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Economic Analysis of the Canadian Film or Video Production Tax Credit

Office of the Chief Audit and Evaluation Executive
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Executive Summary

Introduction and Background

Introduction

- The Canadian Film or Video Production Tax Credit (CPTC) is a refundable tax credit that reimburses Canadian production companies for a portion of the salaries and wages that they pay to Canadian residents to work on the production of films and television programs. The federal government introduced the CPTC in 1995 as a replacement to a precursor program, the Capital Cost Allowance (CCA).
- From the introduction of the program in 1995 until November 2003, the CPTC operated with a statutory tax-credit rate of 25% of qualified labour expenditures; but with a cap on qualified labour expenditures of 48% of the total costs of production (net of assistance received by the producer). In effect, the CPTC had a ceiling rate of 12% of a particular project's total production budget, up until November 2003.
- The program's current guidelines provide for an effective tax credit assistance rate equal to a maximum of 15% of a particular project's total production budget (the sum of expenditures on labour [salaries and wages] and purchased services). This maximum effective tax credit rate is based on a statutory tax-credit rate of 25% of qualified labour expenditures, and a cap of 60% on the share of total production costs (net of assistance) comprised of qualified labour expenditures.

Program Objectives

- The CPTC has two fundamental objectives, as stated in its 1995 announcement.
 1. The primary objective of the CPTC is "the encouragement of Canadian programming and the development of an active domestic independent production sector."
 2. The secondary objective of the CPTC is "to encourage a more stable financing environment and longer-term corporate development for production companies, rather than focus simply on single project financing."

Study Mandate

- In January 2007, the Department of Canadian Heritage (the "Department") launched the summative evaluation of the CPTC. The purpose of the attached study is to provide the Department and the summative evaluation with an economic analysis of the impact of the CPTC in terms of its effectiveness in achieving its program objectives. The summative evaluation and economic analysis address the following evaluation question contained in the terms of reference for each study.

What difference has the CPTC made with respect to:

- 1. Canadian programming and the development of an active domestic independent production sector; and*
- 2. A more stable financing environment and longer-term corporate development for production companies?*

Methodology

Profile of CPTC Production

- The study team prepared a quantitative profile of CPTC-supported production based on project-level data supplied by the Canadian Audio-Visual Certification Office (CAVCO). The quantitative profile describes CPTC-supported production on the basis of: (i) release markets (television, theatrical, other); (ii) language of production (English, French, bilingual and other); (iii) genre of production; (iv) Canadian-content points; (v) region of producer; and, (vi) category of production (television series, feature film, movies of the week [MOWs], short film, mini-series). The study team supplemented the CAVCO data with data from the Department of Finance, Canadian Radio-television and Telecommunications Commission (CRTC) and trade publications.

Incrementality

- To investigate whether the CPTC achieved its primary objective, the study team developed an econometric model to analyse the incrementality of the CPTC – that is, degree to which the CPTC stimulated additional production expenditures beyond the amount of the assistance offered by the CPTC.
- Due to a lack of suitable data, the study team was unable to conduct an ideal experimental-design analysis that included control and treatment groups existing before and after the introduction of the CPTC. In light of this data challenge, the study team developed an alternative analysis that was more generalized in its approach. This generalised approach allowed the study team to design a quasi-experimental analysis that exploited provincial variations over time in combined (federal + provincial) tax credit assistance rates.
- CAVCO supplied all of the data for the econometric analysis. The data consisted of project-level observations for the financing structures and characteristics of all CPTC-supported projects between 1996/97 and 2005/06 (as at February 2007).
- The study team employed a difference-in-difference econometric model to isolate the effect of the tax-credit reforms on private-sector financing for film and television production budgets in the sample. The study team designed the difference-in-difference model to measure the effect that the higher tax credit assistance rate had on the average level of per-hour private financing within the treatment-group projects. Through the model, the study team also investigated the

effect of the reform on total budgets, total Canadian private financing, and Canadian broadcaster/distributor financing.

Corporate Development

- At the outset of the project, the study team envisioned a longitudinal analysis of financial-statement data as the primary methodology for measuring corporate development among CPTC recipients and thereby assessing if the program achieved one element of its secondary objective. However, because of limitations in available data, the study team resorted to a survey-based analysis in which it asked production companies to rate the impact of the CPTC on four qualitative indicators of corporate development. The survey questions asked CPTC recipients to rate the extent to which the CPTC has allowed their production company to do the following: (i) engage in additional project development activities; (ii) increase its level of equity in production projects; (iii) hire/retain additional corporate personnel (e.g., business affairs); and (iv) build a library of distribution rights for film and video properties.

Financing Stability

- Again, due to the data challenges, the study team elected to use a survey-based approach to assess whether the program achieved the second element of its secondary objective – a more stable financing environment. Through the survey, the study team asked CPTC recipients to rate the degree to which the CPTC enabled their production company to achieve the conditions described by the indicators. The survey questions asked CPTC recipients to rate the extent to which the CPTC has allowed their production company to do the following: (i) improve management of the cash-flow requirements of film and video projects; (ii) increase production company working capital; (iii) increase its shareholders' equity on its balance sheet; (iv) obtain external financing on “reasonable terms”; (v) establish an ongoing banking relationship.

Results of Analysis

Current Industry Environment and Market Structure

- With the annual value of CPTC claims now running in excess of \$180 million, the CPTC has become the federal government's single largest stimulative tool for the film and video production industry. The value of the CPTC outstrips the federal government's contributions of \$120 million to the Canadian Television Fund (CTF) (Canadian Television Fund 2007a, p. 13), as well as its annual funding of \$100 million for the Canada Feature Film Fund (CFFF). Furthermore, the CPTC typically comprises 8% to 12% of the total financing of Canadian production; and so, it has come to be a significant and crucial piece in the financing formula.
- Together, the CPTC and the Film or Video Production Services Tax Credit (PSTC) provide a large share of the federal government assistance that underpins an

industry comprised predominantly of hundreds of small production companies, which still operate on a project-to-project basis. Only a minority of companies have been able to add sales and distribution or other functions to their corporate activities. Some production companies are sophisticated enough to retain professionals in business affairs and concept development, but most production companies are comprised of single owners often combining scriptwriting, directing, and even acting functions as well as being the producer.

- Membership statistics for Canada's two leading trade bodies for independent production – the Canadian Film and Television Production Association (CFTPA) and Association des producteurs de films et de télévision du Québec (APFTQ) – indicate that there are an estimated 500 independent production productions in Canada, today. Statistics published by Statistics Canada support this estimate.
- Statistics from a survey conducted by *Playback* in spring 2007 show just how fragmented the Canadian production industry is. *Playback* found that only one company, Insight Film Studios, reported more than \$100 million in production volume during the 2006 calendar year. Only five companies posted more than \$50 million in production volume; these top five companies accounted for 31% of the total volume; the top ten companies accounted for 46% of total production volume in 2006; with the other 54% of production volume was spread across some 200 other companies.

Total Production

- Between 1994/95 and 2005/06, the CPTC provided tax-credit support totalling more than \$1.6 billion to 9,754 film and video projects. Overall, these film and television projects generated over \$17.3 billion in production volume in Canada.
- When viewed in terms of production activity (i.e., the annual number of supported film and video projects), CPTC-supported production experienced steady growth between 1994/95 and 2005/06. However, the volume of CPTC production only displayed growth between 1994/95 and 1999/00. After 1999/00, the annual volume of production remained largely stagnant, although there were some year-to-year fluctuations.
- On a real-dollar basis, CPTC-supported production volume peaked in 1999/00. Measured in 2005 dollars, production volume supported by the CPTC reached \$2.1 billion in 1999/00. After that year, real-dollar production volume moved lower. Between 2000/01 and 2002/03, real-dollar production volume dropped below \$2 billion; in 2003/04, it dropped below \$1.9 billion; in 2004/05 and 2005/06, production volume dropped below \$1.8 billion.

Release Markets

- Between 1994/95 and 2005/06, production volume for CPTC-supported **television** projects totalled \$14.6 billion, or 84.5% of all production volume supported by the CPTC; **theatrical market** production generated a total volume of \$2.6 billion during the 12-year period, or 14.9% of all CPTC-supported supported volume; production for **other release markets** (such as educational markets and home-video markets) accounted for \$119 million, or 0.7% of total CPTC-supported production volume.

Language of Production

- **English-language** production during the 12-year period accounted \$12.7 billion of production volume, or 73.3% of total CPTC-supported production volume. CPTC-supported **French-language** production totalled just over \$4.0 billion, or 23.4% of total CPTC-supported production volume. A small portion (\$573 million, 3.3%) of CPTC-supported projects was made in a **bilingual** format (English-French), in **Aboriginal languages**, or in **other languages**.

Genre

- The majority of CPTC-supported production volume was in the fiction genre between 1994/95 and 2005/06, with children's programming and documentaries also comprising significant shares. The CPTC supported just under \$10 billion worth of **fiction** production between 1994/95 and 2005/06. This represented 57.4% of total CPTC supported production volume. CPTC-supported **children's** programming totalled \$2.7 billion, or 15.9% of total volume. **Documentary** programming accounted for \$2.35 billion in production, or 13.6% of total volume. Production of CPTC-supported **magazine** programming was \$930 million, or 5.4% of total volume. Production of **variety** programming was \$887 million, or 5.1% of total volume. Production in other genres totalled \$449 million, or 2.6% of total CPTC-supported production volume.
- After reaching a peak of over \$1.1 billion in 1999/00, fiction production volume fell by 16% over the subsequent two years. This decrease was probably due in large part to the CRTC's 1999 Television Policy, which removed program expenditure requirements for conventional television broadcasters and introduced a new layer of exhibition requirements for some conventional broadcasters. In contrast, the magazine and variety genres appear to have, in fact, benefited from the 1999 Television Policy. The policy introduced the category of *priority programming* to the exhibition-quota system; however, it left it open to broadcasters to fill this quota with fiction, long-form documentary, variety, or magazine programming. Between 1998/99 and 2001/02, the volume of magazine programming grew by 86%; the volume of variety programming grew by 62%.

Canadian Content Points

- Projects with a Canadian-content rating of **10/10 points** accounted for \$9.2 billion in production volume between 1994/05 and 2005/06, or 53.1% of total CPTC-supported production volume during that period, and 76.7% of the total number of projects. Productions with **fewer than full points** – including projects that received by between six and nine points out of a total of ten points – accounted for a combined 29.8% of production volume and 12.9% of the total number of projects. **International treaty co-productions** accounted for 17.1% of total CPTC production volume and 10.3% of CPTC projects.

