

**The Migration of Feature Film Production
From The U.S. To Canada
Year 2000 Production Report**

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CEIDR

THE CENTER FOR ENTERTAINMENT INDUSTRY DATA AND RESEARCH

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This report is dedicated to the memory of a very dear friend and mentor, Tracy Langan of Panavision.

Tracy was well known to cinematographer's and filmmakers all over the world. He epitomized the very best of the thousands of talented and caring individuals who work in our business.

Introduction

Throughout history, there have been changes, often technological, that result in tectonic shifts in society, in general, and business, in particular. Business textbooks are filled with case studies of companies that failed to recognize the implications of such change upon their businesses, and ultimately, upon their very existence.

Having been involved in the U.S. production industry for over 25 years through Raleigh Studios, the largest independent film studio operation in the U.S., and more recently, as an investor in Hollywood Rentals, I have more than an academic interest in its well-being. To even a casual observer, it is readily apparent that recent years have brought dramatic changes to nearly every facet of our industry. The transformation has been both evolutionary and revolutionary, ranging from the consolidation of major studios into giant multi-national corporations, shifts in financial markets affecting funding sources, the globalization of the production process and the proliferation of distribution channels with the commensurate cannibalization of viewers in certain traditional markets, to name but a few.

In order to cope with change and develop a strategy for the future, one must first clearly understand the shifting dynamics in the industry. In other words, action begins with understanding. Based upon this philosophy, I have been involved in the formation of a non-profit organization, the Center for Entertainment Industry Data and Research (“CEIDR”), whose goal will be to provide the U.S. production industry, elected officials and the public sector with accurate and unbiased data and research on the creation of entertainment product world-wide. CEIDR’s primary objective will be the development of an informed U.S. industry that will collaborate, strategize, advance artistically and technically and aggressively market itself as a competitive production venue in an increasingly global economy.

As an initial project, CEIDR embarked on a comprehensive study of the migration of feature film production from the United States to Canada. Regardless of any other important ideas that may be gleaned from the report, the analysis leads to one inescapable conclusion. The production industry is sufficiently eager to reduce its overall cost of product that the value of the Canadian tax subsidies enacted in 1998 caused Canadian feature film production to more than double in one year alone.

While some may argue that the growth of Canadian production is not a startling revelation, the implications of the rate of growth are profound. The United States has long been a leader in the field, but as countries throughout the world increasingly recognize the potential value of the industry to their economies, they can be expected to aggressively pursue measures to increase their participation in the production of entertainment product.

The tax policy of Canada represents a sound investment in their economy. Predicated upon a conservative economic multiplier of 3.3, the \$610 million increase in production expenditures in the year following the enactment of their tax incentives, on feature films

alone, produced over \$2 billion of economic activity. If the direct cost to the Canadian Government of the tax incentives for these films is, as estimated by the reported savings to producers, 10% of the production budget, the economic return on their \$61 million investment is staggering. Even more importantly, Canada's recent tremendous success in capturing an increasing share of this business provides an effective model to emulate to other countries seeking a larger share of U.S. production.

If indeed the economics of production become the paramount concern, even more so than artistic, creative considerations or simply geographic inconvenience, absent affirmative steps to remain competitive, a vital U.S. industry will continue to diminish. As this industry provides well paying jobs to a skilled labor pool that are not readily replaced, we believe it is too important for the U.S. to simply cede its role to any other country seeking to increase its participation in the production process, either through direct government subsidies, a less costly labor pool or exchange rate differences. While we also do not believe that continued loss of business is inevitable, we recognize that its continued presence as a major contributor to our economy must not be taken for granted. Just as our once moribund automotive industry emerged from the 1980s to become arguably the most efficient manufacturer of automobiles in the world, we are convinced that, properly directed, the inherent strength of the United States in production industry can be harnessed to allow us to remain, as a nation, a viable competitor in the world market.

We do not, however, have time to lose in addressing this issue; each production dollar lost to our economy is gone forever. This report covers through the year 2000 for Theatrical Releases only, we sense that the lost production figures for 2001 will be even more startling, as would be an analysis encompassing all forms of production. Even the patriotic surge following September 11th has failed to abate the loss of production, we know of 3 major motion pictures, with combined budgets of over \$200 million, just lost to Canada for economic reasons. According to estimates in this report, these films alone would have created 6,000 to 8,000 jobs.

Our continued success as a global competitor in this field will require unprecedented cooperation between both the industry and our government. Given the traditional fragmentation of the industry, it will be challenging to develop a cohesive approach. It is my hope, however, that this report, and CEIDR, will act as catalysts for the various constituencies to work towards a common goal of maintaining and growing an industry that is part of our national heritage.

Mark A. Rosenthal

The Migration of Feature Film Production From The U.S. To Canada Year 2000 Production Report

By Stephen Katz

Edited by Mark A. Rosenthal

Executive Summary

This is an in-depth study of global production of theatrical length motion pictures that were released in U.S. theatres (“Theatrical Releases”) during 1998, 1999 and 2000. Typically, the production period for such films was the year prior to its release date. This paper studies only the production of Theatrical Releases, a microcosm of the entertainment industry overall.

Recently, there has been growing concern in the U.S. about “Runaway Production,” the relocation of U.S. originated entertainment product to foreign venues for economic rather than creative reasons. Although there appears to be increasing global competition in pursuit of U.S. originated production, as can be seen in Table 1, North America’s overall percentage of worldwide production of Theatrical Releases remained relatively stable over the three-year period of study. Accordingly, while worldwide production data is contained within this report, the focus of this Executive Summary will be upon the successful capture of U.S. production of Theatrical Releases by one country in particular, Canada.

Although there had been an incremental growth in U.S. originated films produced in Canada over several years, after actually experiencing a 22% decline in production volume (and loss of market share to the U.S.) for the 1998 to 1999 release years, U.S. production in Canada exploded to unprecedented levels during 1999 for the 2000 release year. The root cause of the dramatic rise in Canadian production appears to be directly linked to the June 1998 revision of the Canadian Production Service Tax Credits and other rebates and incentives (collectively referred to as “Canadian Tax Incentives”).

- Total North American Theatrical Releases during 1998, 1999 and 2000 that shot in North America were 150, 140 and 145, respectively, and the corresponding total production expenditures were \$4.36, \$3.96 and \$4.39 billion.
- In 2000, the first year for films released subsequent to the Canadian Tax Incentives, feature film production in Canada increased by 19 (106%) to a total of 37.
- In the \$5 to \$50 million production budget range, there were 16 fewer films in 2000 than 1999, representing a 15% reduction in overall North American activity in this category. Canada’s share of this segment was 15% and 85% of these films were produced in the U.S for the 1999 release year. For the 2000 release year,

however, Canada increased its share of the North American production in this important industry segment to 35%, garnering thirty-one percent (31%) of independently financed and thirty-nine percent (39%) of studio financed films. The net result of this shift in North American locations for this budget range from 1999 to 2000 was a nearly 94% increase Canada volume of production contrasted with a 35% reduction in U.S. production volume.

- For the 2000 release year, Canada's total share of overall production of U.S. Theatrical Releases rose 98% from the levels in 1999 to nearly 26% of the North American total, with ninety-two percent (92%) of the U.S. Theatrical Releases filmed in Canada qualifying for tax rebates.
- In total dollar volume, Canada enjoyed growth in annual production expenditures for U.S. Theatrical Releases of approximately \$610 million (an increase of 148%) from 1999 to 2000 while the U.S. has suffered a corresponding decline in annual production expenditures from 1998 to 2000.
- Canada's share of total North American production expenditures for U.S. Theatrical Releases in each of the three years was 9.86%, 10.35% and 23.23%, representing over a 124% increase from 1999 to 2000.
- In 1998, the average Budget for Theatrical Releases shot in Canada was \$18.7 million. This average increased by 22% and 21% during 1999 and 2000. In the U.S., the average budget fell by 6% in 1999 and increased from 1999 to 2000 by 7%.
- Interestingly, feature films that shot in Canada during the studied years, on average, have been less profitable than films shot in the U.S. based upon reported box office sales less reported production budgets.

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 persons. 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. Recently, 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 stem a increasing loss of domestic business in the manufacture of this important, creative product.

The Majority of Feature Films Were Shot In North America

While there is a trend to explore alternative production venues to North America, at least during the years in our study, the percentage of worldwide production for Theatrical Releases has remained relatively constant, as noted in *Table 1* below.

Table 1

Percentage Of Feature Films That Shot In North America			
	1998	1999	2000
All Domestic Releases	77%	75%	79%
Independently Financed	70%	61%	75%
Studio Financed	84%	86%	86%

The Relocation Of Feature Film Production From The U.S. To Canada

North American production percentages have remained constant, as can be seen in *Table 2* and *Table 3*. Following a Canadian loss of production share for 1998, however, there was a dramatic shift in the balance of production between the U.S. and Canada during 1999 for the 2000 Theatrical Releases as a direct consequence of the Canadian Tax Incentives.

