 750 |
| % of Total | 26% | 64% | 20% | 16% | 74% | 36% | 80% | 84% |
| Over \$50 Million | 415 | 130 | 135 | 0 | 73 | 85 | 377 | 268 |
| % of Total | 85% | 60% | 26% | 0% | 15% | 40% | 74% | 100% |

Rest of the U.S./Canada

Based upon the numbers in *Table 7*, in comparing total gross budgets in the rest of the U.S. and Canada, the U.S. has decreased by \$332 million (-24%) from 1,383 in 1998 to \$1,051 in 2001.

Table 7

Films Shot In The Rest of the U.S./Canada By Budget Range (\$million)

| | Rest of the U.S. | | | | Canada | | | |
|-------------------------------|------------------|------|------|------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Less or equal to \$10 Million | 48 | 110 | 45 | 55 | 48 | 17 | 49 | 29 |
| % of Total | 50% | 87% | 48% | 65% | 50% | 13% | 52% | 35% |
| \$10.1 to 50 Million | 484 | 530 | 473 | 593 | 309 | 311 | 596 | 750 |
| % of Total | 61% | 63% | 44% | 44% | 39% | 37% | 56% | 56% |
| Over \$50 Million | 851 | 404 | 376 | 403 | 73 | 85 | 377 | 268 |
| % of Total | 92% | 83% | 50% | 60% | 8% | 17% | 50% | 40% |

In General Average Budgets Are In Decline

As can be seen in *Table 8*, overall, estimated budgets in the U.S., for 2001, declined by \$3.9 million (-13%), from \$31.2 million in 2000 to \$27.3 in 2001. In Canada, for the same period, there was a decline of \$0.8 million (-3%) from \$27.6 million in 1998 to \$26.8 million in 2001.

Table 8

Average Estimated Budget

| | All Budget Ranges | | | | \$10.1 to \$50 Million | | | |
|------------|-------------------|------|------|------|------------------------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| Worldwide | 28.6 | 26.9 | 29.8 | 27.2 | 24.7 | 26.1 | 26.9 | 26.7 |
| U.S. | 30.9 | 28.9 | 31.2 | 27.3 | 26.6 | 27.7 | 28.6 | 28.2 |
| Canada | 18.7 | 22.9 | 27.6 | 26.8 | 20.6 | 22.2 | 24.8 | 25.9 |
| California | 31.4 | 32.4 | 39.1 | 30.2 | 27.2 | 26.2 | 30.6 | 25.5 |

The Motivation To Shoot In Canada

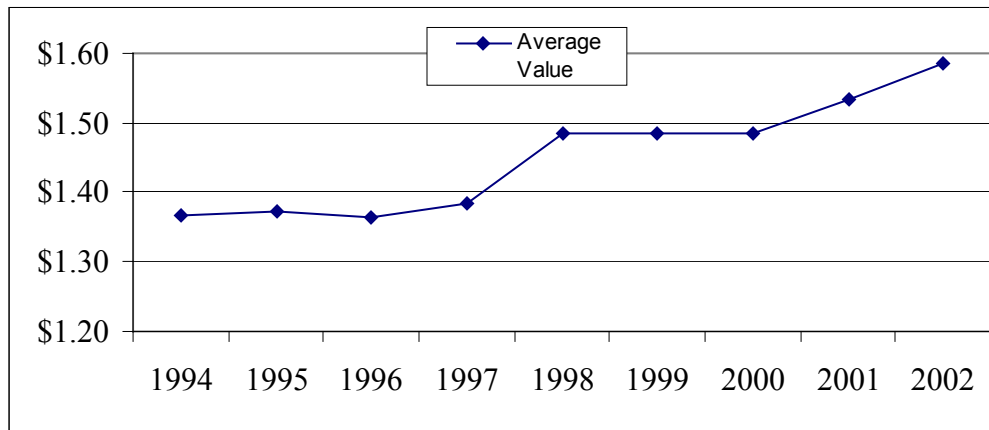
The Canadian Dollar

As can be seen in *Table 9*, the Canadian dollar continued to grow weaker against the U.S. dollar. When the Canadian Production Services Tax Credit (PSTC) became law the exchange rate was \$1.47 to \$1.00 U.S. It is currently \$1.54.¹ The further drop in the exchange rate represents an additional savings on comparative Canadian labor of 7%.