Region

- **Ontario-based** producers generated just under \$7.0 billion of CPTC-supported production volume between 1994/95 and 2005/06, or 40.4% of total CPTC-supported production volume during the period. **Quebec-based** producers generated \$6.5 billion of CPTC-supported production, or 37.4% of total CPTC-supported production volume. Producers based in **British Columbia** generated \$2.3 billion of CPTC-supported production, accounting for 13.2% of the total CPTC-supported production volume. Producers in the **Prairie Provinces and Far North** accounted for \$887 million, or 5.1% total volume. Producers in **Atlantic Canada** accounted for \$666 million, or 3.9% total volume.

Category

- Between 1994/95 and 2005/06, the CPTC supported \$11.5 billion in **television-series** production; this amount represented 66.7% of total CPTC-supported production volume. CPTC-supported **feature film** production totalled just over \$3.0 billion and represented 17.7% of total volume. **MOW** production was \$1.1 billion, or 6.2% of the total volume. **Short film** production amounted to just under \$1.0 billion, or 5.5% of total volume. The production of television **mini-series** totalled \$651 million, or 3.8% of the total volume.

CTF Production

- The CPTC supported \$7.7 billion of **CTF-supported production** between 1994/95 and 2005/06, or 44.3% of total CPTC-supported production volume during the 12-year period.

Profile of Firms Receiving CPTC

- Statistics supplied by the Department of Finance indicate that the annual number of production companies applying for the CPTC varied from 731 in 2000 to 985 in 2004; in 2005, a total of 947 individual production companies applied for the CPTC.

- Corporate entities involved in film and television production often form single-purpose subsidiaries for individual film or television projects, in order to limit the liability of the parent company while at the same time fulfilling the requirement that tax credit recipients be Canadian companies “solely” engaged in the production of a film or video project (Department of Finance 2006, p. 4). At the end of the production cycle, the parent company re-absorbs the single-purpose production subsidiary (Department of Finance 2006, p. 4). In 2005, single purpose production companies owned by integrated media parent companies accounted for 390 of the total of 947 CPTC applicants. The remaining 557 CPTC applicants in 2005 had no identifiable relationship with a corporate parent.
- The statistics and analysis provided by the Department of Finance indicate that CPTC claims are concentrated among a small group of production companies. Between 2000 and 2005, 5% of CPTC applicants (production companies) accounted for 41% of all CPTC claims; 20% of production companies accounted for 63% of CPTC claims; and 90% of CPTC claims could be traced back to 60% of the production companies applying for the CPTC.
- The Department of Finance found that the top ten corporate groups (representing 330 individual production companies) accounted for 29% of the dollar volume of CPTC claims between 2000 and 2005 (Department of Finance 2006, p. 5).

Incrementality

- The study team designed a difference-in-difference econometric model to test for the existence of crowding out (or crowding in) of private financing following the increase in the tax credit. In other words, the analysis seeks to reject the null hypothesis (H_0):

 H_0 : The tax credit has no effect on private financing of film and television production.

 H_1 : The tax credit has a positive or negative effect on private financing for film and television production.
- As part of the econometric modelling, the study team investigated three different specifications with four different dependent variables representing different aggregations of private financing for Canadian television production. The three dependent variables in the model specifications included: **private financing**, **Canadian private financing** and **broadcaster/distributor financing**. For a fourth specification, the study team investigated the impact of the higher tax credit assistance rates on **total budgets**.
- The regression results indicate that the key parameter in the difference-in-difference model – which measures the fixed effect of higher tax credit assistance rates on treatment group projects – was not significantly different from zero under any of the four specifications. That is, exposure of the treatment group to higher tax credit

assistance (the policy reform) had no statistically significant impact (positive or negative) on total per-hour private financing, per-hour Canadian private financing, per-hour financing from Canadian broadcasters/distributors, or per-hour project budgets.

- The regression results for the difference-in-difference econometric model indicate, therefore, that the increase in the tax credit assistance did indeed lead to higher levels of **private financing, Canadian private financing and broadcaster/distributor financing** for English-language television projects.
- The regression results also indicate that the treatment group, generally, had higher levels of **private financing, Canadian private financing and broadcaster/distributor financing** (in all cases, the models' parameter estimates were significantly different from zero). However these differences in the various types of private financing for projects existed before and after the policy reform. In the specification with total private financing as the dependent variable, the parameter estimate of 0.227 was statistically different from zero (at a one per cent probability level); in other words, total per-hour private financing was 22.7% higher for projects in the treatment group than in the control group. The regression results indicate that total Canadian private financing was 17.4% higher in the treatment group, and broadcaster/distributor financing was 15.9% higher.

Corporate Development

- The survey results indicate that most producers believe that the CPTC does indeed have a strong positive impact on (i) project development and (ii) increased project equity. Approximately 56% of survey respondents reported that the CPTC has a strong impact (a "4" or "5" rating) on their ability to engage in additional project development activities; 29% reported that the CPTC has only a weak or no impact. Sixty-eight per cent of respondents reported that the CPTC has a strong impact on their ability to increase their level of equity in production projects; only 14% reported a weak impact.
- The CPTC's impact on expanding corporate personnel within the production company is less certain among producers: while 45% saw a strong impact, 35% saw a weak impact. Even less certain was the opinion that that the CPTC has a strong impact on production companies' ability to build a library of distribution rights – the strong impact (a "4" or "5" rating) was reported by only 41% of the producers.
- The survey results also indicate that larger production companies¹ experienced a stronger impact on project development and retention of corporate personnel as a

¹ The survey measured production-company size in terms of number of employees and total company sales. The study team chose to use number of employees as the index of size. A production company's sales can fluctuate significantly from year to year, whereas the employee-base is likely to be more stable and therefore a better indicator of company size – i.e., the production company's capacity for producing television programs and films. With only a few exceptions, there was a strong correspondence between the survey responses when measured on the basis of number of employees or total company sales. Where differences did exist, the study team has noted them in this report.

result of the CPTC. Among large production companies with five or more employees, 71% reported that the CPTC had a strong impact on project development activities; the incidence among small production companies with fewer than five employees was 46%. In terms of the CPTC's impact on retention of corporate personnel, 62% of large companies reported a strong impact; whereas 37% of small companies reported a strong impact.

Financing Stability

- In terms of project financing, the tax credit can be considered “more stable” than the other major financing options available to Canadian producers. Funding from the federal government's two largest direct funding programs for film and video production – the CTF and CFFF – is limited and its allocation is unpredictable: producers have no assurance that they will receive such funding year-in and year-out. Foreign financing is also very unstable as a source of financing. It can fluctuate significantly from year-to-year, depending on foreign broadcasters' programming. Canadian broadcasters' licence fees are relatively consistent on an annual basis compared to other types of financing for Canadian production; but this is only because all Canadian television projects require a broadcaster licence.
- Production companies report that the CPTC has a strong impact on improving their cash-flow management on production projects; they also report that the CPTC increases their working-capital position. Fifty-two per cent of survey respondents reported that the CPTC has a strong impact (“4” or “5” rating) on their production company's ability to improve the management of cash-flow requirements of film and video projects. In contrast, about 26% of respondents reported a weak impact. Approximately one-half of survey respondents reported that the CPTC enables them to increase their production company's working capital. These responses largely reflect the fact that the CPTC provides security that triggers bank financing for television and film projects.
- The survey results indicate, however, that the CPTC has only a weak impact on production companies' ability to build internal sources of financing, i.e., retained earnings and shareholders' equity. What is more, because the CPTC is used within the project-financing structure, it is having only a weak impact on production companies' ability to obtain reasonable credit outside of production projects. Twenty-nine per cent of survey respondents reported that the CPTC has a strong impact on their ability to raise the shareholders' equity of their production companies. Approximately 36% reported that the CPTC has a weak or no impact.
- Thirty-five per cent of survey respondents reported that the CPTC has a strong impact on their ability to obtain external financing on reasonable terms for non-production activities such as project development. Conversely, 47% of respondents indicated that the CPTC has a weak or no impact on this aspect of the production business. Approximately 40% of survey respondents reported that the CPTC has a strong impact on their ability to establish an ongoing business relationship with a bank or other financial institution, allowing them to access financial credit for

purposes other than principal photography or post-production activities. At the same time, 40% of survey respondents also reported that the CPTC has a weak impact or no impact at all.

- The impact of the CPTC on financing stability does vary somewhat with respect to the size of the production company. A higher proportion of large production companies reported strong impacts on four of the five indicators of financing stability. Production-company size did not appear to be a strong factor for production companies' ability to establish an ongoing relationship with a bank or financial institution.

Summary of Findings and Relevance to Summative Evaluation of CPTC

Incrementality

- The regression results from the estimation of the difference-in-difference econometric model indicate that there was no change – positive or negative – in per-hour levels of private financing for production budgets following exposure to a higher tax-credit assistance rate. Therefore, the results provide no basis to reject the null hypothesis that the increase in tax credit assistance had no effect on private financing for television production budgets. In other words, there is no evidence of crowding out, and therefore, **there was indeed an incremental increase in the size of English-language television projects in the treatment group following the increase in tax credit assistance.**
- While the results from the difference-in-difference econometric model point to tax credit assistance as not leading to any crowding out of private financing and therefore resulting in an increase in production expenditures, one should approach the results with caution. Caution should be exercised largely because the analysis really does not provide an experimental design that is suitable for testing the impact of the introduction of the CPTC in 1995.

Corporate Development

- The research results do not really permit the study team to conclude that the CPTC is having a positive impact on production companies' corporate development. Part of the industry – particularly large production companies – is experiencing the hallmarks of corporate development attributable to the CPTC; but a large share of CPTC recipients is not experiencing the same positive effect or cannot attribute any positive impact to the CPTC.
- In terms of measuring corporate development among CPTC recipients and attributing it the CPTC, there is a need for more systematic data on the financial performance of production projects and production companies that receive financial support from the CPTC. Such financial performance will permit the Department to properly assess if the program is indeed contributing to corporate development within the Canadian film and television production industry.

Financing Stability

- The CPTC has definitely injected a higher degree of financing stability into film and television projects; and in this regard, it is probably an improvement over the CCA. However, the dynamics of the Canadian film and video marketplace have probably prevented the CPTC from also being an effective tool for improving financing stability at the *production-company* level. Producers have, for many years, had difficulty raising the budgets required to create high-quality Canadian films and television programs without including the CPTC and other tax credits as budget items. While rules and guidelines (such as the CTF guidelines) can compel or at least encourage producers to keep part of their tax credit assistance outside of production projects, this may only result in lower-budget projects, smaller projects (fewer episodes) or fewer projects.