Table 2

	United States			Canada		
	1998	1999	2000	1998	1999	2000
Number Of Feature Films	127	122	108	23	18	37
% of Total	84.7%	87.1%	74.5%	15.3%	12.9%	25.5%
Estimated Budget (\$billion)	3.93	3.55	3.37	0.43	0.41	1.02
% of Total	90.1%	89.7%	76.8%	9.9%	10.3%	23.2%
Production Period (weeks)	1328	1180	1041	229	184	405
% of Total	85.3%	86.5%	72%	14.7%	13.5%	28%

Table 3

Budget	United States			Canada		
	1998	1999	2000	1998	1999	2000
Less than \$5 Million	20	13	24	2	1	1
\$5 to 50 Million	76	89	58	20	16	31
Over \$50 Million	31	20	26	1	1	5
Totals	127	122	108	23	18	37

The Motivation To Shoot In Canada

During the period the films in this study were made, the exchange rate of the Canadian dollar has increased by 12 cents (8%) from \$1.37 to one U.S. dollar in 1995 to \$1.49 in 2000¹. The average exchange rate for 2001 to date is approximately \$1.57. Considering the fact that Canada lost a significant share of its production to the U.S. for the 1999 release year, the exchange rate differences would not appear to be the impetus for a large percentage of the production lost by the U.S. to Canada for the 2000 release year.

In June of 1998 the revised Canadian Production Services Tax Credit (PSTC)² took effect. For the 2000 release year, the number of feature films that were made in Canada (principally during 1999) increased by 106% from the prior year to thirty-seven (37), an increased production volume, in dollars, of \$610 million, or approximately 148%. Ninety-two percent (92%) of these films qualified for the PTSC rebates. On the day the legislation became law the Canadian dollar averaged \$1.47 to \$1.00 U.S.

Current Subsidies Offered By the Canadian Government

The Department of Commerce reports; “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 sales tax, fees for parking, permits, location, and other local costs.”³

“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.”⁴ It should be noted that from changes to the Canadian income tax act recently proposed by the federal government this incentive is scheduled to be eliminated as early as Jan.1, 2002.^{5 6} There is currently an effort in the Canadian Parliament on behalf of the production industry to keep this incentive in place.

Effect of Canadian Exchange Rate and Subsidies on Labor Cost

As can be seen in *Table 4* below, the effect of the exchange rate on the cost of production is significant, though much of these savings are reportedly offset by other costs associated with Canadian production (see the discussion of these costs below). It would

¹ Federal Reserve Bank of St. Louis

² <http://www.cera-adrc.gc.ca/taxcredit/pstc/pstcsum-e.html>

³ The Department of Commerce, January, 2001 “The Migration of U.S. Film & Television Production, page 72

⁴ *Ibid* page 73

⁵ Daily Variety, Oct. 2, 2001, “Tax shelter leaking in Canada”, by Tamsen Tillson

⁶ Los Angeles Times, October 4, 2001, “Canada May Drop Studio Tax Breaks”, by Meg James

appear from the production statistics that the significant cost saving motivation to shoot in Canada, in the eyes of producers, results from the various Canadian tax incentives. The data is clear; despite the moderate appreciation of the U.S Dollar compared with the Canadian Dollar over the period in question, the rush to produce movies in Canada did not occur until after implementation of the various tax incentive programs. *Table 4* strongly demonstrates the dramatic impact these incentive programs have on labor costs.

Table 4

Hourly Rate After Subtracting the Canadian Exchange Rate and Labor Subsidies

Comparable Rate (per/hr)	Exchange Rate	Cost in U.S. Dollars	Moderate Local Rebate	Federal Rebate (PSTC) ⁷	Cost to Producer	Total Percent Savings	High Local Rebate	Federal Rebate (FTC) ⁸	Cost to Producer	Total Percent Savings
\$15.00	\$1.54	\$9.74	20%	11%	\$6.94	54%	35%	25%	\$4.75	68%
\$20.00	\$1.54	\$12.99	20%	11%	\$9.25	54%	35%	25%	\$6.33	68%
\$25.00	\$1.54	\$16.23	20%	11%	\$11.56	54%	35%	25%	\$7.91	68%
\$30.00	\$1.54	\$19.48	20%	11%	\$13.87	54%	35%	25%	\$9.50	68%
\$35.00	\$1.54	\$22.73	20%	11%	\$16.18	54%	35%	25%	\$11.08	68%

The Legality Of The Canadian Subsidies

Although legal analysis is outside the ambit of this report, there appears to be no legislative prohibition against Canadian production subsidies. The U.S. Office of Management and Budget classifies the production of motion pictures and television as a Service Industry. We have been advised that, as such, there are no protections from a trading partner who chooses to subsidize an Economic Sector such as the film and television production industry under the current General Agreement on Trade in Services (GATS). If the production of motion pictures and television, however, were classified as a Manufacturing Industry, the Canadian subsidies would fall under the dispute settlement provisions of the World Trade Organization (WTO).

It is worth noting that there is authority for the treatment of production of motion picture and television production as a Manufacturing Industry. The New York City, Mayor’s Office of Film Theater and Broadcasting official web site states regarding shooting in New York, “The creation of a feature film, television film, commercial & similar film & video productions is considered a manufacturing activity that results in the production of tangible personal property. Accordingly, a person engaged in the production of a film for sale is afforded all exemptions which are available to manufacturers.”⁹ Additionally, in 1976, through the efforts of Lew Wasserman, President, M.C.A. and Jack Valenti, President, MPAA, the courts, the IRS and Congress decided that film should be considered as a tangible property, deserving of an investment tax credit.¹⁰

⁷ Production Services Tax Credit - provided to production services corporations on their net qualified Canadian labor expenditures

⁸ Canadian Film or Video Production Tax Credit - for the production of a qualified Canadian film or video production

⁹ <http://nyc.gov/html/filmcom/html/tax.html>

¹⁰ New York magazine, August 13, 2001 “Profiles, The Personal Touch, “Jack Valenti has fought Hollywood’s battles in Washington for thirty-five years. Can he still get his way?”, by Connie Bruck

If motion picture and television production were considered the creation of a manufactured product, under U.S. trade law there are provisions to seek countervailing duties, to neutralize the effect of another country's unfair trade practices by assessing a penalty in the form of a tariff before such products may be imported into the United States (these are in practice applied as a loss of U.S. tax deductions on the manufacture of a product). These duties would not be levied on Canada, however, but on the producers of films that are made there. Accordingly, assuming the countervailing tariffs could be applied to entertainment products, any effort to establish such tariffs would be strenuously resisted by U.S. producers.

The Impact On The U.S Production Industry

Ron Ver Kuilen, Director, Illinois Film Office, approximates that the expenditure of \$10 million of total production dollars, represents the loss or gain of 300 to 400 jobs. The decline of \$560 million in U.S production equates to the loss of 16,800 to 22,400 jobs.

In 1999, the Screen Actors Guild and Directors Guild of America jointly funded the Monitor Report¹¹ which estimated that \$2.8 billion worth of direct expenditures on U.S. film and television production was lost to Canada during 1998. This report calculated the total loss to the U.S. economy for 1998 to be \$10.3 billion. Considering, the dramatic increase in feature film production in Canada during 1999, along with increases in the production of episodic and half-hour television and commercials, it is safe to assume that loss to the U.S. economy is, today, much larger.

There are early indications that the loss of domestic production is causing an erosion of U.S. production infrastructure. The author is aware of experienced workers and representatives are leaving the industry and of various production businesses and support services that are downsizing or ceasing operation. Across the country, various film offices have had their funding significantly reduced and in some cases eliminated.

Negative Aspects To Shooting In Canada

There is no question that the preliminary budgets for feature film production in Canada are lower than the prelims for such productions in the U.S. However, particularly following the dramatic increase in production levels in Canada, there is significant anecdotal evidence of difficulties in the production process in Canada that result in final film costs well in excess of the original budgets. The following is a recap of the challenges reported during the data collection process for this report.

- A shortage of experienced crew; especially in highly skilled areas; workers need to be brought in from other parts of Canada or the United States
- A smaller pool of experienced and known actors to draw on, especially in the area of ethnic diversity

¹¹ The Monitor Company, "The Economic Impact of U.S. Film and Television Runaway Film Production", June 1999, page 8-13

- American actors are taxed at a higher rate than other U.S. workers; the production companies are being asked to reimburse them for the difference
- The more experienced Canadian crews and talent have raised their rates and demand to be paid directly in U.S. dollar
- Inexperienced Canadian crew can slow the pace of production and force additional workers to be hired
- Due to difference in work rules, conventions and general attitude, the amount of shooting that can be accomplished in a day is significantly reduced (reductions of 10% to 15% have been reported)
- The pace and flow of production is greatly slowed because the creative elements and crew have not previously worked together
- As a result of the foregoing, pay hours can exceed the budget by 20% to 30%
- Especially in the area of special effects, many re-shoots must be done in the U.S.
- There are insufficient stages with adequate ceiling heights, loading doors and power; load-in and setups take longer and shots must be compromised by the lack of clear span
- Locations do not always match what is called for in the script
- “Location fatigue” is setting in, “locations are so photographed it’s hard to get a distinctive look”¹²
- Location limitations and location doubling give a feature film a movie-of-the-week look and feel
- Rebates can take a year or more to be processed and are not necessarily applied to the film budget
- Canadian citizens are becoming increasingly hostile to filming in their neighborhood¹³
- There are the visceral and intangible elements in filmmaking; it means something when the story of the Texas Rangers shoots in Texas, at the actual locations where the events took place

¹² New York Times, June 12 2001, “As Movie Production Booms in Toronto, a New Vitality Is Tempered by Location Fatigue”, by Bernard Weinraub

¹³ *Ibid*

It is critical to note that, even in the face of these challenges, the cost savings associated with Canadian production, principally resulting from tax policy, were sufficient to entice a burgeoning proportion of the U.S. production community.