¹ As of May 21, 2002

Table 9

Average Value of the Canadian Dollar Traded Against \$1.00 U.S.²



Status Of Subsidies Offered By The Canadian Government

On April 1st 2002, the Canadian government quietly eliminated their film and television tax shelter. “Most U.S. productions shot in Canada budget 5%-8% of a pic through such financing.”³ “It also has helped fuel growth of about 14% per year in the film and television industries in Canada, with U.S. production in Canada overtaking Canuck indigenous production.”⁴ “Some say that without the shelter, U.S. studios will be more inclined to take their business elsewhere or stay home.”⁵ Subsequently, Alliance Atlantis Communications (AAC), a Canadian film and television, producer and distributor, laid off 35 employees in addition to the 80 it laid off in January, “According to CIBC World Markets analyst Adam Shine, the layoffs are expected to save the company C\$10 million (\$6.4 million) over two years, roughly the same amount that AAC stands to lose after the Canadian government closed a tax-shelter loophole it had been using”⁶

The Directors Guild Of Canada as well as other groups and organizations is working to bring back the tax shelters, “The DGC has taken a leadership role with regards to the issue of tax shelters. We have developed a plan to balance-off the suspected drop in foreign production. We have met with both the Ministry of Canadian Heritage, along with Minister Copps directly, as well as the Department of Finance and have found them extremely receptive - providing we are able to pull together industry support, which we have done. We have met with the CFTPA, WGC, ACTRA, IATSE, and NABET soliciting their support. Early this year we will again be in Ottawa presenting a unified industry voice to the federal decision-makers in our ongoing efforts to maintain our competitive position in this global industry.”⁷

² Federal Reserve Bank of St. Louis

³ Daily Variety, Oct. 2, 2001, “Tax shelter leaking in Canada”, by Tamsen Tillson

⁴ *Ibid*

⁵ *Ibid*

⁶ Daily Variety, Apr. 24, 2002, “Alliance cuts 35 staffers”, by Tamsen Tillson

⁷ Directors Guild of Canada, Newsletter, Winter 2002, “From the President's Desk”, by Alan Goluboff, President, DGC, http://www.dgc.ca/media/pres_reports/NewsletterWinter2002.htm

At the request of producers, Toronto has reduced the time it takes to rebate film tax credits, “For producers eager for benefits they can take to the bank, Harris announced a streamlined system under which foreign producers receiving the Ontario Production Services Tax Credit will receive the majority of their refund within six weeks of filing, instead of the two years that companies sometimes must wait at present. The Ontario Production Services Tax Credit is a refund of as much as 11% of a film's Ontario labor expenditures.”⁸

Other Developments In Canada

Canadian producers have joined together to fight the enforcement of the Screen Actor’s Guild of Global Rule One, “Canadian producers have joined their counterparts in Australia, New Zealand, Ireland and the UK in challenging SAG's right to implement Global Rule One, which goes into effect on May 1, 2002. The American actors' union is threatening to discipline any members who sign non-SAG contracts while working abroad in English-speaking countries. But SAG does have some international support, ironically it's from ACTRA, the only foreign actors union to align itself with a rule that is believed to undermine the power of indigenous collective agreements.”⁹ “If ACTRA supports this move, we could ultimately end up at the Labour Board discussing unfair labour practices,” says Elizabeth McDonald, CFTPA President and CEO. Producers may also have the right to take action in the courts that could have repercussions in California or New York law.”¹⁰