1. Introduction and Background

1.1 Introduction

During the 2005/06 fiscal year, the volume of film and television production (the sum of expenditures on production budgets) in Canada totalled \$4.8 billion (CFTPA 2007, p. 11).² Of this total, the volume of *Canadian* films and television programs made by *Canadian production companies* totalled \$2.1 billion (CFTPA 2007, p 12).³ These films and television programs are considered Canadian because they meet the minimum thresholds for Canadian content; Canadian production companies are production companies that are essentially controlled by Canadians. The production of Canadian films and television programs by Canadian production companies employed an estimated 21,300 production-industry workers on a full-time equivalent basis in 2005/06 (CFTPA 2007, pp. 32, 52).

Over the past four decades, federal and provincial governments in Canada have introduced several programs that provide financial support to Canadian film and television production. The federal government's largest such program is the Canadian Film or Video Production Tax Credit (CPTC). The CPTC is a refundable tax credit available to Canadian production companies that produce Canadian films and television programs. The federal government introduced the CPTC in 1995 as a replacement to a precursor program, the Capital Cost Allowance (CCA). By 2005/06, the federal government was providing approximately \$185 million in financial support to Canadian production companies under the CPTC.

The CPTC has two fundamental objectives, as stated in its 1995 announcement.

1. The primary objective of the CPTC is “the encouragement of Canadian programming and the development of an active domestic independent production sector.”
2. The secondary objective of the CPTC is “to encourage a more stable financing environment and longer-term corporate development for production companies, rather than focus simply on single project financing.”

In January 2007, the Department of Canadian Heritage (the “Department”) launched the Summative Evaluation of the CPTC. As part of this program evaluation, the Department sought an economic analysis of the impact of the CPTC and the fulfilment of its program objectives. The following study provides this economic analysis.

² In this report, the authors use the term “volume of production” or simply “volume” to refer to the sum of expenditures – measured in dollars – on film and television production activity during a specific period of time. The authors use the term “production activity” or “activity” to refer to the number of film and television projects in a specific time period.

³ The authors calculated the total amount of Canadian film and television production made by Canadian production companies by summing the amounts for Canadian television production and Canadian theatrical production published by the CFTPA in *Profile 2007: An Economic Report on the Canadian Film and Television Production Industry*. The figure of \$2.1 billion includes production by independent production companies and production companies that are affiliated with Canadian television broadcasters (“broadcaster-affiliated” production companies). The figure of \$2.1 billion excludes foreign location production (\$1.7 billion) and broadcaster in-house television production (\$1.0 billion).

In this study, the authors analyze the impact that the CPTC had on the Canadian film and television production industry in terms of stimulating production activity, and contributing to the corporate development and financing stability for production companies.

1.2 Structure of the Report

In the remainder of Section 1, *Introduction and Background*, the authors provide background information on the CPTC and the study. The authors describe the CPTC and the historical developments in the Canadian production industry associated with it. The authors also review the study mandate and describe the current environment facing Canada's film and television production industry.

In Section 2, *Profile of CPTC Production*, the authors present a quantitative description of the production activity (total budgets, number of projects) and funding associated with the CPTC. The authors also examine the effect of changes made to the CPTC in November 2003.

In Section 3, *Analysis of Incrementality*, the authors present the results of an econometric analysis that they employed to measure the impact that the CPTC had in terms of stimulating the production of English-language Canadian films and television programs made by Canadian production companies.

In Section 4, *Analysis of Corporate Development*, the authors present their analysis of the impact that the CPTC had on corporate development within the Canadian film and television production industry.

In Section 5, *Analysis of Financing Stability*, the authors look at how the CPTC affected the stability of *corporate* financing – as opposed to project financing – available to Canadian production companies engaged in the production of Canadian films and television programs.

In Section 6, the authors summarize the findings from their research and analyses, and discuss the relevancy of these findings to the Summative Evaluation of the CPTC.

1.3 Study Mandate

This purpose of this study is to provide the Department with an economic analysis of the impact of the CPTC in terms of its effectiveness in achieving its program objectives. These program objectives are reflected in the following evaluation question contained in the terms of reference for the study.

What difference has the CPTC made with respect to:

1. *Canadian programming and the development of an active domestic independent production sector; and*
2. *A more stable financing environment and longer-term corporate development for production companies?*

Objective #1 is also considered the primary objective of the CPTC. To address this part of the evaluation question, the authors analyze the *incrementality* of the CPTC in the English-language market. That is, they analyze the degree to which the CPTC stimulated additional production expenditures. In effect, the analysis measures the degree to which the CPTC crowded out (or crowded in) private financing for the production of Canadian films and television programs. The authors use an econometric model to investigate the issue of incrementality.

Objective #2 captures the program's goal of *building* Canadian production companies and moving the industry away from the project-to-project environment that characterized it during the early 1990s and before. To address Objective #2, the authors use a survey of CPTC recipients to collect qualitative data for various indicators of corporate development and financing stability.

1.4 Description of CPTC and Its Role in Production Financing

The CPTC is a refundable tax credit that reimburses Canadian production companies for a portion of the salaries and wages that they pay to Canadian residents to work on the production of films and television programs.

Based on the program's current guidelines and regulations, the CPTC provides a refundable tax credit equivalent to 25% of qualified labour expenditures. Qualified labour expenditures include salary or wages; portion of the remuneration, other than salary and wages; and reimbursement by a wholly-owned corporation to its parent (CAVCO 1998, p. 14). In general, qualified labour expenditures must be incurred during the stages of production from the production commencement to the end of the post-production stage; they must be reasonable; and they must be directly attributable to the production (CAVCO 1998, p. 13).

There is a ceiling on the amount of qualified labour expenditures subject to the tax credit rate: they may not exceed 60% of a particular project's total production costs (net of assistance). In effect, the CPTC provides financial assistance to producers of an amount equal to a maximum of 15% of a particular project's total production budget (the sum of labour expenditures and any purchased goods or services).

From the introduction of the program in 1995 until November 2003, the CPTC operated with a different set of guidelines pertaining to the calculation of a project's CPTC claim. During this period, the CPTC's statutory tax-credit rate was still set at 25% of qualified labour expenditures; however, the cap on labour expenditures was set at 48% of the total costs of production (net of assistance received by the producer), rather than the current

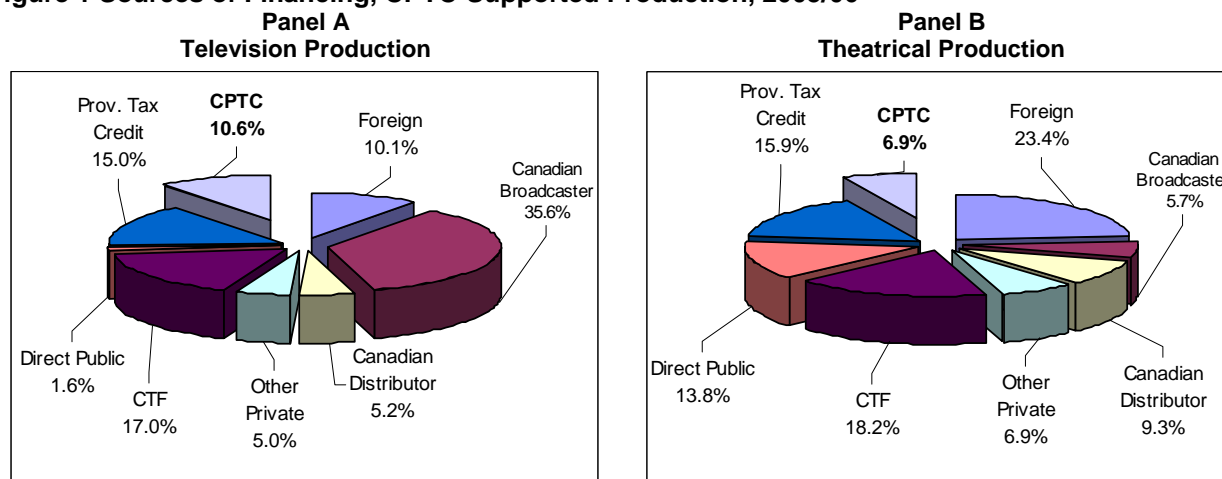
cap of 60%. In effect, this meant that the CPTC had a ceiling rate of 12% of a particular project's total production budget.

Unlike its precursor program, the CCA, the CPTC is available only to bona fide Canadian production companies. Instead of providing financial incentives to private investors, it reimburses Canadian production companies for a portion of the Canadian labour expenditures they incur. In theory, the CPTC is meant to put money in the hands of the owners and managers of production companies, so that they can maintain their businesses in between projects, and develop new projects during these interim periods. In practice, however, much of the CPTC reimbursements have found their way into project budgets, and thereby directly into the hands of those individuals and companies supplying labour or services to the production process. What is more, since the federal government pays CPTC claims several months after production is completed, producers are required to obtain interim financing from financial institutions to cover the time between their cash outflows and the financing inflow associated with the tax credit. While these effects are not completely inconsistent with the objectives of the CPTC, it shows that the tax credit monies are not always under the complete control of the producer whom they were intended to directly benefit.

Statistics from the Canadian Audio-Visual Certification Office (CAVCO) indicate that the CPTC provided \$185 million in financial support to Canadian production including independent production and broadcaster-affiliated production in 2005/06. This amount represented approximately 10.3% of the total expenditures for films and television programs eligible for the CPTC (see Table 10 in Section 2.2.1). So, while the CPTC provided for a maximum assistance rate equal to 15% of a particular project's total production budget, the structure of supported projects resulted in an average effective tax credit rate that was actually two-thirds of the maximum possible assistance rate.

Among television projects produced in 2005/06, the CPTC accounted for 10.6% of total financing. At 10.6%, the CPTC was a significant portion or source financing for Canadian television programs; however, it was not the single largest source. According to statistics sourced from CAVCO and tabulated by the study team, Canadian broadcasters were the largest single source of financing for Canadian television programs. In 2005/06, Canada's private and public broadcasters – as a group – contributed 35.6% of the total financing for Canadian television production (Figure 1). The Canadian Television Fund (CTF) contributed 17.0% of total financing – more than the CPTC (Figure 1). Provincial tax credits also contributed more financing to Canadian television programs than the CPTC; in 2005/06, provincial tax credits for Canadian television programs totalled accounted 15.0% of production financing, or \$269 million (Figure 1).

Figure 1 Sources of Financing, CPTC-Supported Production, 2005/06



Source: CAVCO

The CPTC's contribution to theatrical-release production was even less. In 2005/06, the CPTC contributed 6.9% of total financing for Canadian theatrical productions (Figure 1). In that same year, other public sources – namely the CTF and Canada Feature Film Fund (CFFF) – accounted for 32% of total financing; provincial tax credits accounted for 15.9%.