Box-Office Performance Analysis

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.¹⁴ 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% $((\$27\text{MM}-\$20\text{MM})/\$20\text{MM})$. 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%.

Table 5

Budget Range	United States			Canada		
	1998	1999	2000	1998	1999	2000
All	8%	29%	24%	-18%	-28%	10%
5 Million and Less	131%	499%	79%	-47%	63%	-78%
5 to 50	29%	49%	35%	-17%	-20%	23%
Over 50	-9%	-9%	15%	-24%	-62%	-12%

In looking at Box Office performance against estimated budget another way, one can compare the number of films with a positive BO:B to total number films expressed as a batting average (hits verses total at bats).

Table 6

	United States			Canada		
	1998	1999	2000	1998	1999	2000
Total Productions	.504	.484	.528	.304	.389	.405
Independent Financing	.583	.446	.533	.300	.571	.333
Studio Financed	.426	.420	.543	.308	.273	.474

It is clear that, during the period in question, films produced in Canada were, on average, less profitable than films produced in the U.S. 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

¹⁴ BO:B (%) = (Domestic Gross-Estimated Budget)/Estimated Budget

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.

A Strategy For The U.S. Production Industry

The obstacles ahead of the U.S. film and television production industry are by no means insurmountable. If the U.S. is to continue as the predominant venue for the creation of entertainment content in the face of increasing global competition for production business, the various industry constituencies must initiate a collective effort to fully understand both the scope and nature of changes in their industry and then, along with government and elected officials, craft innovative solutions to retain production business and grow the industry for the future. The goal of this report, and CEIDR, is to both provide accurate industry data and a venue to facilitate this effort.

The Need For Industry Dialog

It is vital that each person or company whose livelihood depends upon film and television production, along with their elected officials and government representatives, have a detailed understanding of the changes and challenges in the industry, as seen from a number of perspectives. While there will continue to be the occasional movie or television show that is wildly successful and profitable, this is the exception rather than the rule. Producers and production companies, in all areas of production, have been greatly impacted by reduced fees provided for their products as a result of changes to their markets and the downturn in the national economy. There are cost containment pressures at all levels throughout the industry. For example, increased domestic production in foreign markets reduces demand for international sales in film and television and increasingly fractionalized distribution channels cannot afford to pay expensive license fees for product and look for lower cost alternatives.

To facilitate this understanding, CEIDR, in conjunction with other industry organizations and groups, hopes to sponsor a series of panels, seminars and workshops tailored to specific types and budget ranges of film and television production. The participants will come from all areas and levels of production including; independent, studio, network and advertising executives, producers, artisans, talent, crafts persons, support businesses, and government officials and elected representatives. These forums will be open to all industry professionals, the media, and available on the Internet.

The Need For Government Involvement

The U.S. Government, at a national, state and local level, must also participate in the process of understanding the industry and the global challenges it faces. In order to remain in business, U.S. production entities must to reduce actual costs wherever and however they can. However, while the basic labor rates paid to U.S. and Canadian film and television workers are generally comparable, a U.S. production worker could not afford to live on the equivalent labor costs in Canada after the deduction of the Canadian subsidies and exchange rate advantages. Since significant cost advantages of Canadian

production result from government policy intervention, the U.S. Government must be fully cognizant of the value of the lost jobs and business in order to craft appropriate measures to assist in the retention of production.

- Federal, state and municipal government may help to offset the current Canadian advantage by creating targeted incentives aimed at specific areas of production. For a low expenditure, thousands of jobs can be created that will generate a high return on investment to the local and national economy. According to the Monitor Report, “The money paid in wages circulates through the economy 3.1 times, and 3.6 times for goods and services.”¹⁵ An example of an area that can be quickly turned around for a low dollar investment is the production of movie-of-the-week and mini-series for broadcast on network and cable television.
- The President, Congress and trade representatives must find ways to protect U.S. workers from a major trading partner that is effectively subsidizing the production industry to create jobs at the expense of the U.S. workforce.
- Any trade solution must not be punitive against film and television producers that shoot in Canada and bring the product into the U.S. These producers are, in fact, many of the U.S. production industries’ best current and/or potential clients.
- There is a need to create a U.S. national film production office to coordinate with state and local film commissions, to streamline the bureaucratic process, simplify access to government-owned property for filming, and standardize the licensing and permitting procedures.

The Need for Continued Industry Data

It is vital that the U.S. production industry have an ongoing source of data for the number and budget ranges of all types of worldwide entertainment production. This information is required to develop industry objectives, strategy, and tactics. The data will provide elected and government officials with the information needed to effect meaningful policy and legislation. And, it is an invaluable tool for the industry to aggressively market itself.

To fill this need, the Center for Entertainment Industry Data and Research (CEIDR) has been formed. Its primary mission is to provide the industry with a series of reports and studies that will cover all types and areas of film and television production. There are also plans for a national database of upcoming productions and ways to contact them electronically. The information will be made available to qualified industry workers and businesses alike.

¹⁵ The Monitor Report, *ibid*

The Need To Market the U.S. Production Industry

The U.S. production industry offers the largest and best indigenous pool of performing, creative, and technical talent, and the most up-to-date infrastructure in the world. A collective effort is needed to promote the industry directly to the producers, production companies and studio executives. Regional organizations that market the film and television production industry already exist; they are the state and local film commissions and film offices, the national association of film commissioners and Film U.S. Other industry organizations and individuals must cooperate with these groups to formulate and implement a cohesive marketing strategy. A U.S. Film Office would coordinate their efforts, nationally, and promote the U.S. film and television production industry worldwide.

The U.S. production industry also must utilize its abundance of well-known performers and creative talent to communicate the state and health of the industry to government officials, the media, and the general public. Their help in promoting the film and television production in the U.S. would be invaluable. Help is also needed in the efforts to maintain and build better relationships with the neighborhoods, communities and locations that make shooting in the U.S. so appealing.

The Need for Continuing Industry Artistic, Technical and Business Advancement

In this era of evolving techniques and technology, it is vital that every participant in the production industry, from actors to zebra handlers, be well versed in the most recent methods, practices and equipment. The understanding and optimum utilization, in one's given area of expertise, of the latest advances in motion picture film and digital production is vital to the industry's future.

While industry seminars and training sessions do take place from time to time, they are usually specific to the individual group or organization that sponsors them limiting their reach, range and scope. Producers, production companies, studios, directors, actors, crafts persons, support services and manufacturers must collaborate in a series of weekend workshops and seminars for all types and areas of production. A highly skilled and efficient work force will create a strong production environment for this generation of filmmakers, and generations to come.

An important result of this cross-educational process will be continued advancements in the quality and efficiency of the production process. Much as the U.S. auto industry experienced a dramatic shift in the 1980's to become the world's most efficient automobile manufacturers, the production industry must strive to achieve the same goal.

Current Efforts On Behalf of the Industry

- Many states and municipalities have implemented various film and television production incentives, including: rebates on production expenditures, State, Local & Federal employee and property costs, and sales and rental tax abatement.

Programs of note include: Film California First - offering reimbursement of certain film related costs incurred by qualified production companies when filming on local state or federal public property in California¹⁶; Minnesota Snowbate¹⁷ - providing rebates up to 10% of virtually all Minnesota production expenses to the producers of feature film, television movies and national television series, and Oklahoma offers a 15% rebate of costs incurred while on location in the state.

- An Alliance of Guilds, Producers, organizations, small business, film commissions, and cities and states from across the country, are gathering Senate and Congressional support for the federal legislation for a wage-based tax credit, on U.S. productions of under \$10 million (Senate Bill 1278 “United States Independent Film and Television Production Incentive Act of 2001”)¹⁸, authored by Sen. Blance Lambert Lincoln (D-Ark.). The bill has the support of the Academy of Television Arts & Sciences, the American Film Marketing Assn., the Assn. of Independent Commercial Producers, the Directors Guild of America, the Entertainment Industry Development Corp., the Film U.S. Alliance, the Intl. Alliance of Theatrical Stage Employees, the Screen Actors Guild and Writers Guild of America.
- The Entertainment Coalition of the United States (ECO*USA), a think tank of motion picture and television professionals that are striving to influence production to stay in the U.S. by promoting creative ideas and concepts, industry and government awareness, and actively supporting other people and organizations in their efforts. Group members have applied their ideas to their own productions and have had success in reducing actual costs, and keeping production in the U.S.¹⁹
- The Film and Television Action Committee (FTAC)²⁰, a grass roots organization of industry workers and vendors, is challenging the legality of the Canadian subsidies and cultural exemption and is seeking a countervailing tariff against U.S. producers using foreign subsidies. The effort has the support of the Screen Actors Guild; the Studio Utility Employees, Local 724; and to date has gathered the signatures of over 10,000 industry members.
- The Creative Coalition²¹, an organization comprised of well-known members of the arts and entertainment community, are using their unique access to the media to bring attention to run our production. Their mission is to educate educating

¹⁶ <http://www.filmcafirst.ca.gov/FilmCa>

¹⁷ <http://www.mnfilm.org/board/snowbate.asp>

¹⁸ <http://thomas.loc.gov/>

¹⁹ Productions include; “*The Fast and the Furious*”, Universal Pictures, Rob Cohen, Director, Neil H. Moritz, Producer, Doug Claybourne, Executive Producer; “*The Man From Elysian Fields*”, Gold Circle Films, George Hickenlooper, Director, Andrew Pfeffer, Producer, Donald Zuckerman, Producer, Andy Garcia, Producer, Glenn Gainor, Co-Producer.