In Vancouver, British Columbia, “domestic production fell to CAN\$251.6 million (\$160 million) last year, a 40% drop from a high-water mark of CAN\$419 million in 2000. The 84 foreign — mostly U.S. runaway — productions that were shot in British Columbia in 2001 poured CAN\$856.8 million (\$544 million) into the local economy, compared with CAN\$760 million in 2000.”¹¹

According to information in *The Canadian Film and Television Production Industry Profile 2002*, 70% of the growth in the volume of film and television production by sector in Canada from 1998/99 through 2000/01 was attributable to growth in foreign location shooting.¹²

In Calgary, Alberta Canada:¹³

- I.A.T.S.E Local 212; reduced wages from present rates to 1998 rates; reduced fringes from 17% to 11%.

⁸ Daily Variety, Apr. 7, 200, “Toronto touts studio, fast tax credits”, by Tamsen Tillson

⁹ The Canadian Film and Television Production Association (CFTPA), News Release, “Canadian producers Join Forces To Fight Sag’s Global Rule One”, <http://www.cftpa.ca>

¹⁰ *Ibid*

¹¹ The Hollywood Reporter, May 10, 2002, “B.C.'s homegrown prod'n dives 40% after record '00”, by Adele Weder

¹² *The Canadian Film and Television Production Industry Profile 2002*, February 2002, Exhibit 3, p 19

¹³ Source, Alberta Film Commission, www.albertafilmmnetwork.com

- I.A.T.S.E Local 669; reduced vacation, pension and retirement payments and states that “Further amendments may be negotiated on an individual basis.”¹⁴
- Directors Guild of Canada, Alberta district Council; tier 1 – 10% rate reduction off published 2000 scale rate; tier 2 – 5% reduction.
- Teamsters Local 362; reduced vacation rates from 10% to 4%; capped health and welfare at eight hours per day.
- The listed rate for a grip in Alberta is \$17.75 Canadian. Subtracting the 11% federal Canadian rebate, the cost for a grip¹⁵ in U.S. dollars, at the current exchange rate, is \$10.13.

Challenges From Other Countries

The Australian government has implemented a 12.5% tax rebate for big-budget film and TV productions. The measure "will provide a real incentive to the producers of big-budget feature films to locate in Australia," said Minister for Communications and the Arts, Richard Alston and assistant treasurer, Helen Coonan, in a statement.¹⁶ To qualify, producers must spend a minimum of \$A15 million (\$7.8 million) in Australia. “The government expects the average rebate will work out to 10% of a film's total production outlay, varying according to the level of Australian spending.”¹⁷ The current currency exchange rate is \$1.83 Australian to \$1.00 U.S. According to a yearly forecast published by *The Economist*, the Australian dollar is undervalued against the U.S. dollar by 35%. In contrast the Canadian dollar is undervalued by 15%.¹⁸

In the Czech Republic, the wage for an experienced key grip, with all taxes and fringes included, is \$536.98 per week, which represents a savings of 84% against a comparable key grip in Los Angeles. *The Economist* finds the Czech Kronor to be undervalued by 33%.¹⁹

Current Conditions in the U.S.

Production in Los Angeles is well below expectations, “Although Hollywood activity has stepped up from winter's deeply depressed totals, the hoped-for recovery remains mild, with April's activity lagging 47% behind the April 2001 number, according to figures released Tuesday by the Entertainment Industry Development Corp.”²⁰

U.S. producers have joined together to fight the enforcement of the Screen Actor’s Guild of Global Rule One, Apr. 25, 2002, “The Screen Actors Guild's intended implementation of Global Rule One hit a major snag Thursday in the form of a cease-and-desist letter from the Alliance of Motion Picture & Television Producers, which contends that

¹⁴ *Ibid*

¹⁵ A “grip” is part of a film’s crew responsible for; moving and rigging the camera; flagging and shaping lamps; rigging of overhead frames; and construction related to the placement of cameras and lamps.

