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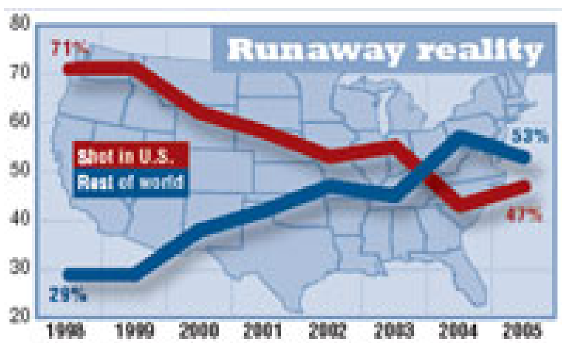
**Runaway drain?**

Study: Pic biz in big production pickle

**By DAVE MCNARY**




Since 1998, when Canadian incentives went into effect, Stateside film production has declined steadily.

The United States is still king of the world in feature film production, but its predominance is fading.

So says a study released Monday that provides a far sunnier snapshot of TV production.

The lure of foreign incentives -- and their aid to the bottom line -- for feature films has cost the U.S. economy 47,000 jobs per year since 2000 and $23 billion in economic benefits.

Study, from the Center for Entertainment Industry Data & Research, was funded by, among other showbiz orgs, SAG and several IATSE locals -- groups that have been negatively impacted by runaway production.

The report's main point: International locations are now the home to more than half of all pic shoots.

"Subsidies worldwide are having the intended effect of attracting U.S. producers, especially the bigger budget productions," said study author Stephen Katz, co-founder of the research org. "It appears that if the U.S. hopes to retain a competitive edge in the global market for production, it will be necessary for the government to consider the enactment of an enhanced U.S. federally based incentive program and for state governments, particularly California, to do likewise."

The report -- tracking films that grossed at least $500,000 domestically -- also showed annual worldwide production dollars rising 30% to $7.2 billion between 1998 and last year, not including P&A. Spending on films shot in the U.S. declined 14% to $3.38 billion over the same seven-year period, with the American market share sliding from 71% to 47%.

California saw a slight 6% hike in production dollars spent between 1998 and 2005 to $2.07 billion.

Meanwhile, Canadian production nearly tripled to $1.2 billion; production in the U.K. and Ireland rose 66% to $809 million; spending in Australia and New Zealand more than quintupled to $717 million; and Eastern European production soared from $30 million to $308 million.

Katz asserted that the gains stemmed from Canada's launch of incentives eight years ago.

"The overwhelming success of Canada's 1998 production incentives opened the floodgates for imitators," he wrote. "Increasingly, these incentive programs target big-budget productions."

As for TV, Katz partly credits the more positive news to federal incentives in the 2004 Jobs Creation Act. He also noted series TV shows are much more resistant to foreign incentives because of the difficulty of relocating American talent to foreign venues for nine-month periods over several years, rather than for a single three-month period for a feature.

The study showed the U.S. decline in feature spending came almost entirely from projects with budgets of more than $50 million. Worldwide production of such pics rose 33% to $4.36 billion between 1998 and 2005, but the U.S. share of that spending slid from 76% to 43%.

Despite a decline in the number of features from 62 in 1998 to 46 last year, California remained by far the strongest state in attracting features, as its market share rose from 50% to 61%. Katz indicated that incentive programs offered by other states don't appear to be much help on the feature side.

"It appears that within the U.S., California has retained a competitive edge as a result of its talent base and infrastructure," Katz wrote, "but when the decision is made to relocate a production to pursue the economic benefits of incentive programs, the programs offered by various states have a difficult time competing with those offered by both nations and various smaller government divisions within their borders."

The report's data on TV production shows the lure of Canadian locations has declined. TV films shot in the U.S. peaked at 182 in 1995, slid to 49 in 2003 and rebounded to 84 last year, while telepics shot in Canada fell from a peak of 132 in 2000 to 76 last year.

Scripted series shot in the U.S. rose from 93 in 2000 to 125 last year, while series shot in Canada declined from 26 to 20 in the same period and reality shows shot in the U.S. soared from 24 to 174.

The most recent TV numbers reflect the impact of the 2004 Jobs Creation Act, which enables producers to write off a movie, telepic or series in a single year if it had a budget under $15 million and 75% of that budget was spent in the U.S., or $20 million if it was shot in a low-income area.

Experts say the tax break has created the biggest benefits on the TV side of the business, because the scope of TV productions makes it relatively easy to qualify.

Katz concluded the 82-page report by urging creation of a federal program. "While record federal deficits may make it politically difficult to support a federal incentive for productions, there are many compelling reasons it should be considered, as it would allow the U.S. to regain a competitive position in the global market for production," he wrote.

The four key factors listed in the report:

- Producers prefer to film in the U.S., because it's where they live; they can use deep pools of actors, craftspeople and technicians; and there's extensive infrastructure, services and locations available.
- State incentive programs have been effective with strong economic returns in Illinois, Louisiana, New Mexico and New York.
- The 2004 Jobs Creation Act is having a positive effect.
- A 16% labor tax credit would create an estimated 33,780 jobs annually at a cost of $203 million and an economic value of $3 billion.

"When Canada was proposing their federal incentive, the rallying cry was, 'These are the jobs your children want,'" Katz noted in the conclusion. "The U.S. must decide if they want feature film production careers for their children and their children's children."

SAG president Alan Rosenberg said Monday that he's hopeful the study will encourage the State Legislature to approve filmmaker incentives contained in Assembly Bill 777.

The legislation, authored by Assembly Speaker Fabian Nunez and backed by Gov. Arnold Schwarzenegger and Hollywood labor unions -- would allocate as much as $100 million annually over 10 years in refundable tax credits to producers who shoot in California.

Funds weren't included in the 2006-07 budget, but SAG national deputy exec director Pamm Fair said the bill still could be approved before the legislature's term expires later this summer.

Opponents have stalled the legislation as a handout to some of California's wealthiest residents at a time when the state had been cutting core services.

Katz issued a similar report four years ago, which estimated losses of $4.1 billion and 25,000 jobs for the U.S. economy between 1998 and 2001. That study found Canada had been most successful at luring away features, with Europe and Australia making significant inroads.