²⁰ <http://www.ftac.net/>

²¹ <http://www.thecreativecoalition.org/newsite/index.html>

and advocate on behalf of social and political issues, specifically in the areas of the First Amendment, arts advocacy and public education.

- The Center For Entertainment Industry Research and Data (CEIDR) was formed to provide the U.S. production industry, elected officials and the public sector with accurate and unbiased data and research on the creation of entertainment product worldwide. CEIDR is dedicated to enhancing education and communication in the entertainment industry through the sponsorship of business and technical seminars, panels and workshops and an up-to-date web site containing national production data.

Conclusion

The Canadian government and the Canadian film and television production industry have formed a symbiotic partnership; they collaborate to make shooting in Canada as cost effective and production friendly as possible. Together, they aggressively market their overall programs to U.S. producers and studios. Based upon the data analyzed for this report, it appears that the most effective measure implemented in Canada to increase its share of North American production has been their tax incentives. The Canadian approach to capturing this business, however, extends beyond these subsidies. For example, as labor is a key part of the equation, when the cost of labor became an issue in Canada, “the three unions representing 10,000 film and TV technicians in British Columbia quietly agreed to drop their rates by 13% to win back cable and syndicated tele-pic business.”²²

While the U.S. has a tremendous inherent advantage as a production venue, it is clear that the various constituencies in and supporting the industry, including labor, government, facility operators and suppliers must adopt the Canadian model of a cooperative effort to retain production. Every person that is a member of the U.S. production community must be a part of this process. The areas of emphasis must include measures to: i) reduce production costs (through technological efficiencies, flexible labor agreements responsive to the needs to various budget levels or production and simply more aggressive pricing), ii) effectively understand the worldwide competitive landscape seeking production and informed and effective marketing of the advantages of domestic production.

As a final note, the producers and studios should not be considered to be the “bad guys” in the relocation of feature films production. They are in business to make a profit and are faced by their own competitive pressures. U.S. producers have every incentive to take advantage of what appear to be sound business decisions for cost savings. It is imperative, however, that they examine the efficacy of their actions in their efforts to achieve “cost savings.” The ultimate question is not whether any particular production cost less money to make, but rather whether it has the greatest potential to earn a profit.

²² Daily Variety, March 28 2000, “Inside Moves”, by Don Townson

Addendum

Since the completion of this study there have been significant developments in the film and television production industry. The summaries of recent articles from the trades and other publications set forth below demonstrate, in large measure, the continued concerted, and successful efforts in Canada to foster growth of its production industry as contrasted with further erosion of the production base and infrastructure in the United States

In Canada:

- “Canadian Prime Minister Jean Chretien on Friday defended Canada's aggressive policies aimed at luring U.S. film and TV productions during a visit to Hollywood's backyard, saying, "The best wins, and we want to be the best." "We're competitive," Chretien said. "That's what the world is all about. There are no incentives that the Canadian government or provincial governments are giving to the industry at this time that are not acceptable.”²³
- “The largest union representing Canadian actors and the associations representing most of Canada's producers have, in record, time reached a two-year collective agreement, months before the previous agreement was to expire. “We want to send a message to the industry in North America and worldwide that this is a stable labor environment in Canada.”²⁴
- “The Canadian government is set to delay its plan to end tax shelters for film production in the Great White North. In a letter to the Canadian Film and Television Production Assn., the federal Dept. of Finance has said it is proposing to extend the current tax-shelter rules until April. In September, Finance Minister Paul Martin said the lucrative film tax shelters would be killed by the end of the year. Canuck producers had been vigorously lobbying the government to reconsider the move or at least delay the amendments. Hollywood studios and other foreign producers shooting in Canada have used the shelters widely to save up to 6% of their production budgets. Some C\$1.5 billion (\$940 million) in production is generated in Canada each year with help from the tax shelters.”²⁵
- “British Columbia's new government has surprised film and TV execs by challenging them to double industry revenues over the next three years. Rick Thorpe, minister of Competition, Science and Enterprise told a private industry-government Strategy meeting, “The events of the past month are very sad, but we can't stop growing.” In a pointed barb at U.S. critics of the Canuck incentives, which have lured runaway production here, Thorpe added, "We do not define tax

²³ Los Angeles Times, “Canadian Prime Minister Defends TV, Film Incentives”, December 1 2001, by James Bates

²⁴ Daily Variety, "Speedy & Stable", October 28, 2001, by Tamsen Tillson

²⁵ Daily Variety, "Reheating shelters: Canucks delay elimination of tax breaks", Nov. 4, 2001, By Brendan Kelly

policy as a subsidy.” Thorpe said the BC government was working with the federal government to develop a response to any U.S. action.”²⁶

- The British Columbia animation and special effects industry is demanding the 20% tax credit received by their counterparts in Quebec and Ontario. “Animators in BC are losing work to eastern Canada because they do not have this crucial incentive,” said Marc Friedman, president of the Association of B.C. Animation Producers (ABCAP)²⁷
- Stephen Waddell, national executive director for the Alliance of Canadian cinema, television and radio artists feels that production in Canada may even increase after the tragedies of November 11th, ““We do have a stable environment. We have a much more stable society – unfortunate for the U.S.,” he says, adding, however, that a cheap dollar and government tax credits remain the primary reason why they will continue to shoot here.”²⁸

In the United States:

- “Employment in movie, television and video production in Los Angeles has fallen to a four-year low, as industry jitters following the Sept. 11 terrorist attacks have exacerbated an already strange economic year for Hollywood. Cutbacks and delayed projects by the major film companies are now trickling down through the industry, leading to a spate of layoffs at small firms that provide myriad services and equipment. Art Brewer, head of the International Alliance of Theatrical Stage Employees, Local 44, said 29% of the union's nearly 6,500 member craftsmen are not working in the industry. Brewer said the number of unemployed workers shot up after the attacks. "Sept. 11 definitely had an impact," Brewer said. "That, along with runaway production to Canada and other countries, has just been devastating to our members here in Los Angeles.”²⁹
- “Confronted for the first time with a staggering drop in advertising revenue, all four major broadcast television networks are considering sweeping changes to the face of prime-time programming. Network executives say they are determined to slash production costs by as much as 40% by seeking to phase out many of their multimillion-dollar deals with writers, producers and stars and reducing the number of new series in development. ABC is considering eliminating Saturday night programming entirely.”³⁰
- Columbia TriStar is closing its primetime television unit. “Sony has officially put into motion the dismantling of Columbia TriStar Television, a process that will

²⁶ Daily Variety, "Canuck gov't challenges biz", October 31, 2001, by Don Townson

²⁷ *Ibid*

²⁸ The Toronto Star, "Hollywood North expected to survive terror", September 27, 2001, from Canadian Press

²⁹ Los Angeles Times, “Film Jobs Fall to 4-Year Low in September”, October 26 2001, by Meg James

³⁰ Los Angeles Times, “ Networks Scramble to Cut Costs”, October 10, 2001, by Corie Brown

result in the loss of as many as 70 jobs -- including those of prexy Len Grossi and network production topper Tom Mazza.”³¹

- “In another sign of the rapidly weakening entertainment economy, Warner Bros. Television is looking to make significant cuts to its roster of scribes and producers. The AOL Time Warner-owned studio will drop at least six and perhaps as many as 10 overall deals from its extensive lineup as part of a company wide effort to reduce its budget.”³²
- “20th Century Fox Television, the town's leading supplier of primetime programming, has ordered all its skeins to shave 2% from their operating budgets.”³³
- “MTV, on Monday, laid off 450 employees -- roughly 9% of its workforce -- in the deepest cuts at the network in its 20-year history.”³⁴
- “Propaganda Films shut down Thursday, another victim of the downturn faced by the media business. All 40 employees, including president Rick Hess, lost their jobs and will have to vacate the firm's Hollywood offices by the end of the day today.”³⁵
- Disney is ankling the live action visual f/x business, shuttering the Secret Lab, a unit it formed in 1999 when it folded Dream Quest Images into its Walt Disney Feature Animation group. The entire Feature Animation group, including Secret Lab, employs around 1,700 staffers, with that number expected to he be reduced to 1,350, depending on project demands.³⁶
- Consolidation of Liberty Livewire's post-production houses continues: The conglom on Friday said that it will shutter boutique 525 Studios by the end of the year and fold the company's resources and some staffers into its larger Riot Santa Monica facility.³⁷

