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Northern overexposure

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Hans Fraikin may be one of Quebec's most important salespeople. As the film commissioner for the Québec Film and Television Council, he tries to convince Hollywood producers to bring their big-budget projects to La Belle Province. And on a hectic day in late July, he's feeling particularly upbeat. "We have a big production going on called The Spiderwick Chronicles, a Paramount film," he says, excitedly, from his Montreal office. "It's a huge shoot, about $110 million, and 75-80% of that is going to be spent in Quebec." Fraikin estimates his province could fetch more than $200 million from foreign productions this year. Why? "Because I'm here, of course," he says, with a laugh.

Servicing American and other foreign productions has become a monster business in Canada. Between April 1, 2004, and March 31, 2005, the foreign-productions sector of Canada's film and television industry raked in $1.5 billion and generated close to 40,000 full-time jobs.

Much of this growth can be traced back to 1998, when the federal government launched the film or video production service tax credit, an 11% refund to foreign producers on Canadian labour expenses. (The percentage was increased to 16% in 2003.) Many of the provinces sweetened the deal with similar tax credits. Combine those financial incentives with the discount of the Canadian dollar to the American one, in the period 1997-2003, and the country became an almost irresistible shooting location for Tinseltown producers. Canada became so good at attracting film and TV shows from Los Angeles, it earned the nickname Hollywood North.

But the very same factors that helped to build Hollywood North now threaten it. Over the past three-and-a-half years, the loonie has appreciated close to 35% against the greenback. Places like Australia, South Africa and New Zealand offer financial incentives for foreign productions. South of the border, states from New York to Louisiana have introduced film tax credits in recent years. And California governor Arnold Schwarzenegger is angling to add his state to the list. Net result? Increased competition and a stronger dollar meant Canada's foreign production revenues in 2004-05 were 23% lower than the previous year.

Guy Mayson, the president and CEO of the Canadian Film and Television Production Association, says he's "cautiously optimistic" 2006 will be a good year for foreign production work, "but there's always a concern it will drop or disappear." He points to caterers, equipment-rental people and other service providers as good barometers of the state of the industry. "They feel foreign production reached a peak in 2002-03," he says, "and that it may never get back to that level." Could the golden age of Hollywood North be coming to a close?

The future of Hollywood North will largely depend on how well it can continue to compete on costs, its filming locations and the talents of its workforce. These are the things foreign producers consider when deciding where to shoot their projects. To remain cost-effective as a foreign-production destination, Ontario boosted its tax credit to 18% from 11%, in early 2005. Quebec one-upped the move with an increase in its incentive to 20% from 11%. And shortly after, British Columbia matched Ontario's tax-credit percentage. But can the provinces again rely on this strategy to fight competitors — or a further appreciation in the dollar?

The economic case for continuing to boost tax credits may be a tough sell. Take the 2004 E&B Data study titled Impact Économique des Tournages Éstrangers au Québec. The province's film and television production industry leveraged the report to successfully lobby its government for a 20% tax credit. The report revealed that for every dollar Quebec spends on its film tax credit, the province nets $2.49 in tax revenue. But that figure is based on the old 11% incentive. Take the numerical assumptions outlined in the study, swap in the current 20% provincial tax credit and the net tax revenue number appears to fall to $0.92. But like British Columbia and Ontario, Quebec also offers a labour-based visual effects tax credit (20%) that foreign producers can claim on top of the provincial incentive. So on Hollywood projects with lots of computer-generated images, that net tax revenue figure drops even lower. (The study doesn't take into account other economic spinoffs of foreign productions.) In other words, the provinces' tax-incentive systems could now be close to their upper limits.

But what about the option of boosting the federal tax credit? Turns out the feds might get more bang for the buck from pumping money into other industries. Philip Cross, the director of the Current Economic Analysis Group, at Statistics Canada, says an industry's GDP multiplier shows that industry's overall impact on the economy. He says the motion picture and video production and distribution industry — which is heavily geared toward production, since distribution in this case means activities like the cost of transporting a movie to a theatre, not Blockbuster video rental sales — has a GDP multiplier of 0.82. In other words, for every dollar of output in this segment of the economy, Canada's GDP grows by $0.82. In comparison, the finance sector boasts a GDP multiplier of 0.95. "The motion picture and video production and distribution industry has a below-average GDP multiplier," says Cross, "there's no question of that."

Little wiggle room on provincial and federal tax credits could hinder Hollywood North's ability to remain cost competitive. But certainly our shooting locations count for something. "British Columbia has huge geographic diversity within a very short plane flight from Los Angeles," says Susan Croome, British Columbia's film commissioner. "So I think we're going to see ourselves getting considered for a number of different kinds of projects." Ontario's no slouch in the locations game either: the province's growing digital database of shooting locations ranks among the biggest in the world.