Effective CPTC Assistance Rates

As noted above, the effective CPTC assistance rates for film and television projects often vary from the labour-share-adjusted statutory rate (currently 15%). The calculation of the CPTC depends on the amount of eligible labour within a project, the project's financing structure, and the type of labour expenditures within a project. In general, under the current CPTC rules, a producer must first calculate his or her net production cost by deducting producer deferrals, and assistance from Canadian governments including provincial tax credits. Table 1 outlines the formulae used by producers before November 2003, to estimate the amount of their CPTC claim. Table 2 outlines the formulae that are currently in effect.

Table 1 Formulae for Calculating Qualified Labour Expenditures and CPTC Claim, Pre-2003

Line	A. Estimate of Eligible Production Cost	B. Estimate of the net labour expenditure
1.	Total production cost	Labour expenditure
2.	Less: Non-deductible expenses	
3.	Less: Deferrals	Less: Deferrals
4.	Less: Assistance received or to be received	Equals: Sub-total
5.	Less: Equity owned by prescribed persons	
6.	Equals: Net production cost × 48%	Multiply by: Percentage of ownership retained by production entity
7.	Equals: Eligible production cost	Equals: Net labour expenditure
8.		Lesser of Line 7 equals: Qualified labour expenditure × 25%
9.		Equals: Estimate of CPTC amount

Source: CAVCO

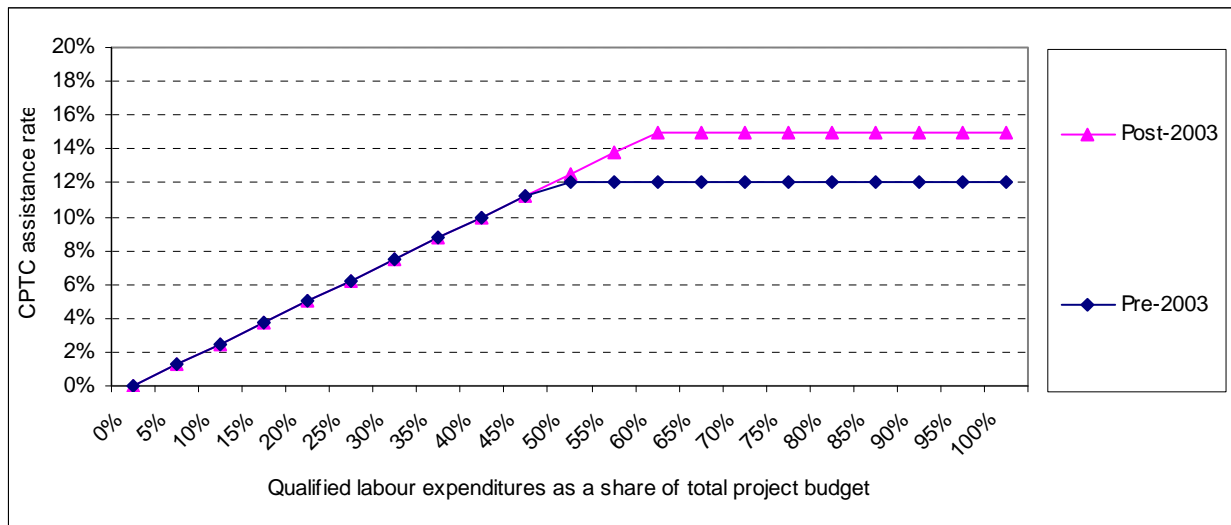
Table 2 Formulae for Calculating Qualified Labour Expenditures and CPTC Claim, Post-2003

Line	A. Estimate of Eligible Production Cost	B. Estimate of the net labour expenditure
1.	Total production cost	Labour expenditure
2.	Less: Non-deductible expenses	
3.	Less: Deferrals	Less: Deferrals
4.	Less: Assistance received or to be received	
5.	Less: Equity from public funding	
6.	Equals: Net production cost × 60%	
7.	Equals: Eligible production cost	Equals: Net labour expenditure
8.	Lesser of Line 7 equals: Qualified labour expenditure × 25%	
9.	Equals: Estimate of CPTC amount	

Source: CAVCO

Figure 2 simulates the maximum effective CPTC assistance rate for various levels of qualified labour expenditures (as a share of net production costs). The chart compares the rates before and after the 2003 program changes. The chart scenarios assume that there is no assistance, government equity, or equity held by a non-production entity within the project financing structure; the scenarios also ignore producer deferrals. Figure 2 shows how the CPTC assistance rates rise with the labour share until they reach the ceiling amounts – 48% (pre-2003) and 60% (post-2003). Figure 2 also clearly shows how the 2003 program changes benefited projects with a higher proportion of labour expenditures, but left projects with labour expenditures of 48% or lower unaffected in terms of CPTC assistance rate.

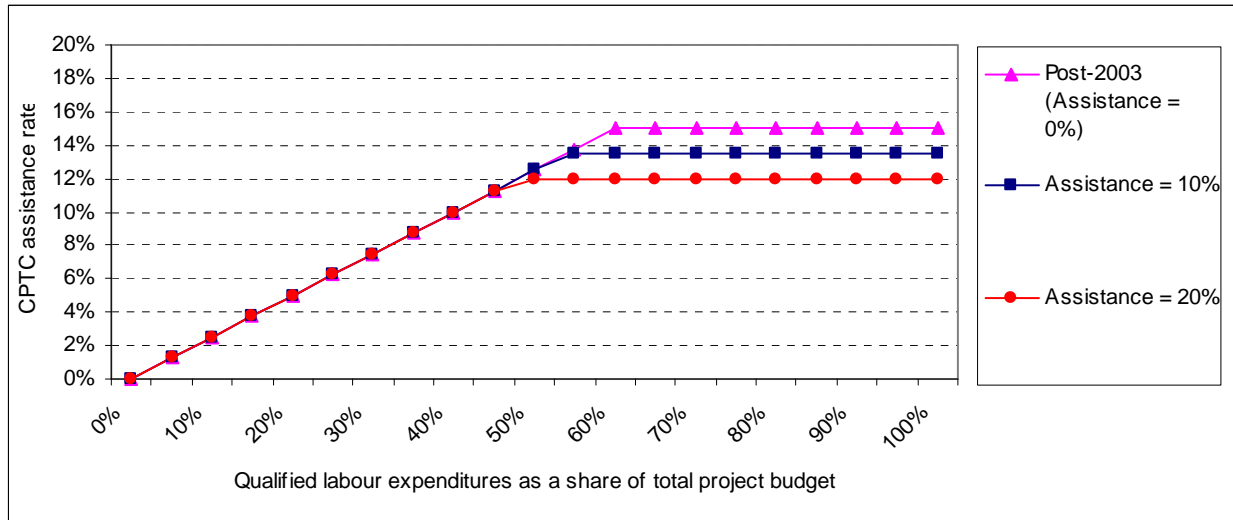
Figure 2 CPTC Assistance Rate at Different Levels of Labour Share



Source: Nordicity calculations based on data from CAVCO

Figure 3 depicts how *assistance* within the financing structure of CPTC project affects the CPTC assistance rate under the current program guidelines (post-2003). Section 12(1)(x) of the Income Tax Act defines assistance as including any grants, subsidies, forgivable loans, contributions, services, or certain advances from any source (CAVCO 1998, p. 13); broadcaster licence fee top payments from the CTF are not considered assistance. The figure depicts a scenario with 0% assistance (“Post 2003”), a scenario where 10% of total financing is in the form of assistance (“Assistance = 10%”), and a scenario where 20% of total financing is in the form of assistance (“Assistance = 20%”). The chart shows that assistance has the greatest impact on projects above the 60% labour-share ceiling. These projects have a lower CPTC assistance rate than they would without the assistance. Projects just under the labour ceiling are also affected by the presence of assistance within the financing structure. Projects with labour shares well below the ceiling, however, are not affected by the presence of assistance within the financing structure.

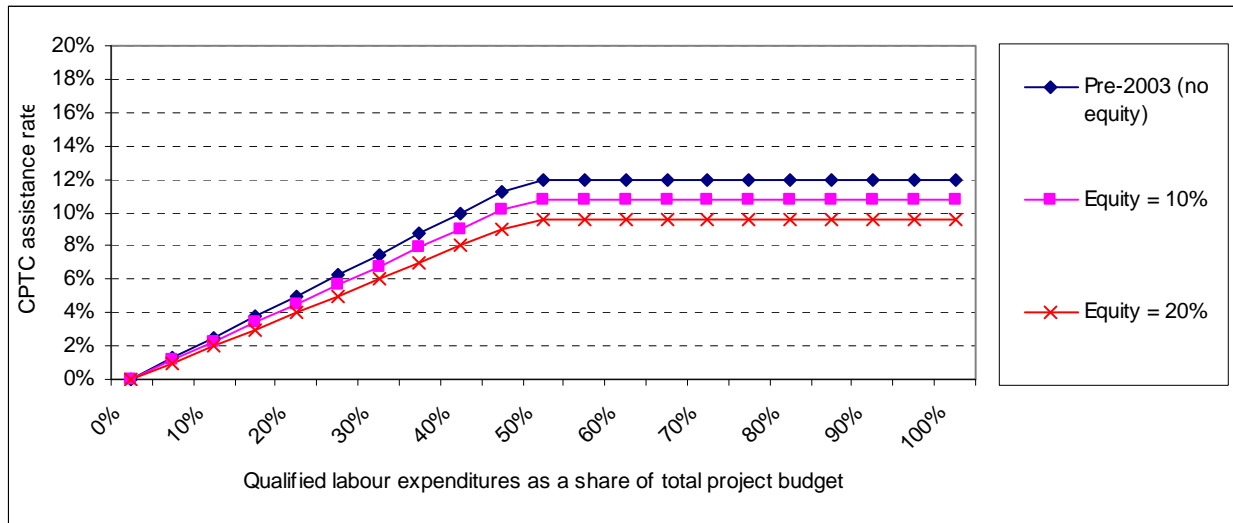
Figure 3 CPTC Assistance Rate with Different Amounts of Assistance



Source: Nordicity calculations based on data from CAVCO

Figure 4 depicts the effect of third-party equity (i.e., equity held by a Canadian government or a non-production entity) within the financing structure, under the pre-2003 CPTC rules. Under the current rules, equity held by a non-production entity no longer affects the CPTC assistance rate; government equity does still cause a negative adjustment to net production costs. Under the pre-2003 CPTC formula, private equity affected the CPTC assistance rate at all labour-share levels; there was a reduction in the CPTC assistance rate proportional to the share of equity ownership held by third parties.