³¹ Daily Variety, “Col TriStar TV dismantles primetime unit”, October 25, 2001, by Josef Adalian

³² Daily Variety, “Warner TV taking off its overalls”, October 24, 2001, by Josef Adalian

³³ *Ibid*

³⁴ Daily Variety, “MTV staff rocked as heads roll”, October 29 2000, by John Dempsey

³⁵ Daily Variety, “Propaganda closes: Hurt by drop in ad biz, firm shutters today”, November 8, 2001, by Dana Harris, Cathy Dunkley

³⁶ Daily Variety, “Disney can't keep Secret”, October 23, 2001, by Marc Grasser

³⁷ Daily Variety, “Liberty ends 525 Studios, consolidates”, November 4, 2001, Marc Grasser

Data

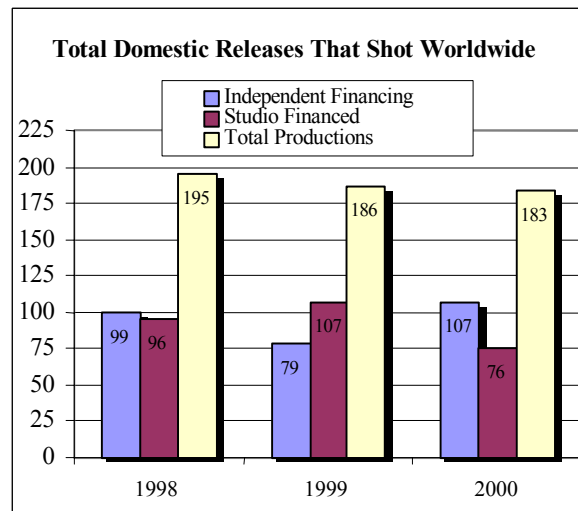
Included in the report are:

- The number of films released domestically
- Where the films were made
- The estimated budgets
- The production period
- The principal source of financing; independent or studio
- How the films performed at the domestic box-office

Total Number of Films That Were Released Domestically 1998-2000

All Domestic Releases

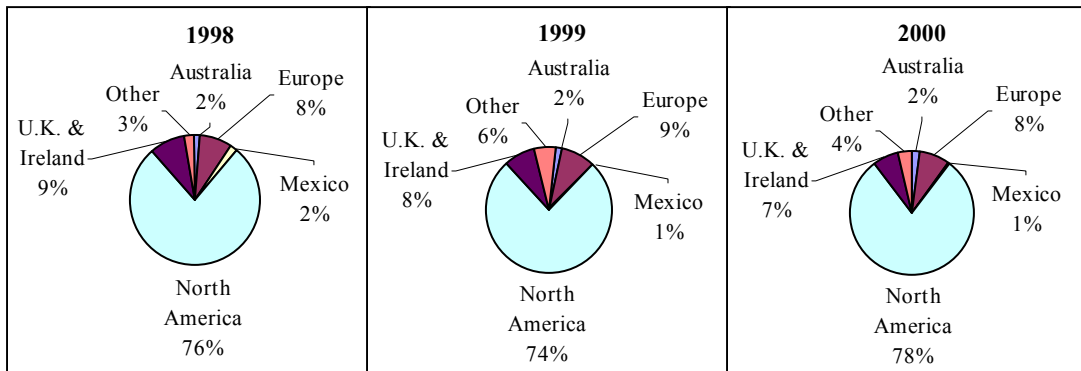
- Total number of theatrical feature films in all budget ranges that were released domestically from 1998 to 2000 and shot worldwide decreased by 12 (6%) from 195 in 1998 to 183 in 2000.
- Independently financed domestic releases that shot worldwide decreased by 20 (20%) from 99 in 1998 to 79 in 1999 and then increased by 28 (35%) in 2000.
- Studio financed domestic releases increased by 11 (11%) from 96 in 1998 to 107 in 1999 then decreased by 31 (29%) to 76 in 2000.



Production Location of All Domestic Releases 1998-2000

All Productions

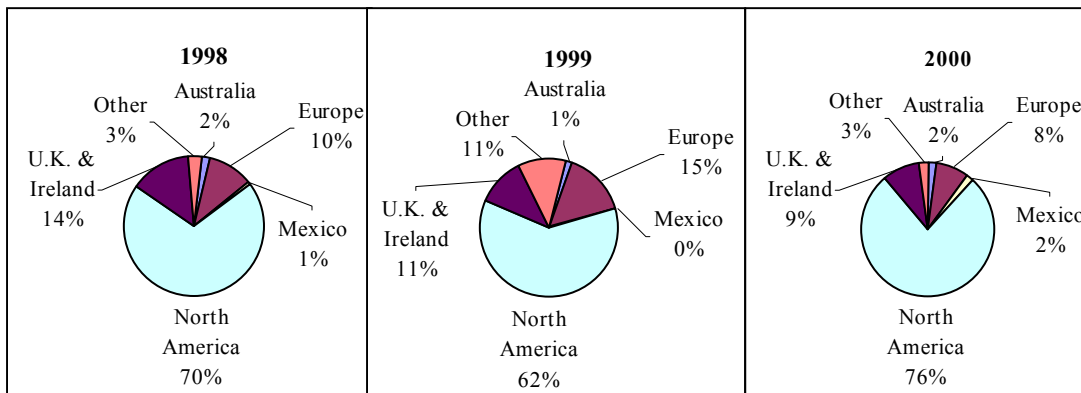
- On average, 76% of all films released domestically were shot in North America.



Independently Financed Productions

- The percentage of independently financed domestic releases that shot in North America was 70% in 1998, 62% in 1999 and 76% in 2000.³⁸

Independently Financed Productions Released Domestically

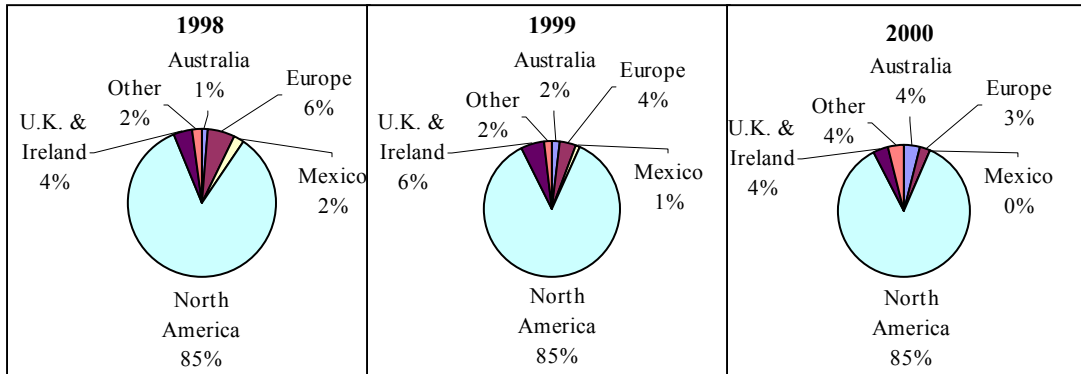


³⁸ This variance is consistent with the domestic release of foreign produced films in a given year.

Studio Financed Productions

- On average 85% of studio financed domestic releases were shot in North America.

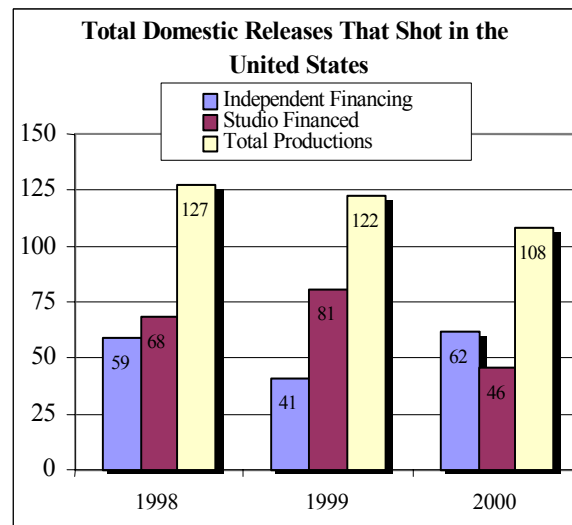
Studio Financed Productions Released Domestically



Principle Location of Domestic Releases That Shot in North America 1998-2000

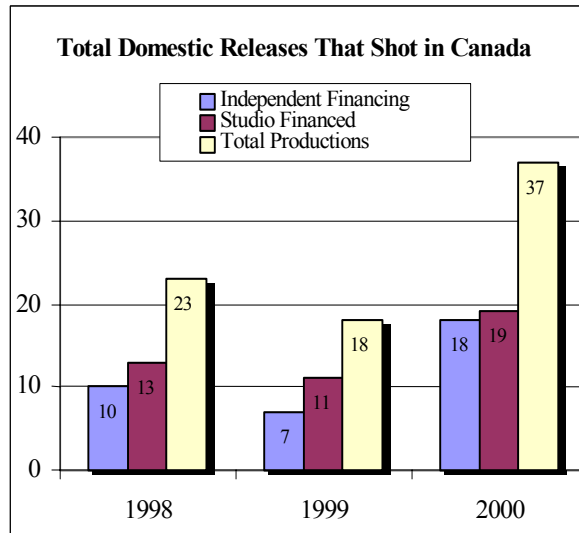
United States

- Total number of domestic releases that shot in the United States decreased by 19 (15%) from 127 in 1998 to 108 in 2000.
- Independently financed domestic releases that shot in the United States decreased 18 (31%) from 59 in 1998 to 41 in 1999 then increased by 21 (51%) to 62 in 2000.
- Studio financed domestic releases that shot in the United States increased 13 (19%) from 68 in 1998 to 81 in 1999 then decreased by an unprecedented 35 (43%) in 2000