¹⁶ *Daily Variety*, Mar. 14, 2002, “Oz rolls out rebate”, by Don Groves

¹⁷ *Ibid*

¹⁸ *The Economist*, Apr. 25, 2002, “Big MacCurrencies”

¹⁹ *Ibid*

²⁰ *Daily Variety*, May 7, 2002, “L.A. off-lot feature prod'n recovery mild”, by Dave McNary

extension of Rule One "contravenes the spirit and intent of the AMPTP/SAG agreement."²¹ When asked why the AMPTP, which represents only signatory companies, is taking issue with SAG's plan to hold its own members accountable for refusing to work for non-signatory companies and under non-SAG minimum basic agreements, Counter responded: "This deals with whom we do business in Canada. The Canadians produce it and we distribute it. And it's contrary to those provisions," he said.²² Screen Actors Guild national executive director/CEO, Bob Pisano, sent a tersely worded response to the Alliance of Motion Picture & Television Producers, "We regard the AMPTP's renegeing on its contractual obligation as a violation of the Collective Bargaining Agreement, and we plan to treat it accordingly. We also believe that your attempted interference in the actor-agent contractual relationship is independently actionable. In conclusion, please do not confuse my professional courtesy to you with any lack of resolve. We intend to enforce our rule." Counter was unavailable for comment.²³

The AFL-CIO has sent a letter to the Alliance of Motion Picture & Television Producers condemning the AMPTP's recent involvement in the Screen Actors Guild's Global Rule One campaign. "We are deeply concerned when any employer group sees fit to interfere with the internal workings of any of our affiliate unions and guilds," reads the letter, sent May 1.²⁴ IATSE delegates from four Western states have endorsed SAG's attempt to enforce contracts on shoots outside the U.S. Reps from the IA's District 2, which includes Arizona, California, Hawaii and Nevada, unanimously passed the resolution to support SAG's Global Rule One campaign, that will discipline members who do non-SAG work in foreign territories if the production is aimed at the U.S. market.²⁵

The Hollywood Entertainment Labor Council issued a statement of support on Friday, citing the increased importance of protections in a global economy. "It is every union's right and responsibility to protect its members," wrote council prexy Scott Roth. "SAG members have lost residual payments, important safety provisions and substantial contributions to its pension and health funds because of work done out of the country using SAG talent where SAG contracts have been avoided. Both the Directors Guild and the Writers Guild have had a similar rule in place for many years. We know that SAG only wants what these unions already have."²⁶

Citing runaway production, the Directors Guild of America will take Atlanta, Boston, Dallas, Miami and Orlando off its list of "production centers" on July 1. A DGA spokesman said the ongoing departure of domestic production had created a situation in which there was not enough work in the five cities to merit continuing the production center designation.²⁷

²¹ The Hollywood Reporter, Apr. 19, 2002, "Producers aligned against enforcing Global Rule One", by Peter Kiefer

²² *Ibid*

²³ The Hollywood Reporter, Apr. 25, 2002, "SAG's Pisano blasts AMPTP", by Peter Kiefer

²⁴ The Hollywood Reporter, May 09, 2002, "AFL-CIO slams producers", by Peter Kiefer

²⁵ Daily Variety, May 13, 2002, "IATSE west reps back Rule One", by Dave McNary

²⁶ Daily Variety, May 19, 2002, "Cannes heat on SAG Rule 1", by Dave McNary

²⁷ Daily Variety, May 28, 2002, "DGA scratches 5 cities from list", by Dave McNary

Across the U.S., the economic downturn has impacted state and regional film offices; “The slowdown in the economy, coupled with the tragic events of last fall has put almost every state in the union in terrible financial shape. Budget shortfalls are the norm. Tax increases - especially in an election year - are not a viable political option. The only other answer is cuts of goods and services. Film commissions not being in the bureaucratic position of "a core or essential service" are on the legislative chopping block. Some commissions have already closed their doors, St. Louis, Missouri, Kansas City. Almost every other state has cut funding from all agencies.”²⁸