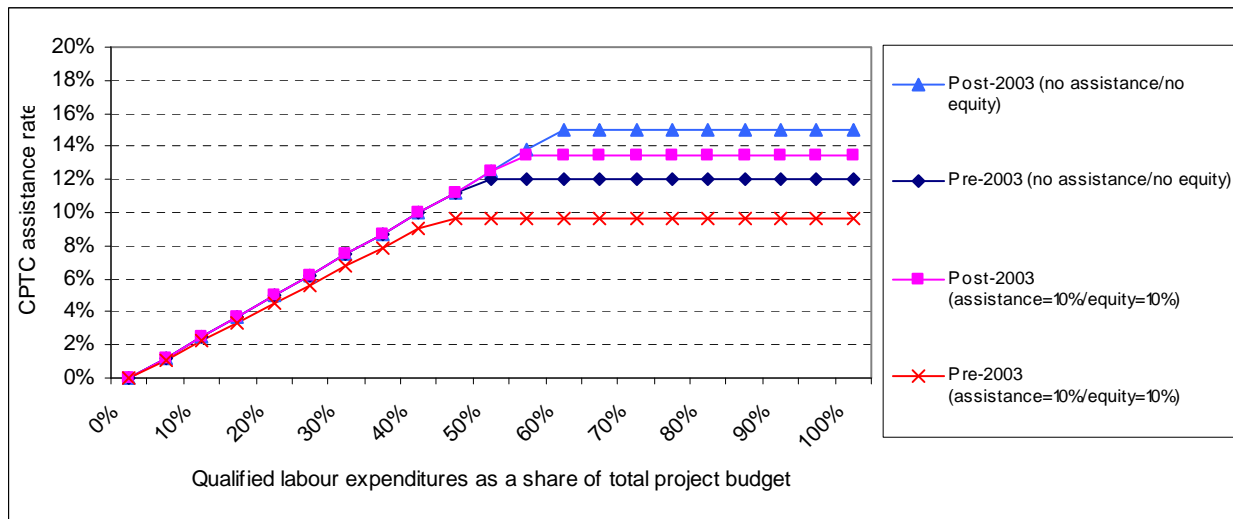
Figure 4 CPTC Assistance Rate with Different Amounts of Private Equity (Pre-2003)



Source: Nordicity calculations based on data from CAVCO

Figure 5 depicts scenarios that include a combination of assistance and third-party equity – before and after 2003. It also depicts the baseline scenarios (no assistance or third-party equity), before and after 2003. The chart shows that projects with a combination of assistance and third-party equity have much higher CPTC assistance rates under the post-2003 rules. For projects with 10% assistance and 10% third-party equity, the maximum CPTC assistance rate rises from just under 10% to just under 14%.

Figure 5 CPTC Assistance Rate with Different Amounts of Assistance and Private Equity



Source: Nordicity calculations based on data from CAVCO

The various scenarios depicted in the charts provide useful background on how the CPTC works in practice, and partly explains why the effective assistance rate can vary significantly from project to project, and across different types of film and television projects. In Section 2.2.1, the authors examine some of these differences in more detail.

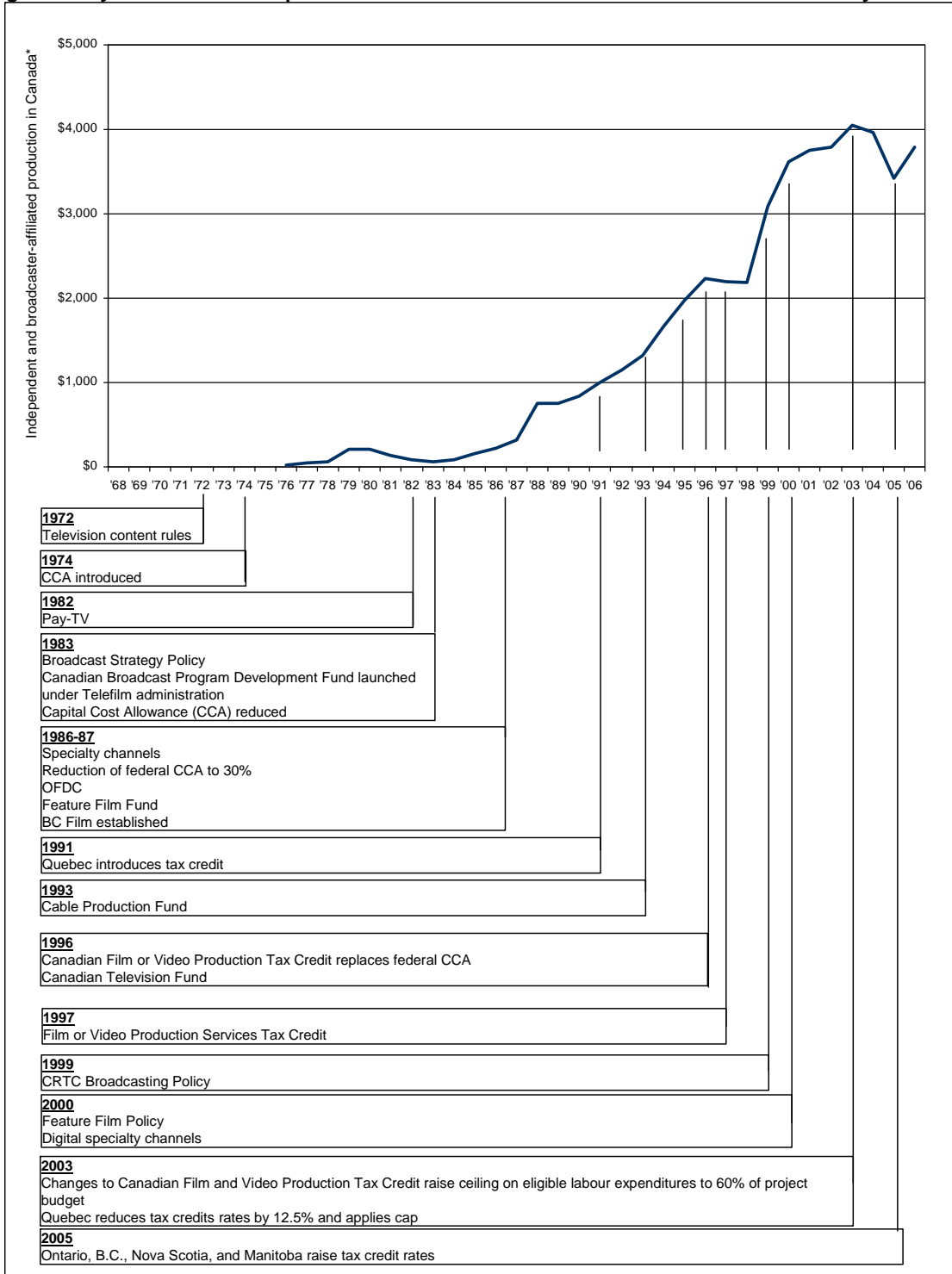
1.5 Historical Background and Industry Developments

In 1996, the federal government introduced the CPTC as a replacement to the CCA. At the time of its implementation, the federal government saw the CPTC as a more efficient and potentially more effective tax incentive program for stimulating film and television production in Canada and building a sustainable independent production industry (Department of Canadian Heritage 1995).

The CCA, which was introduced in 1974, did have “some success” in attracting private investment to Canadian film production (Department of Canadian Heritage 1998). Indeed, the CCA directly led to a so-called boom in Canadian production activity in the late 1970s. The CCA essentially permitted private investors to *write-off* their investment in a film project against other income, and thereby reduce the taxes owed to government. From the introduction of the CCA in 1974 until changes to the program in 1983, the write-off rate was 100%: investors could claim their entire investment amount in the year of the investment (Canadian Broadcasting Corporation 2006). In this regard, the CCA offered a very effective way for private individuals to shelter income from government taxation by investing it in film and video projects.

The CCA was very effective at stimulating production activity. In a matter of a few years following the introduction of the CCA, the number of feature films made in Canada rose from three per year to over 30 per year (Canadian Broadcasting Corporation 2006). By all accounts, the CCA was very effective at drawing private money into film production and generating production activity. However, most industry observers would agree that the majority of the films made with the help of the CCA were of low quality: most did not attract large audiences; many did not even make it into cinema theatres. What is more, the CCA was not very efficient in flowing money into actual production. The tax shelters required an infrastructure of bankers and lawyers to design and execute the financing deals. These third parties incorporated large fees for themselves into the financing deals and thereby claimed a large part of the capital raised from private investors using the CCA.

Figure 6 Key Historical Developments in the Canadian Film and Video Production Industry



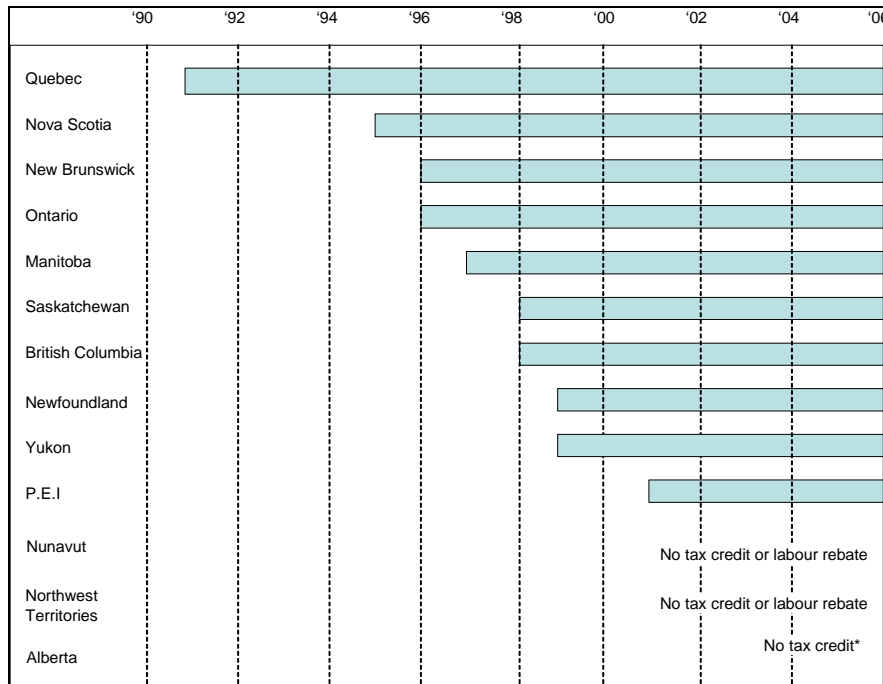
Source: Nordicity Group Ltd.

* Includes Canadian film and television production, and foreign location production; excludes broadcaster in-house production.

During the 1980s, the federal government clamped down on the CCA tax shelters. At the same time, it started to use direct funding programs as tools for financially supporting television and film production. In 1983, the federal government tightened the rules around the type of projects eligible for the CCA and also reduced the CCA’s amortization rates. That same year, the federal government introduced the Canadian Broadcast Program Development Fund, which provided direct funding support to independently produced Canadian television programming. This program was followed by the Feature Film Fund in 1986, and later, the Feature Film Distribution Fund. All of these funding programs provided monies directly to producers (or distributors), rather than to private investors or third parties.