Canada

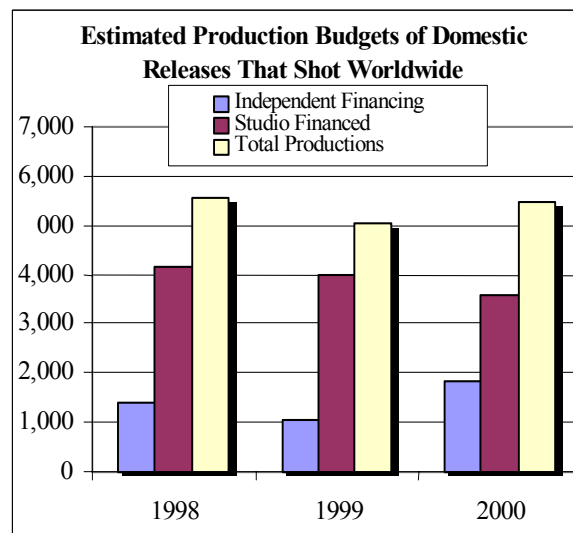
- Total number of domestic releases that shot in Canada decreased by 5 (22%) from 23 in 1998 to 18 in 1999 then increased by 19 (106%) to 37 in 2000. The increase in production coincides with the Canadian government revision of the Production Services Tax Credit (PSTC).
- Independently financed domestic releases that shot in Canada decreased by 3 (30%) from 10 in 1998 to 7 in 1999 then increased after the revision of the Production Services Tax Credit by 11 (157%) to 18 in 2000.
- Studio financed domestic releases that shot in Canada decreased by 2 (15%) from 13 in 1998 to 11 in 1999 then increased after the revision of the Production Services Tax Credit by 8 (73%) to 19 in 2000.



Estimated Production Budgets For Films Released Domestically 1998-2000

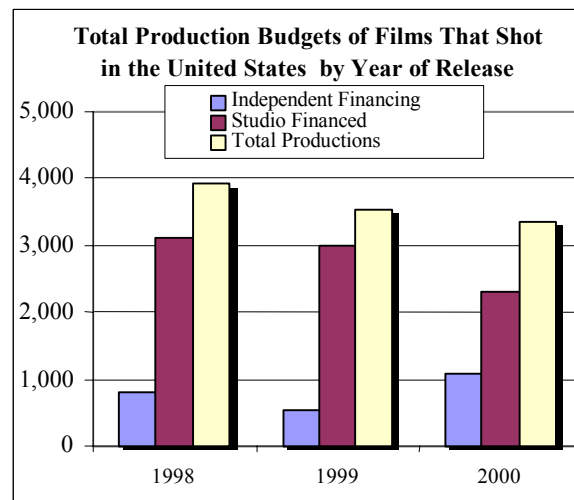
Worldwide

- Total estimated budgets for all domestic releases that shot worldwide averaged 5.34 billion dollars from 1998 to 2000.
- The estimated budgets for independently financed domestic releases was 1.41 billion in 1998, 1.03 billion in 1999 and then increasing by 819 million (80%) to 1.85 billion in 2000.
- The estimated budgets for studio financed productions were 4.15 billion in 1998, 3.99 billion in 1999 and then declined by 393 million (10%) to 3.6 billion in 2000.



United States

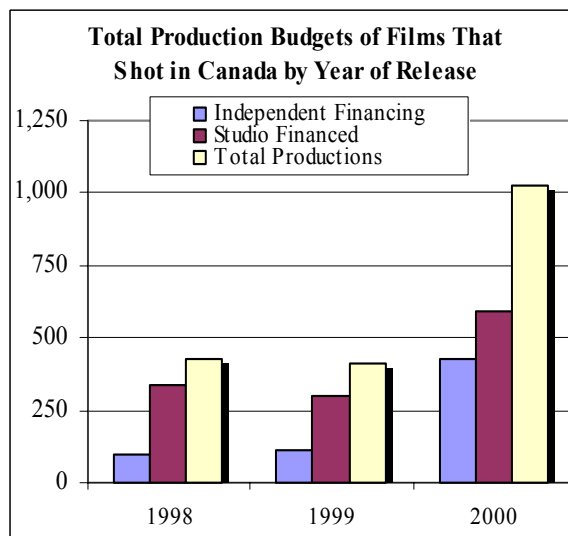
- Total estimated budgets for all domestic releases that shot in the United States decreased by 560 million dollars (14%) from 3.93 billion 1998 to 3.37 billion in 2000.
- The estimated budgets of independently financed domestic releases decreased by 271 million (33%) from 820 million in 1998 to 555 million in 1999 then increased 520 million (95%) from to 1.07 billion in 2000.



- The estimated budgets of studio financed domestic releases shot in the United States declined by 811 million (26%) from 3.11 billion in 1998 to 2.3 billion in 2000.

Canada

- The total estimated budgets for domestic releases that shot in Canada decreased 18 million dollars (4%) from 430 million in 1998 to 412 million in 1999 then after the Canadian government revised the Production Service Tax Credit the estimated budgets for all domestic releases shot in Canada increased by 610 million (148%) to 1.02 billion in 2000.
- The estimated budgets for independently financed domestic releases that shot in Canada increased by 333 million (348%) from 96 million in 1998 to 429 million in 2000.

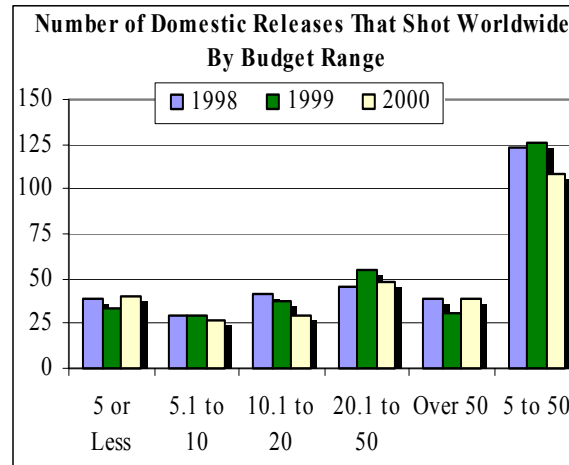


- The estimated budgets for studio financed domestic releases shot in Canada decreased 33 million (10%) from 334 million in 1998 to 301 million in 1999 then increased 292 million (97%) to 593 million in 2000.

Number of Films Released Domestically 1998-2000 By Budget Range

Worldwide

- The majority of employment in the manufacture of theatrical feature films is in productions in the 5 to 50 million-dollar budget range. Domestic releases in that range were 123 in 1998, 126 in 1999 then decreased by 18 (14%) to 108 in 2000.
- Domestic releases with budgets greater than 50 million decreased by 8 (21%) from 39 in 1998 to 31 in 1999 then increased by 8 (26%) to 39 in 2000.

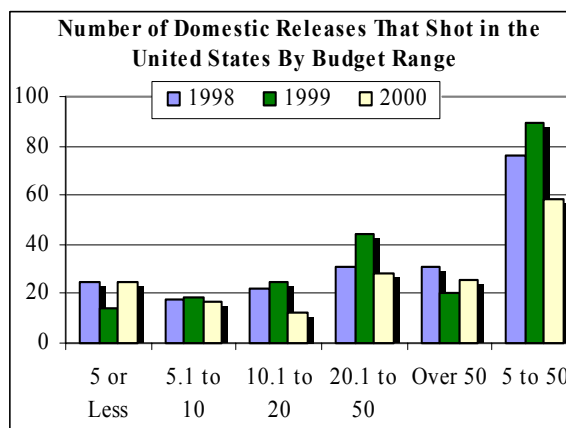


- Domestic releases with estimated budgets of 20.1 to 50 million increased by 9 (20%) from 46 in 1998 to 55 in 1999 then decreased by 7 (13%) to 48 in 2000.
- Domestic releases with estimated budgets of 10.1 to 20 million dollars decreased by 13 (31%) from 42 in 1998 to 29 in 2000.
- Domestic releases with estimated budgets of 5.1 to 10 million averaged 28 productions for 1998 to 2000.
- Domestic releases with estimated budgets of 5 million or less averaged 38 productions for 1998 to 2000.