- St. Louis Missouri film office --- closed January 1, 2002
- Kansas City Missouri film office --- was supposed to close April 30, 2002, but has received funding through August 2002.
- Missouri state film office --- closing June 30, 2002
- Colorado film office --- \$21,000 budget cut --more budget cuts to come, no publicity in trade shows due to costs, employee is now part time.
- Georgia film office ---2.5% budget cut, next fiscal year 5-17% budget cut.
- Illinois film office ---30% budget cut.
- Iowa film office --- \$50,000 budget cut, 1 employee lost, will soon have a staff of 1, with a possible state employee buyout plan closing the office.
- Michigan film office -- 12.5% budget cut, an additional 5% cut next year, discontinue 'merit' pay for employees.
- Mississippi State Film office --- \$8000 advertising spending loss, budget has not risen for 10 years.
- Palm Beach Florida film office --- 20% budget cut.
- Phoenix film office --- travel and budgeting cuts, lost both 2002 and 2003 budget for travel and marketing.
- Wisconsin film office --- 50% budget cut, 1 person lost, most work to be completed by website.
- The North Carolina Film Office has not had its full operating annual budget of \$500,000 for any of the past three years and has been told to expect budget cuts of 15% or more for the upcoming fiscal year.

Efforts On Behalf Of The U.S. Production Industry

- New Mexico²⁹ and Oklahoma³⁰ have recently enacted 15% production incentives.
- A proposal by Governor Gray Davis of California, embodied in Assembly Bill 2747, passed the full Assembly on May 29, 2002 with only one dissenting vote, and will now move to the California State Senate. It provides a 15% production tax credit on the first \$25,000 of qualifying wages per person employed in the

²⁸ From a memo, May 15, 2002, “State of Affairs in the Film Commission Business”, by Ron Ver Kuilen, Managing Director, Illinois Film Office, rverkuil@commerce.state.il.us (the full memo is available in the addendum at the end of this report)

²⁹ www.edd.state.nm.us/FILM/Tax1.htm#FAQ

³⁰ www.otrd.state.ok.us/filmcommission/oklahomafilmenhance.htm

State for all films and television programming with total wages between \$200,000 and \$10 million. If passed by the Senate and signed by California Governor Gray Davis, it is scheduled to take effect on January 1, 2004.

- There are, to date, 21 cosponsors of Senate Bill 1278, “The United States Independent Film and Television Production Incentive Act of 2001”³¹, sponsored by Senator Blanche Lincoln, (D-Ark). As of this publication, the bill has been referred to the Committee on Finance.
- The Film and Television Action Committee (FTAC)³², a grass roots organization of industry workers and vendors, is challenging the legality of the Canadian subsidies and cultural exemption and is currently seeking a Section 301 filing³³ with the United States Trade Representative. Their efforts have the support of the Screen Actors Guild; The International Brotherhood of Teamsters; Teamsters Local 399; the Studio Utility Employees, Local 724; and Texas Studio Mechanics, Local 484.
- The Entertainment Industry Development Corporation of Los Angeles (EIDC)³⁴, The New York City Mayor's Office of Film, Theatre and Television³⁵, Film U.S., and The Center for Entertainment Industry Data and Research (CEIDR)³⁶, are partnering in the collection of and reporting of worldwide data on motion picture, television and commercial production. The next report will be “The 25 Year Production History Of Made For Television Movies And Mini-Series.”
- The Film California First program has rebated \$300,000 to filmmakers for the cost of local, state, and federal personnel and has eliminated permit or locations fees for the use of State property.³⁷