The CPTC was not the first tax credit program in Canada for film and video production. Prior to the CPTC, the Government of Quebec put in place Canada’s first film and video tax credit program in 1991. Nova Scotia introduced a film and video tax credit in 1995. Since the introduction of the CPTC, in 1996, governments in seven other provinces and the Yukon have introduced some type of labour-based tax credit or rebate program for film and video production. Figure 7 summarizes the various introduction dates for film and video production tax credits at the provincial-government level in Canada.

Figure 7 Dates for the Introduction of Film and Video Tax Credit Programs



Source: Nordicity Group research

* The Government of Alberta offers a ownership/key creative-based rebate program, with per-project caps but does not require a tax return. The Government of Alberta altered its program in 2005, resulting in the current structure guidelines).

The 1990s

At the time of its introduction, the federal government heralded the CPTC as a mechanism that would lead to increased production of Canadian programming and the development of the Canadian independent production sector (Department of Canadian Heritage 1995). Indeed, the objectives of the CPTC, as per its 1995 announcement, are the following:

"...the primary objective of the new program remains the encouragement of Canadian programming and the development of an active domestic independent production sector"; and

"The credit is designed to encourage a more stable financing environment and longer-term corporate development for production companies, rather than focus simply on single project financing."

Around the time of the introduction of the CPTC, the Canadian Radio-television and Telecommunications Commission (CRTC) and the federal government were adding additional demand-side and supply-side stimuli to the Canadian television production industry. On the demand side, the CRTC was in the midst of a wave of licensing that more than doubled the number of Canadian specialty-television services within a handful of years.

- In 1994, the CRTC licensed six new English-language television services, and two French-language services (CRTC 1994a, *Public Notice CRTC 1994-59*). At the time, there were only 11 existing specialty-television services operating in Canada's two official languages (CRTC 2002, pp. 71-72). Among the new services were Showcase, Bravo!, Discovery, W, and Life (CRTC 1994a, *Public Notice CRTC 1994-59*).
- In 1996, the CRTC licensed another 12 services (CRTC 1996, *Public Notice CRTC 1996-120*). And before the decade was over, the CRTC would license a further 13 services, excluding licensed foreign-language services (CRTC 2002, pp. 71-72). Each new service brought with it recurring subscription revenues and expenditure requirements for Canadian television programming.

In 1996, the federal government formed the CTF, by merging the Cable Production Fund (operated by Canada's cable companies since 1994) with the publicly funded, Broadcast Program Production Fund. As part of the creation of the CTF, the federal government augmented the newly merged programs with an additional \$100 million in annual funding. Alongside the CPTC, the formation of the CTF represented the federal government's other major supply-side stimulus to Canadian television programming during the mid-1990s.

For Canadian television production, the late 1990s were characterized by a boom in foreign demand and financing for its product. According to statistics published by the CFTPA, the export value (the value of foreign financing) of Canadian television programs rose quickly to the order of \$500 million to \$600 million, annually (CFTPA

2007, p. 16); in 1999/00, the export value of Canadian television programming peaked at \$601 million (CFTPA 2007, p. 16).

The combination of domestic and foreign stimuli contributed to a wave of corporate activity in Canada's film and television production sector. Several Canadian production companies that built up programming libraries during the 1980s found themselves able to begin developing slates of projects for domestic and international sales. Several Canadian production companies found that their business plans allowed them to raise capital on public financial markets. At one time during the late 1990s, eight of the leading ten production companies in Canada had their shares trading on public stock exchanges (KPMG, Peter Fleming, and Wall Communications 2000, p. 8). Today, Canada really has only one independent production company, DHX Media Ltd. that is publicly traded.

In the early years of this millennium, the boom turned to bust: international demand plummeted: the export value of Canadian television production dropped from \$601 million to \$388 million in a matter of three years (CFTPA 2007, p. 16). In 2005/06, the export value of Canadian television production was \$200 million – one-third of where it stood at its peak in 1999/00 (CFTPA 2007, p. 16). The drop in the export value of Canadian television programming was a reflection of changes to the international marketplace in early 2000s. In the early years of the millennium, television audiences around the world shifted their interests to indigenous programming and away from imported programming (CFTPA 2006, p.4). Audiences' heightened interest in reality programming played a role in the shift away from imported to indigenous fare.

During the 2000s, the federal government turned its attention to the Canada's theatrical production industry. In 2001/02, it doubled the financial resources – from \$50 million to \$100 million – for theatrical feature film production, with a new policy called, *Script to Screen: Canadian Feature Film Policy*. The centrepiece of the new policy was and is the \$92 million CFFF, which provides selective and performance-based assistance to Canadian producers making large-budget feature films for distribution in Canadian theatres. *Script to Screen* and the CFFF was the last major new program introduced by the federal government to provide financial support to film and television production.

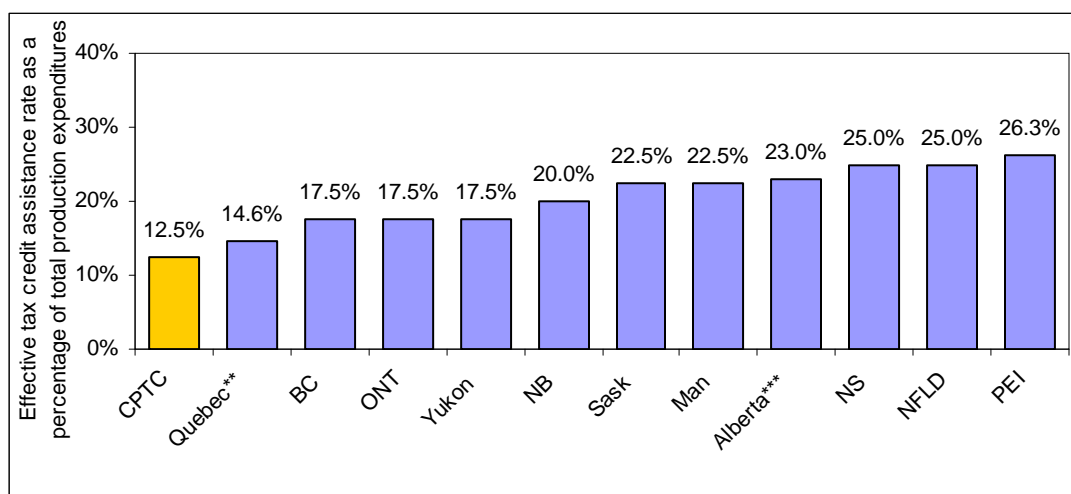
1.6 Current Industry Environment and Market Structure

With the annual value of CPTC claims now running in excess of \$180 million, the CPTC has become the federal government's single largest stimulative tool for the film and video production industry. The value of the CPTC outstrips the federal government's contributions of \$120 million to the CTF (Canadian Television Fund 2007a, p. 13), as well as its annual funding of \$100 million for the CFFF. Furthermore, the CPTC typically comprises 8% to 12% of the total financing of Canadian production; and so, it has come to be a significant and crucial piece in the financing formula.

Today, film and video tax credits are also the primary tool used by governments at the provincial level to stimulate film and video production activity. Indeed, over the last

several years, the provinces have increased their tax credit rates so that the rates actually exceed the federal rate (Figure 8). Most Canadian productions actually receive more tax credit assistance from provincial governments than the federal government (see Figure 1). Tax credits are also widely available at the provincial-government level for foreign location production, and often at rates similar to that of the Canadian production credit. At the federal level, the Film or Video Production Services Tax Credit (PSTC) is available at a rate of 16% of salaries and wages paid to Canadian residents or taxable Canadian corporations (for amounts paid to employees who are Canadian residents).

Figure 8 Effective Tax Credit Assistance Rates* for Film and Video Tax Credit and Labour Rebate Programs in Canada (as of January 2008)



Source: *Playback* "Provincial Funding Sources in Canada," Mar. 17, 2008.

* Effective tax credit assistance rates expressed as a percentage of total production costs; rates available for Canadian-content production; rates assume that labour expenditures are equal to 50% of production costs; rates reflect base rates and exclude bonuses for regional production and frequent filming; certain rates only apply to resident or deemed-resident labour.

** The base rate is capped at 14.6%; there is a cap of 19.7% for computer animation and special effects, large-format films, and French-language feature films, single documentaries, youth programming.

*** The rate of 23% is the maximum rate available to a project with 51% Alberta ownership and four or more Albertans in key creative positions. There is a funding cap of \$1.5 million per annum for a TV series.

Market Structure

Together, the CPTC and PSTC provide a large share of the government assistance that underpins an industry comprised predominantly of hundreds of small production companies. Membership statistics for Canada's two leading trade bodies for independent production – the CFTPA and Association des producteurs de films et de télévision du Québec (APFTQ) – indicate that there are approximately 500 independent production productions in Canada, today. The CFTPA has almost 400 members; the APFTQ has around 130 members (some companies are members of both organizations).

Statistics published by Statistics Canada support this estimate: a 2004/05 survey of the industry found that there were a total of 475 production companies operating in Canada which focussed on the production of television programs, theatrical films, or were unspecialized in their production activity (Table 3). Not included among these 475

companies are an additional 213 companies that reported their production focus as advertising, government and educational programming, or industrial videos.

Table 3 Number of Production Companies in Canada

	1998/99	1999/00	2000/01	2001/02	2004/05
Number of producers					
Conventional and pay television producers	199	226	234	229	240
Theatrical movie producers	20	24	19	26	22
Other producers (unspecialized)	177	205	195	198	213
Total	396	455	448	453	475
Advertising	44	42	51	50	46
Government and education	77	101	92	93	70
Industry	120	135	126	132	97
Total	241	278	269	275	213
Grand total	637	733	717	728	688

Source: Statistics Canada

Note: Statistics Canada did not publish data for 2002/03 and 2003/04.

Of the 475 production companies making CPTC- and PSTC-type audiovisual programming, 240 companies focussed on the production of television programs for licensing to conventional broadcasters and pay television services. A small minority of companies, 22, focussed on production of theatrical movies. A large share, 213, in fact, had no specialization: they produced audiovisual programming for more than one market.

The production industry consists of a large number of independent production companies, many of whom do only one project every year or two, and a small number of diversified production companies with a couple of dozen employees – that maintain a slate of television and feature film projects across several genres. Statistics from a survey conducted by *Playback* in spring 2007 show just how fragmented the Canadian production industry is. *Playback* found that Canadian production companies generated a production volume of just under \$1.35 billion⁴ during the 2006 calendar year. Only one company, Insight Film Studios, reported more than \$100 million in production volume. Only five companies posted more than \$50 million in production volume; the top five companies accounted for \$423 million in production volume, or 31% of the total. The top ten companies accounted for 46% of total production volume in 2006; the other 54% of production volume was spread across some 200 other companies that responded to *Playback's* survey.