Number of Films Released Domestically 1998-2000 By Budget Range

United States

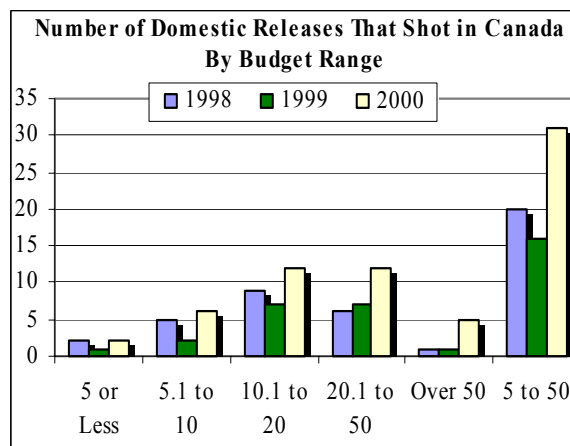
- Domestic releases in the critical job producing 5 to 50 million dollar budget range that shot in the United States increased by 13 (17%) from 76 in 1998 to 89 in 1999 then decreased by an unprecedented 31 productions (35%) to 58 in 2000



- Domestic releases with estimated budgets greater than 50 million that shot in the United States declined by 5 (16%) from 31 in 1998 to 26 in 2000.
- Domestic releases with estimated budgets of 20.1 to 50 million increased by 13 (42%) from 31 in 1998 to 44 in 1999 then decreased by 16 (36%) to 28 in 2000.
- Domestic releases with estimated budgets of 10.1 to 20 million increased by 3 (14%) from 22 in 1998 to 25 in 1999 then decreased by 13 (52%) to 12 in 2000.
- Domestic releases with estimated budgets 5.1 to 10 million averaged 18 productions from 1998 to 2000.
- Domestic releases with estimated budgets of 5 million or less averaged 21 productions from 1998 to 2000.

Canada

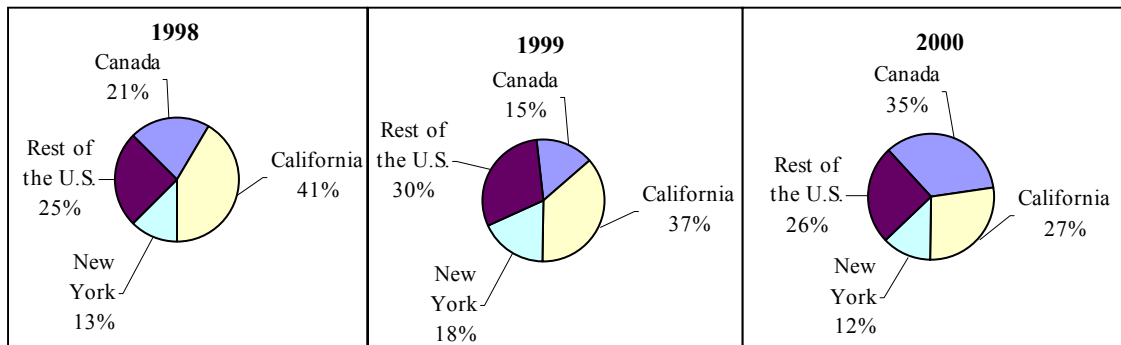
- Domestic releases in the all important job producing 5 to 50 million dollar budget range that shot in Canada decreased by 4 (20%) from 20 in 1998 to 16 in 1999 then after the revision of the Production Services Tax Credit there was an increase of 15 (94%) to 31 in 2000.
- Domestic releases that shot in Canada with budgets greater than 50 million were 1 in 1998, 1 in 1999 then increased by 4 (400%) to 5 in 2000.



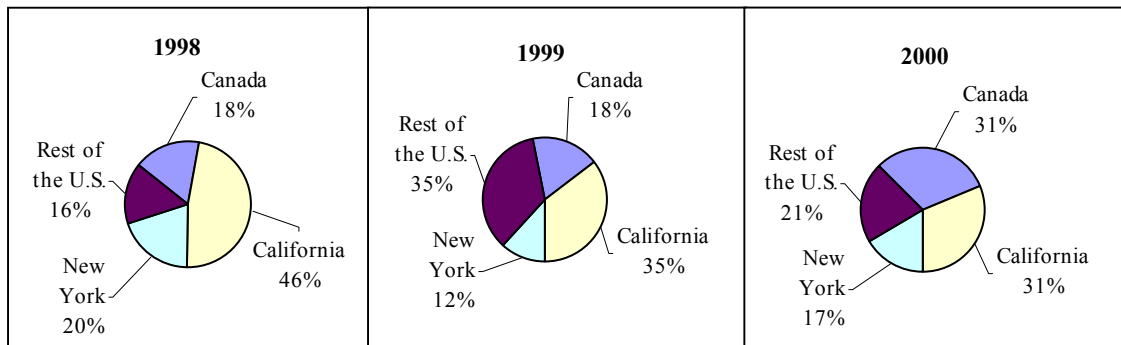
- Domestic releases that shot in Canada with estimated budgets of 10.1 to 20 million decreased by 2 (22%) from 9 in 1998 to 7 in 1999 then increased by 5 (71%) to 12 in 2000.
- Domestic releases shot in Canada with estimated budgets of 5.1 to 10 million were 5 in 1998, 2 in 1999 and 6 in 2000.
- Domestic releases shot in Canada with estimated budgets of 5 million or less were 2 in 1998, 1 in 1999 and 2 in 2000.

Primary Location of Domestic Releases With Estimated Budgets of 5 to 50 Million That Shot in North America

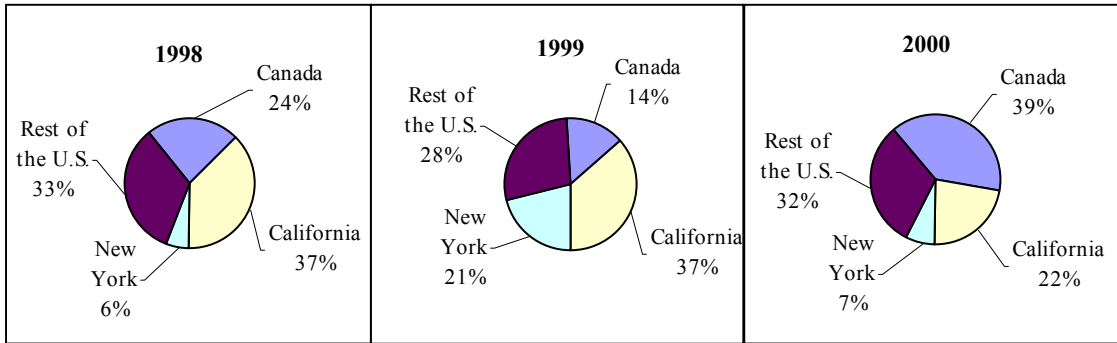
All Domestic Releases With Budgets of 5 to 50 Million That Shot in North America



Independently Financed Domestic Releases With Budgets of 5 to 50 Million That Shot in North America



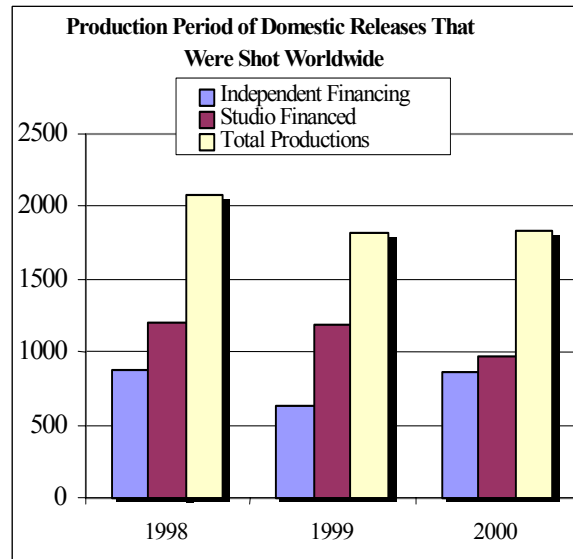
Studio Financed Domestic Releases With Budgets of 5 to 50 Million That Shot in North America



Production Period of Films That Were Released Domestically 1998-2000

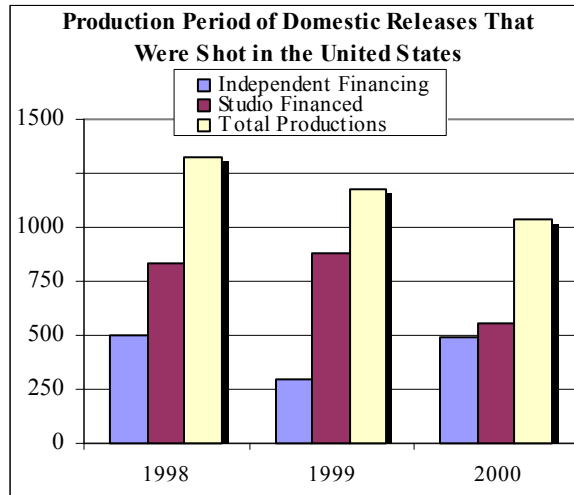
Worldwide

- The total number of production weeks on all domestic releases shot worldwide decreased by 246 (12%) from 2,085 in 1998 to 1,839 in 2000. The average production period, from 1998 to 2000 was 10 weeks.
- Independently financed domestic releases averaged 795 weeks from 1998 to 2000 with an average production period of 8 weeks.
- Studio financed domestic releases decreased by 229 weeks (19%) from 1,198 in 1998 to 970 in 2000 with an average production period of 12 weeks.