Box-Office Performance Analysis

As can be seen in *Table 10*, films shot in Canada continued a poor showing at the domestic box office, overall. The % Ratio of Box-Office to Estimated Budget (BO:B), in 2001, was -1%, for the same period in the U.S., it was a four-year high of 39%. The only budget range that showed a positive % Ratio in Canada, in 2001, was 8%, in the \$10.1 to \$50 million range, which is down from 26% in 2000. Concurrently, in the U.S., the ratio for 2001 in that range was 54%. It is outside the scope of this report to determine whether this is a result of a poorer quality product made in Canada or simply the fact that marginal films were produced in Canada because they could be done “for

³¹ <http://thomas.loc.gov/>

³² <http://www.ftac.net/>

³³ Section 301 of the Trade Act of 1974, as amended, is the principal U.S. statute for addressing foreign unfair practices affecting U.S. export of goods or services. Section 301 may be used to enforce U.S. rights under bilateral and multilateral trade agreements and may also be used to respond to unreasonable, unjustifiable, or discriminatory foreign government practices that burden or restrict U.S. commerce. For example, section 301 may be used to obtain increased foreign market access for U.S. goods and services, to provide more equitable conditions for U.S. investment abroad, and to obtain more effective protection worldwide for U.S. intellectual property.

³⁴ <http://www.eidc.com/index.html>

³⁵ <http://www.ci.nyc.ny.us/html/filmcom/home.html>

³⁶ www.ceidr.org

³⁷ http://commerce.ca.gov/state/ttca/ttca_navigation.jsp?path=California+Film+Commission

less.” Since producers are largely in the business of making films for profit, it is important for the industry to examine this intriguing data and consider its implications.

Table 10

% Ratio of Box-Office to Estimated Budget (BO:B)

| Budget Range | United States | | | | Canada | | | |
|---------------------|---------------|------|------|------|--------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 | 1998 | 1999 | 2000 | 2001 |
| All | 8% | 29% | 24% | 39% | -18% | -28% | 10% | -1% |
| 10 Million and Less | 27% | 152% | 71% | 92% | -21% | 58% | -9% | -40% |
| 10.1 to 50 | 32% | 46% | 31% | 54% | -17% | -23% | 26% | 8% |
| Over 50 | -9% | -9% | 15% | 19% | -24% | -62% | -12% | -21% |

The BO:B index was created to set baselines and look for trends and averages in the performance of feature films at the domestic box-office. It is equal to the ratio of the total domestic gross less the estimated budget divided by the total estimated budget.³⁸ The number can also be viewed as a gross profit percentage for a film based upon its box office receipts. For example, if a film has Box Office receipts of \$27 million and its Estimated Budget is \$20 million, its BO:B would be 35% $((\$27MM - \$20MM) / \$20MM)$. The numbers set forth below are average BO:B figures for U.S. and Canadian produced film. Please bear in mind that a film that is either hugely successful or a complete bomb can skew the numbers. For example, *The Blair Witch Project*, shot in 1999 in the U.S, in the budget range of 5 million or less produces an astronomical BO:B for the year of 499%. Removing *Blair Witch* from the sample, the U.S. BO:B for 1999 would be 54%. Box Office.

Conclusion

Canadian subsidies are having their intended effect of making Canada the production venue of choice for U.S. producers. The U.S. production industry has daunting choices: match the incentives; find ways that are noninvasive, non-punitive to the producer to stop foreign subsidies or accept the fact that the U.S. production industry is in a serious decline that will have ramifications for years to come. Our charge is to come together as an industry, so that we can understand the challenges at hand and find productive solutions before a vital U.S. industry is lost.

Study Methodology

The author of this study, Stephen Katz, President, Stephen Katz and Associates wrote the widely acclaimed *1999 Motion Picture and Movie of the Week Production Survey* and *The Migration of Production from the U.S. to Canada- Year 2000 Production Report*. For over fifteen years, he has been involved in the marketing of motion picture and television production equipment. For that time, he has kept an extensive database of feature film and television production. Louise Levison, President of Business

³⁸ BO:B (%) = (Domestic Gross - Estimated Budget) / Estimated Budget

Strategies³⁹ and a financial consultant to independent filmmakers for over ten years, has provided additional worldwide box office and budget data.