Among the top 20 production companies in 2006 were four companies which focus on French-language production. Zone3, Sphère Média Plus, Incendo Productions, and Verité Films combined for just under \$118 million in production volume in 2006.

⁴ The total reported in the *Playback* is actually \$1.49 billion. Nordicity has adjusted this total to exclude Alliance-Atlantis Communications Inc. expenditures for its American series, *CSI*.

Table 4 Leading Canadian Production Companies, 2006

Rank	Name	Volume of television production (\$ millions)	Volume of feature film production (\$ millions)	Volume of service production (\$ millions)	Total volume of production (\$ millions)
1.	Insight Film Studios	93.6	26.8	--	120.4
2.	Blueprint Entertainment	99.4	--	--	99.4
3.	Muse Entertainment Enterprises Inc.	38.5	--	40.0	78.5
4.	Shaftesbury Films	52.9	--	14.4	67.3
5.	Nelvana Enterprises*	57.0	--	--	57.0
6.	DECODE Entertainment Inc.	45.6	--	--	45.6
7.	Zone3	45.5	--	--	45.5
8.	Barna-Alper Productions Inc.	24.9	--	16.0	40.9
9.	Lionsgate Entertainment*	26.1	9.5	--	35.6
10.	Sphère Média Plus	33.5	--	--	33.5
11.	Cookie Jar Entertainment	32.0	--	--	32.0
12.	Nomadic Pictures	10.0	21.2	--	31.2
13.	Breakthrough Films and Television	24.1	--	--	24.1
14.	Epitome Pictures	23.1	--	--	23.1
15.	Infinity Features	--	20.5	--	20.5
16.	Incendo Productions	20.0	--	--	20.0
17.	Chesler/Perlmutter Productions Inc.	--	19.9	--	19.9
18.	Verité Films	18.9	--	--	18.9
19.	Whalley-Abbey Media	18.0	--	--	18.0
20.	Brightlight Pictures	--	17.0	--	17.0
	Total (adjusted**)				1,349.0
	Share - Top 5				31%
	Share - Top 10				46%

Source: *Playback** *Playback* estimates** Nordicity has adjusted the total to exclude \$142 million in production reported by Alliance-Atlantis Communications Inc. that can be attributed to the American television series, *CSI*.

The demographic data collected by Kelly-Sears Consulting's survey of CPTC recipients also point to an industry comprised of a few large companies and a large number of small companies producing alongside them. Of the 126 companies that responded to the Kelly-Sears Survey, 59% reported that they had fewer than five employees; 17% reported five to ten employees; 24% reported more than ten employees. Similarly, 48% of respondents reported annual company sales of under \$500,000. Approximately 44% of respondents reported sales of more than \$1 million; but only seven companies, or 6%, reported sales in excess of \$10 million.

Table 5 Kelly-Sears Survey - Profile of Survey Respondents

Number of Employees			Total Company Sales		
Category	Number	Percent of total	Category	Number	Percent of total
Fewer than 5	74	59%	< \$500,000	61	48%
5 to 10	22	17%	\$500,000 to \$1 million	10	8%
More than 10	30	24%	\$1 million to \$10 million	48	38%
			> \$10 million	7	6%
Total	126	100%	Total	126	100%

Source: Kelly-Sears Survey

In general, most Canadian production companies are small and still operate on a project-to-project basis. Only a minority of companies have been able to add sales and distribution or other functions to their corporate activities. Some are sophisticated enough to retain professionals in business affairs and concept development; but most are comprised of single owners often combining scriptwriting, directing, and even acting functions as well as being the producer.

Broadcaster-Affiliated Production

The objectives of the CPTC are clear, in that the program was introduced to encourage the development of the *independent* production sector – that is, the sector comprised of production companies without some type affiliation with Canadian broadcasting licensees. When a production is affiliated with a broadcasting licensee, it is referred to as a *broadcaster-affiliated* production company.

The CRTC defines a broadcaster-affiliated production company as any production company in which a broadcasting licensee or company related to the licensee “owns, in aggregate, a 30% or greater (voting) equity interest.”⁵ The CRTC uses its definition to set certain regulations and licence conditions related to licensees’ acquisition of television programming, with the goal of encouraging the acquisition and exhibition of independent production.

Eligibility for the CPTC is not limited to independent production companies, however; so, it is useful to understand what proportion of CPTC claims actually go to support broadcaster-affiliated production as opposed to independent production. Unfortunately, the available data do not offer a reliable look into the incidence of CPTC-supported production on this basis. This is, in part, due to inconsistency between CRTC and CAVCO, when it comes to collecting data on broadcaster-affiliated production.

Statistics available from the CRTC suggest that production supplied by broadcaster-affiliated production companies could account for anywhere from 4% to 16% of total Canadian television production. In 2006, Canadian broadcasters’ expenditures on

⁵ <http://www.crtc.gc.ca/canrec/eng/guide1.htm#s9b>

Canadian drama programming acquired from affiliated companies accounted for 4.1% of total expenditures on acquired Canadian drama programming (excluding in-house station production) (Table 6).

Table 6 Canadian Broadcasters' Expenditures on Broadcaster-Affiliated Production, Drama Genre, 2006 Broadcasting Year

Row	Program and production expenditures	Formula	Private conventional TV Drama genre	Pay and Specialty TV Drama genre	Total Drama genre
A	Total program and production expenditures – Canadian programming (\$ millions)	--	70.9	158.3	229.2
B	Station production (\$ millions)	--	4.8	4.4	9.2
C	Total acquired programming (\$ millions)	A – B	66.1	153.8	219.9
D	Expenditures on programming acquired from affiliated production companies (\$ millions)	--	4.2	4.7	8.9
E	Expenditures on broadcaster-affiliated production as a percentage of total acquired programming	D ÷ C	6.4%	3.1%	4.1%

Source: Nordicity calculations based on data from CRTC Financial Summaries

If one expands the measurement to include other CRTC program categories that cover other CAVCO-eligible genres, the share of expenditures on broadcaster-affiliated production is higher. To capture programming in other genres, such as documentary, music and variety, and magazine programming, the calculations in Table 7 include Canadian broadcasters' programming expenditures in the following CRTC Program Categories: Other Information (categories 2 to 5), Drama (category 7), Music/Variety (categories 8 and 9), and Human Interest (category 11). On this basis, Canadian broadcasters' expenditures on affiliated-company production were 15.5% of the total acquired programming in 2006.

Table 7 Canadian Broadcasters' Expenditures on Broadcaster-Affiliated Production, Selected Genres*, 2006 Broadcasting Year

Row	Program and production expenditures	Formula	Private conventional TV Selected genres*	Pay and Specialty TV Selected genres*	Total Selected genres*
A	Total program and production expenditures – Canadian programming (\$ millions)	--	271.9	471.5	743.4
B	Station production (\$ millions)	--	67.8	117.6	185.5
C	Total acquired programming (\$ millions)	A – B	204.1	353.9	558.0
D	Expenditures on programming acquired from affiliated production companies (\$ millions)	--	53.9	32.9	86.8
E	Expenditures on broadcaster-affiliated production as a percentage of total acquired programming	D ÷ C	26.4%	9.3%	15.5%

Source: Nordicity calculations based on data from CRTC Financial Summaries

* Selected genres includes the following CRTC program categories: Other Information (categories 2 to 5), Drama (category 7), Music/Variety (categories 8 and 9), and Human Interest (category 11).

The CRTC statistics presented in Table 6 and Table 7, however, include Canadian broadcasters' expenditures on original as well as repeat programming. Moreover, the statistics include Canadian broadcasters' expenditures on CPTC-supported production, as well as production that may have taken place without CPTC support. For these reasons, the data may not be a good indicator of the proportion of CPTC production attributable to broadcaster-affiliated production.

Statistics from CAVCO provide a profile of Canadian broadcasters' expenditures on original programming produced by affiliated production companies. However, according to CAVCO, the coding of broadcaster-affiliated production may not be precisely indicative of actual broadcaster-affiliated production. CAVCO relies on self-reporting by the producer on the CPTC application form. If the producer indicates that she is an "independent producer" on the CPTC application form, CAVCO has no way of knowing if this is indeed consistent with the definition set by the CRTC.

Recognizing the qualifications that come with the CAVCO data, Table 8 presents calculations of the share of CPTC production volume that can be classified as broadcaster-affiliated production, based on CAVCO data. The CAVCO data suggest that broadcaster-affiliated production accounted for 6.7% of production volume between 1994/95 and 2005/06. The share was as low as 3.3% in 2005/06.

Table 8 Broadcaster-Affiliated Production (Share of Total Volume of CPTC-Supported Production)

Fiscal year	Broadcaster-affiliated production	Independent production	Total
1994/95	6.2%	93.8%	100.0%
1995/96	4.4%	95.6%	100.0%
1996/97	6.3%	93.7%	100.0%
1997/98	5.3%	94.7%	100.0%
1998/99	11.7%	88.3%	100.0%
1999/00	9.2%	90.8%	100.0%
2000/01	10.0%	90.0%	100.0%
2001/02	7.9%	92.1%	100.0%
2002/03	4.4%	95.6%	100.0%
2003/04	4.5%	95.5%	100.0%
2004/05	4.6%	95.4%	100.0%
2005/06	3.3%	96.7%	100.0%
Total	6.7%	93.3%	100.0%

Source: CAVCO

An analysis conducted by the Department of Finance using data from CAVCO and Canada Revenue Agency (CRA) found similar rates of CPTC-supported broadcaster-affiliated production. The Department of Finance found that between 2000 and 2005, 4% of CPTC claims went to broadcaster-affiliated productions (Department of Finance 2007). It also found that the share of CPTC claims associated with broadcaster-affiliated production steadily decreased throughout the 2000-to-2005 period (Department of Finance 2007).

It is also relevant to note that Quebec's domestic-content tax credit, the Quebec Film and Television Refundable Tax Credit, is only available to production companies that deal with Canadian broadcasters on an "arm's length" basis (Revenu Quebec 2007). This rule

has been in effect since the 2003/04 fiscal year (Revenu Quebec 2007). Despite this rule, broadcaster-affiliated production in Quebec exceeds the national average. In Quebec, conventional broadcasters' spending on broadcaster-affiliated drama production accounted 12.9% of their expenditures on acquired drama programming in 2006 (Table 9); this rate was double the national average of 6.4% (Table 6). For the selected genres, conventional broadcasters' spending on broadcaster-affiliated production accounted for 38.1% of total expenditures on acquired programming (Table 9); this rate was well above the national average of 26.4% (Table 7). Given Revenu Quebec's rules and the rate of broadcaster-affiliated production in Quebec, a significant portion of Canadian television production in Quebec may in fact be accessing the province's service production credit. There is no data available to the study team, however, to determine if this is indeed the case.