As for Quebec, film commissioner Fraikin believes his province's historic architecture will continue to give Quebec an edge. "Catch Me If You Can — Spielberg's movie with Leonardo DiCaprio and Tom Hanks — was done in Quebec City," he says. "Brian De Palma's Snake Eyes was done at the Olympic Stadium, and Martin Scorcese's The Aviator was done here, too, thanks to Mirabel Airport." Fraikin brings up another benefit of shooting in Canada: its multi-ethnic population. "The Day After Tomorrow was shot all over Quebec," Fraikin says. "Remember that scene where New Delhi freezes over? Well, that scene required 300 Indian extras, and we found them in two days."

Clearly, Canada's still got plenty to offer, for Hollywood North's competitors can't construct mountain ranges to the grandeur of the Rockies, or quickly change the racial mix of their populations. But New York City, for example, can certainly portray itself better than Hogtown can. In fact, Rhonda Silverstone, manager of the Toronto Film and Television office, reportedly said her city has attracted fewer productions set in the Big Apple since the introduction of New York state's 10% and the New York City's 5% film production tax credits, in 2005. Last year, the number of film shooting days in the Big Apple grew 35% compared to the previous year.

So, Canada may have its hands tied on tax credits and could lose some of its edge in shooting locations as competitors roll out financial incentives. What about production infrastructure — the third top consideration for Hollywood producers? "Our depth of crews, our talent base and our infrastructure is one of the strongest in North America," says Donna Zuchlinski at the Ontario Media Development Corp. She says the province can expertly handle more than 40 major productions at the same time.

But is this advantage sustainable? B.C.'s Croome says her province stays ahead of the competition by constantly keeping an eye on the needs of its customer. And Ontario tracks the latest developments in Hollywood from a full-time film office in Los Angeles.

Quebec's Fraikin points to his province's thriving talent pool. "Muse Productions will be handling the post-production work on I'm Not There, the story of Bob Dylan, with Richard Gere and Cate Blanchett," he says. The Montreal-based production company has a record $55 million in foreign work this year. And work builds expertise. Yet that relationship also works to Hollywood North's competitors' advantage. Between 1998 and 2005, foreign production in eastern Europe has reportedly skyrocketed to US$308 million from US$30 million. United Kingdom, Ireland, Australia and New Zealand have also grown their share of the pie.

"To the extent that activity is increasing around the world," says Mayson, "I'm sure the infrastructure is improving too." And representatives from competing countries are also paying visits to Los Angeles. Fraikin points out Tessa Jowell, the British secretary of state for culture, was recently in Hollywood — asking studios what they need to shoot in the U.K.

Where does all this leave Canada? With a tapped-out (and increasingly imitated) tax-credit system, the loss of some of the shooting location advantages it once enjoyed and competitors closing the infrastructure gap, it looks like Hollywood North has plenty of challenges ahead of it.

Some industry watchers suggest the situation warrants more focus on building our domestic film and TV industry. But that sector has its own set of problems. Although Canadian French-language films grabbed about a quarter of Quebec's box office last year, English ones sold only 1% of the country's movie-ticket sales over the same period. What's more, Canadian television production revenue has declined to $1.68 billion, in 2004-05, from $1.87 billion, in 1999-2000. Canucks are generally not into homegrown movies and TV shows — and hefty Hollywood marketing muscle ensures our eyeballs stay focused on Tinseltown's product, not our own.

Nevertheless, the runaway success of Corner Gas, a sitcom about a bunch of quirky characters in a small town in Saskatchewan, gives hope that growing the domestic TV industry isn't Mission: Impossible. The show reigns as the most watched comedy series among 24- to 54-year-olds. Plus, the Canadian film Water, from director Deepa Mehta, has been a critical and commercial success, taking in more than $2 million at the box office. Mongrel Media, its Canadian distributor, is on track to recoup its $1 million marketing push behind the movie.

Tom Alexander, the director of theatrical releasing for Mongrel, estimates Water's marketing budget was about a third of what Hollywood studios typically spend on promoting major releases like Superman Returns. To top things off, Water wasn't in English or French but in Hindi — yet it still pulled in crowds.

Great movies come from great scripts. But screenplay development, of course, requires dollars. The federal government spent $58.6 million on its foreign production tax credit in 2004. Over that same period, Telefilm Canada invested less than a million into its screenwriting assistance program. Shifting some financial support from foreign productions to script development could pay off.

That move might even lure some of our country's most powerful actors in Hollywood back over the border. When asked what it would take for him to act in a Canadian TV series or movie, Eric McCormack, the star of the TV show Will & Grace, replied: "The right script at the right time, just like in the U.S. — as long as I don't have to play a gay lawyer for a while." William Shatner's response: "I'm always happy to work in Canada, but it depends on the script and the deal."

Ellis Jacob, the president and CEO of Cineplex Entertainment, says his company is also ready to play a supporting role in the growth of English-Canadian films. "We are totally committed to showing them as long as they're properly marketed," he insists, "and they're something audiences want to watch."

So how will the story end? Like in the movies, Hollywood North could dig down deep, defy the odds and find a way to grow its share of foreign production dollars. Mayson, however, feels the industry will be doing well to maintain its current levels. But if foreign production levels decline, one thing's for sure: the golden age of Canada's domestic film and television industry can't come soon enough.