Box Office Period Covered

This study is based on feature length motion pictures that were released theatrically in the U.S. for the “release years” of 1998, 1999, 2000 and 2001. The “release year” is traditionally defined as December 15th through December 14th of the following year.

Number of Films

The Feature films included in the study are based on the lists, “The Top 250 Films of 1998,” “The Top 250 Films of 1999,” “The Top 250 Films of 2000,” and “The Top 250 Films of 2001,” as compiled by Anthony D’alessandro, and published on the web site of the trade publication Variety, Variety.com.⁴⁰ As the Variety Top 250 an arbitrary cutoff, for consistency all films that grossed domestically greater than \$500,000 were included as long as a qualified estimated budget could be found.⁴¹ Excluded from the study were; animated films, large format films, and films that were released in Canada but not the U.S. Documentaries that met the above criteria were included in the count.

Gross Domestic Box Office Receipts

The gross domestic box office receipts are from the cumulative reported box office as published by Daily Variety in their weekly charts, “Film Box Office Wrap.” The gross domestic box-office receipts are current to May 2002.

Source of Financing Criteria

Whether a film can be defined as “independent” depends on the picture's source of financing. If a film’s primary source of financing comes from any entity other than a major U.S. studio, and a studio does not control its creative process, the film is considered independent. When financing comes from a foreign entity, the film also is considered to be independent for this study. Despite the tendency of many filmmakers and analysts to want to include or exclude films by somewhat subjective philosophical definitions, the purpose of reporting independent film data in the CEIDR report seeks to be as objective as possible

Film financing has been evolving since the mid-1990s into a new paradigm where studios have begun to act more and more like independents rather than the other way around. Often films have primary financing from an independent source and pre-sell North American distribution to a studio. If it has been determined that the studio is acting as just another investor and has contributed 50 percent or less of the budget, these films meet the definition of "independent." On the other hand, studios have developed

³⁹ <http://www.moviemoney.com/>

⁴⁰ <http://www.variety.com/>

⁴¹ The budgets were found for all films that were shot in North America

specialty divisions that both acquire and produce films. If Miramax, Sony Classics, Fox Searchlight, Universal Focus, Paramount Classics or Screen Gems acquires for distribution a film that has been financed from equity sources, that picture is considered an independent. When a specialty division finances a film itself, that film has a separate determination. For example, in the case of Miramax (including its other divisions, such as Dimension which greenlights many of its own films), films up to \$20 million are considered independent, as long as The Walt Disney Company has no control over the creative process. Where the situation may not be so clear-cut — a specialty division co-produces with a studio — CEIDR’s research determined the true status of a film. If a studio released it and the research team could not ascertain with some certainty what financing entity controlled the making of a movie, it remains in the studio category.

The term “studio” refers to the original seven majors — Universal (now Vivendi Universal), 20th Century Fox, Warner Bros., Paramount, Columbia/TriStar (now Sony Entertainment) MGM/UA, and The Walt Disney Company. For independent companies, size is not a definition. Although the trade papers use such terms as “mini-majors” or, in the case of DreamWorks, the completely meaningless “independent studio,” the company itself is considered an independent producer of films. Pursuant to the definition above, if that independent company co-produces a particular film with a studio, the elements of the film’s deal are taken into account in determining whether the film is independent.

Estimated Budgets

The estimated budgets were gathered from a consensus of industry sources including: production executives, producers, trade publications, news articles, qualified industry databases and other sources.

Production Location

As some feature films shoot in multiple locations, the principal location was determined by where there was the longest period of production.