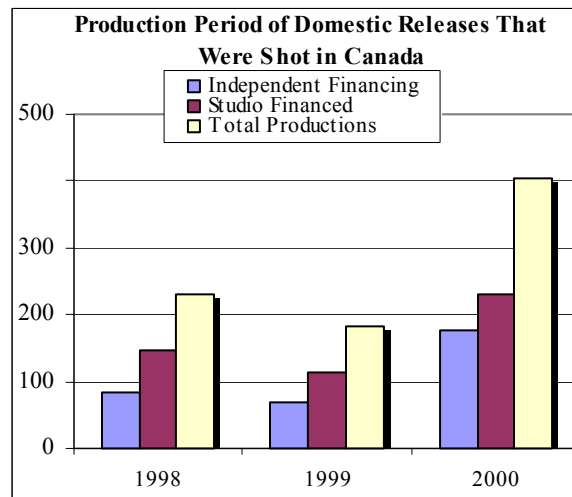
United States

- The total number of production weeks on all domestic releases shot in the United States decreased by 287 (22%) from 1,328 in 1998 to 1,041 in 2000. The average production period, from 1998 to 2000 was 10 weeks.
- Independently financed domestic releases decreased by 201 weeks (40%) from 497 in 1998 to 296 in 1999 then increased by 191 weeks (60%) to 487 in 2000 with an average production period of 8 weeks.
- Studio financed domestic releases that shot in the United States went up slightly in 1999 then decreased by 329 weeks (37%) from 883 in 1998 to 554 in 2000 with an average production period of 12 weeks.



Canada

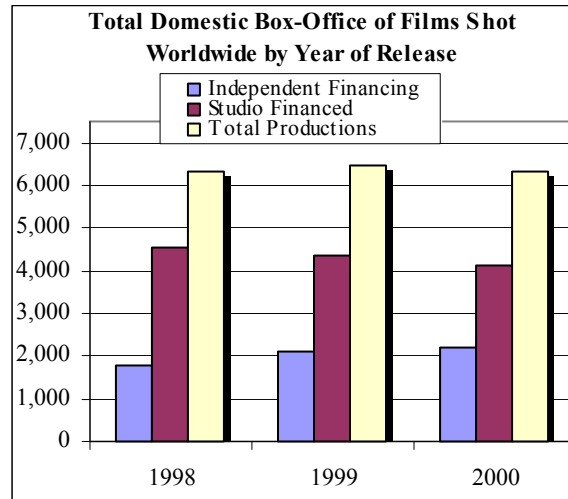
- The total number of production weeks on all domestic releases that shot in Canada decreased by 46 weeks (20%) from 229 in 1998 to 184 in 1999 then increased by 221 (120%) to 405 in 2000. The average production period, from 1998 to 2000 was 10 weeks.
- Independently financed domestic releases increased by 105 weeks (150%) from 70 in 1999 to 175 in 2000 with an average production period of 8 weeks.
- Studio financed domestic releases that shot in Canada decreased by 32 weeks (22%) from 146 in 1998 to 114 in 1999 then increased by 116 weeks (102%) in 2000 with an average production period of 11 weeks.



Box-Office Performance of Films That Were Released Domestically 1998-2000

Total Domestic Box-Office

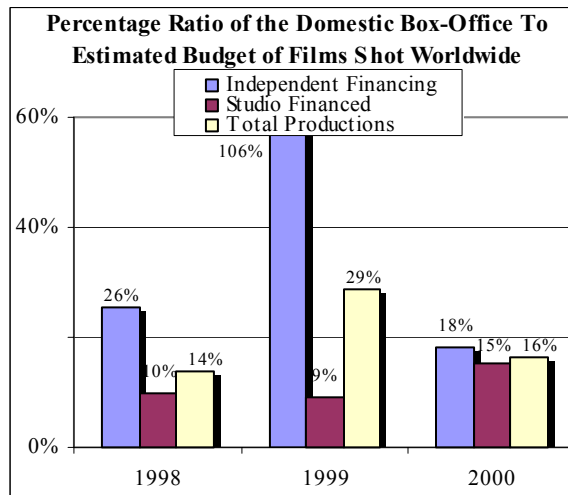
- The total domestic box-office of films shot worldwide averaged 6.38 billion dollars from 1998 to 2000.
- The box-office for independently financed domestic releases increased by 419 million dollars (24%) from 1.77 billion in 1998 to 2.19 billion in 2000.
- The box-office for studio financed domestic releases decreased by 421 million dollars (9%) from 4.57 billion in 1998 to 4.15 billion in 2000.



Box-Office to Estimated Budget Index (BO:B)³⁹ of Films Released Domestically 1999-2000

Films That Shot Worldwide

- The average ratio in percent of domestic box-office to estimated budget for all domestic releases that shot worldwide was 14% in 1998, 29% in 1999 and 16% in 2000.
- The average ratio in percent of domestic box-office to estimated budget for all independently financed domestic releases that shot worldwide was 26% in 1998, 106% in 1999⁴⁰ and 18% in 2000.



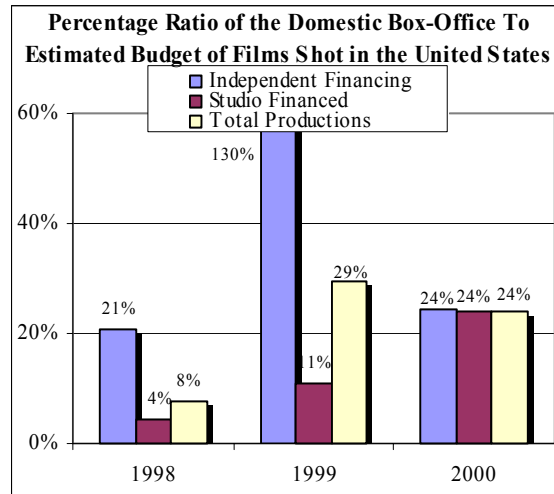
³⁹ BO:B (%) = (Domestic Gross-Estimated Budget)/Estimated Budget

⁴⁰ In 1999 there were many well performing independently financed films including The Blair Witch Project, American Beauty, The Sixth Sense and Austin Powers 2.

- The average ratio in percent of domestic box-office to estimated budget for all studio financed domestic releases that shot worldwide was 10% in 1998, 9% in 1999 and 15 % in 2000.

Films That Shot in the United States

- The average ratio in percent of domestic box-office to estimated budget for all domestic releases that shot in the United States was 8% in 1998, 29% in 1999 and 24% in 2000.
- The average ratio in percent of domestic box-office to estimated budget for all independently financed domestic releases that shot in the United States was 21% in 1998, 130% in 1999⁴¹ and 24% in 2000.



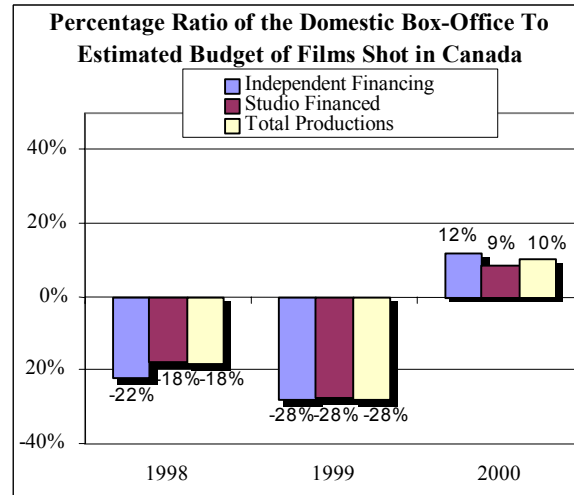
- The average ratio in percent of domestic box-office to estimated budget for all studio financed domestic releases that shot in the United States was 4% in 1998, 11% in 1999 and 24% in 2000.

⁴¹ Ibid

Box-Office to Estimated Budget Index of Films Released Domestically 1999-2000

Films That Shot in Canada

- The average ratio in percent of domestic box-office to estimated budget for all domestic releases that shot in Canada was -18% in 1998, -28% in 1999 and 10% in 2000.⁴²
- The average ratio in percent of domestic box-office to estimated budget for all independently financed domestic releases that shot in Canada was -22% in 1998, -28% in 1999 and 12% in 2000.
- The average ratio in percent of domestic box-office to estimated budget for all studio financed domestic releases that shot in Canada was -18% in 1998, -28% in 1999 and 9% in 2000.



Study Methodology

The author of this study, Stephen Katz, President, Stephen Katz and Associates wrote widely acclaimed “1999 Motion Picture and Movie of the Week Production Survey.” 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 Strategies⁴³ 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, and 2000. The “release year” is traditionally defined as December 15th through December 14th of the following year.

⁴² Without Scary Movie and X-Men

⁴³ <http://www.moviemoney.com/>

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,” and “The Top 250 Films of 2000,” as compiled by Anthony D’alessandro, and published on the web site of the trade publication Variety, Variety.com.⁴⁴ 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. 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.”

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 we can determine 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 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, we consider their films up to \$20 million as 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 determines the true status of a film. If a studio releases it and the research team cannot ascertain with some certainty what financing entity controlled the making of a movie, it remains in the studio category.

⁴⁴ <http://www.variety.com/>

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 Period

The production period was determined through multiple sources including: production staff, crew persons, rental and service companies, state and local film commissions, etc.

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, 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.

She can be reached at 818-990-7774, e-mail louisel@earthlink.net

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