Biographical and Contact Information for Stephen Katz

Stephen Katz won an Academy Award for the co-development of Dolby Stereo. He has over thirty feature film credits including, *Star Wars*, *Close Encounters of the Third Kind*, *Altered States*, *The Rose*, *The Deer Hunter*, *Logan’s Run* and *A Star is Born* and was the Associate Producer of Universal Studios, *The Pirates of Penzance*. For the last fifteen years he has been a consultant in the marketing of production equipment to the industry for companies including The Samuelson Group International, Victor Duncan Inc. and Hollywood Rental. In 2000 he authored the widely acclaimed 1999 “Motion Picture and Movie-of-the-Week Production Survey” and produced all the panels and seminars for Showbiz Expo, the seminal industry trade show. Prior to working in the film and television industry, he was a recording engineer for Jimi Hendrix, Barry Manilow, Ike and Tina Turner, Chuck Berry, Bo Diddley, Tony Orlando and Jerry Jeff Walker and designed and built recording studios for Dolly Parton and Porter Wagner, the original

Cherokee Ranch, Tom T. Hall, Johnny Cash and Grand Funk Railroad. He was the founding partner of Eventide Electronics, one of the first manufacturers of professional digital audio equipment including digital delay lines, auto-locators, pitch changers and the Instant Phasor. Mr. Katz is a member of the executive board of The Entertainment Coalition of the United States (ECO*USA), a think tank of motion picture and television professionals.

He can be contacted at 818-501-3833, Fax 818-501-4008, e-mail skatz@facade.com

Biographical and Contact Information for Mark A. Rosenthal

As President of Raleigh Enterprises, Mark A. Rosenthal is responsible for overseeing the six operating divisions of the organization, which include film and television studios, hotels, business records management, commercial property and winemaking. Mr. Rosenthal initially joined Raleigh Enterprises in 1982 and subsequently served nearly a decade as the company's General Counsel.

Founded in 1955, Raleigh Enterprises employs a staff of more than 400. The diverse businesses owned or managed by the company include assets such as the Sunset Marquis Hotel and Villas, File Keepers, Malibu Hills Vineyards and Raleigh Film and Television Studios. The company also has significant commercial real estate investments and joint venture holdings including Hollywood Rentals, the nations largest lighting and grip company.

Raleigh Studios, the largest independent film, television and commercial studio group in the country, consists of two major complexes, one in Hollywood and one in Manhattan Beach. Raleigh Studios-Hollywood is the oldest continually operated studio in the country and the newest is Raleigh Studios-Manhattan Beach, the production home to some of the entertainment industry's hottest shows, including David E. Kelley Production's Ally McBeal, The Practice and Boston Public.

He may be contacted via email at mrosenthal@raleighenterprises.com

Biographical and Contact Information for Louise Levison

A specialist in writing business plans for independent filmmakers, including the most profitable independent film in history, *The Blair Witch Project*, Levison is the author of *Filmmakers & Financing: Business Plans for Independents* (Third Edition, Jan. 2001, Focal Press) and publisher/editor of *The Film Entrepreneur: A Newsletter for the Independent Filmmaker and Investors*. Some of her recent clients' films are, *The First of May*, *Extremedays*, *Dinner Rush*, *Michael Winslow Live*, *Hoover*, and the European films *Olivetti 82* and *Charles the Fifth: The Emperor and the Girl*. Among her corporate clients are Tokuma International Ltd, the Japanese conglomerate responsible for *Shall We Dance* and *Princess Mononoke*, Pamplin Film Company, Gabriel Film Group, and Point Blank Productions, Inc. Levison has taught classes for filmmakers at UCLA and presented seminars for the Independent Feature Project, ShowBiz Expo and numerous

film festivals and commissions. Prior to working in the entertainment industry, she worked in analysis and corporate planning for 18 years in corporations, including the metals and minerals industry, health care and Stanford Research Institute (SRI), where Mobil Oil and The Executive Office of the White House were among her clients. She holds an M.A. in Asian Area Studies from New York University and an M.B.A. in Finance from California State University.

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