Table 9 Expenditures on Broadcaster-Affiliated Production by Quebec-Based Conventional Broadcasters, 2006 Broadcasting Year

Row	Program and production expenditures	Formula	Drama	Selected genres*
A	Total program and production expenditures – Canadian programming (\$ millions)	--	34.9	129.8
B	Station production (\$ millions)	--	4.0	19.2
C	Total acquired programming (\$ millions)	A – B	30.9	110.6
D	Expenditures on programming acquired from affiliated production companies (\$ millions)	--	4.0	42.1
E	Expenditures on broadcaster-affiliated production as a percentage of total acquired programming	D ÷ C	12.9%	38.1%

Source: Nordicity calculations based on data from CRTC Financial Summaries

* Selected genres includes the following CRTC program categories: Other Information (categories 2 to 5), Drama (category 7), Music/Variety (categories 8 and 9), and Human Interest (category 11).

Industry Dynamics

Developments in information and communications technologies are constantly impacting the media industry. Producers, distributors, and broadcasters of video content in Canada now operate in what has become known as a multi-platform environment. Today, the proliferation of broadband data communications to both fixed and mobile devices is quickly changing the traditional-media landscape and putting tremendous pressures on Canada's broadcasting system, in particular. Canadians now have the ability to find and access video entertainment over a wider array of platforms than ever before. More and more consumers – particularly in younger age groups – are turning to the Internet or their mobile communications devices to enjoy video entertainment. Some of these new platforms fall within the regulated Canadian broadcasting system; but many – such as the Internet – fall outside of this regulated system.

In December 2006, the CRTC released a report on the impact of new technologies on the Canadian broadcasting system. In this report, it identified the challenges of audience fragmentation and border erosion (CRTC 2006, para. 269). With more channels and more platforms, Canadian broadcasters are seeing further audience fragmentation. Technology is also leading to border erosion, whereby Canadian consumers can access video programming from other geographic jurisdictions as well as other media (CRTC

2006, para. 270). Altogether, these developments are putting tremendous pressure on Canadian broadcasters' traditional business models and thereby severely disrupting the regulated Canadian broadcasting system that is so vital to supporting the creation of Canadian television programming.

In response to the fragmentation and erosion brought on by platform proliferation, many Canadian broadcasters are expanding into the new-platform environment to compete for viewers in the unregulated side of the market. Canadian broadcasters are expanding the amount and type of content they make available over the Internet; some are also in a position to offer more programming in an on-demand format. Canadian broadcasters are also moving to make more and more high-definition television programming available to their viewing base.

Canadian producers cannot avoid the pressure felt by broadcasters. Producers of video programming must now be prepared to format their work for the television screen, the computer screen, and mobile-phone screen. More and more, producers must enhance their video programming with an online interactive component that helps to attract and hold the interest of viewers. These new approaches to distributing video programming often require new approaches to financing the creation of programming. As the financing statistics show, Canadian broadcasters – i.e., the regulated Canadian broadcasting system – represent the single-largest source of financing for CPTC-supported production. So, just as Canadian broadcasters are grappling to find new business models, so too, are Canadian producers looking for new financing models that will allow them to continue to create Canadian television programs and feature films.

2. Profile of CPTC Production

2.1 Introduction and Data Sources

In this section, the authors present a quantitative profile of CPTC funding and production. The authors use project-based data from CAVCO to tabulate:

- the total number of film and video projects supported by the CPTC;
- the total volume of film and video production (sum of production budgets) supported by the CPTC; and,
- the total amount (or value) of CPTC claims associated with this production.

Alongside these data, the authors calculate the **effective CPTC assistance rates** (“**CPTC assistance rates**”) – that is, the CPTC claim as a percentage of the total production budget.

Box 1. Terminology

“Volume” or “volume of production” or “production volume” refers to the sum of the dollar amount of expenditures on the production of films and television programs during a specified period of time.

“Activity” or “production activity” refers to the number of film or television projects during a specified period of time.

“Value” or “value of CPTC claims” refers to the estimated dollar amount of certified tax credit claims during a specified period of time (based on CAVCO data).

To understand how the CPTC affects different types of film and video production, the authors repeat these tabulations and calculations along several different dimensions. The authors consider:

- release markets (television, theatrical, other);
- language of production (English, French, bilingual and other);
- genre of production (fiction, documentary, children’s, variety and performing arts, magazine programming, educational and other);
- Canadian-content points (6/10 through 10/10);
- region of producer; and,
- category of production (television series, feature film, movies of the week [MOWs], short film, mini-series).

The authors also consider how production with and without financial support from the CTF was affected by the CPTC.

Throughout the tabulations and calculations, the authors assess how the changes made to the CPTC in November 2003 affected production activity supported by the CPTC. The authors pay particular attention to the changes in the CPTC assistance rate before and after the November 2003 changes. The authors do this by comparing the average CPTC assistance rate in effect between 1994/95 and 2002/03 to the average CPTC assistance rate in effect between 2004/05 and 2005/06. The authors exclude the data from the transition year, 2003/04, from the comparison. The authors also examine the role of the CPTC in the overall financing structures of various types of CPTC-supported film and video production.

Many of the detailed tables related to the discussion in Section 2 can be found in Appendix A.

The authors conclude Section 2 with statistics on the number and type of firms that received financial support through the CPTC between 2000 and 2005. The time period for this analysis is limited by the fact that firm-level data is only available back to 2000. The Department of Finance supplied all of the firm-level statistics, based on its review and analysis of tax-file data available from CRA.

2.2 CPTC-Supported Production Activity and CPTC Funding

2.2.1 Total Production

Between 1994/95 and 2005/06, the CPTC provided tax-credit support totalling more than \$1.6 billion to 9,754 film and video projects. Overall, these film and video projects generated over \$17.3 billion in production budgets (i.e., expenditures on film and video production) in Canada.

Table 10 CPTC-Supported Production Activity

Fiscal year	Number of projects	Production volume (\$)	CPTC amounts (\$)	CPTC assistance rate
1994/95	108	93,139,681	6,182,270	6.64%
1995/96	346	569,710,734	46,105,971	8.09%
1996/97	597	1,239,290,602	107,905,409	8.71%
1997/98	565	1,185,813,928	105,922,094	8.93%
1998/99	766	1,728,947,599	160,540,444	9.29%
1999/00	875	1,828,365,447	171,142,878	9.36%
2000/01	959	1,733,379,235	160,542,479	9.26%
2001/02	1,043	1,750,512,719	153,801,524	8.79%
2002/03	1,138	1,828,721,553	161,697,129	8.84%
2003/04	1,132	1,792,761,982	178,179,621	9.94%
2004/05	1,172	1,724,375,384	182,746,132	10.60%
2005/06	1,053	1,797,189,325	185,359,046	10.31%
Total	9,754	17,272,208,189	1,620,124,999	9.38%
Average, 1994/95 to 2002/03	--	--	--	9.00%
Average, 2004/05 to 2005/06	--	--	--	10.45%

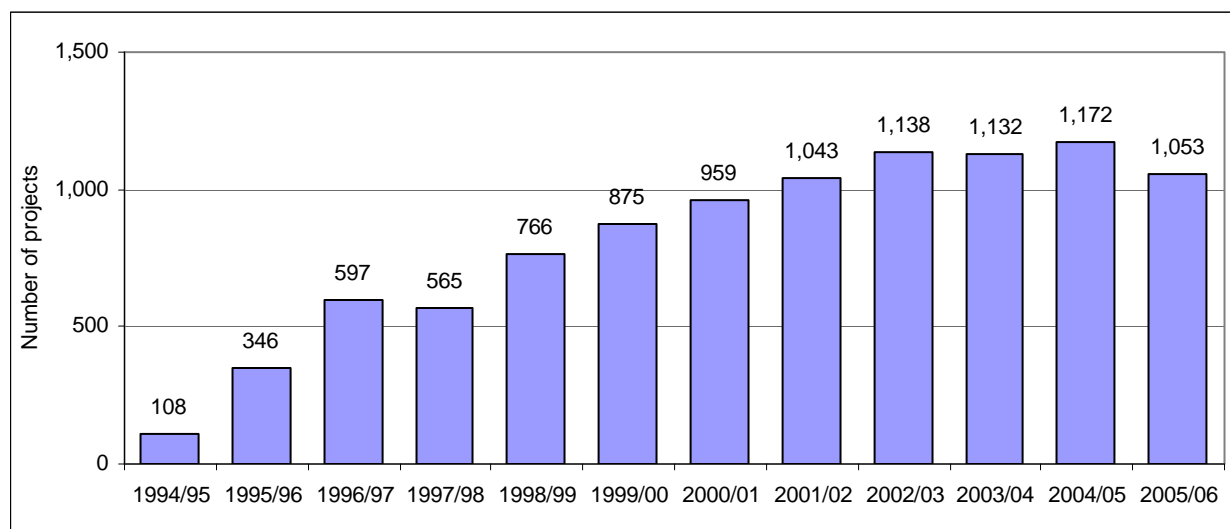
Source: CAVCO

When viewed in terms of the annual number of supported film and video projects, CPTC-supported production experienced steady growth between 1994/95 and 2005/06. However, the volume of CPTC production only displayed growth between 1994/95 and 1999/00. After 1999/00, the annual volume of production remained largely stagnant, although there were some year-to-year fluctuations.

CPTC production activity – in terms of the annual number of film and video projects – grew steadily during the late 1990s, from 597 in 1996/97 to 875 in 1999/00 (Figure 9). In 2001/02, the annual number of projects rose above 1,000 for the first time; and in 2002/03, the annual total rose above 1,100. The annual number of projects peaked in 2004/05; during that year, a total of 1,172 film and video projects received CPTC support. Preliminary data for 2005/06 indicate that there was a drop in the total number of projects; however, these data may underestimate actual production activity, since there is an inherent lag in tax credit applications.

The annual volumes of production budgets supported by the CPTC rose quickly following the introduction of the tax credit in 1995 (Figure 10). However, from 1998/99, the annual levels of production volume supported by the CPTC remained relatively flat (in nominal dollar terms). From the introduction of the tax credit to 1998/99, the annual production volume rose from \$93 million to just over \$1.7 billion. Between 1998/99 and 2005/06, the annual production volume fluctuated within a range of approximately \$100 million – from a low of \$1,724 million in 2004/05 to a high of \$1,828 million in 2002/03.

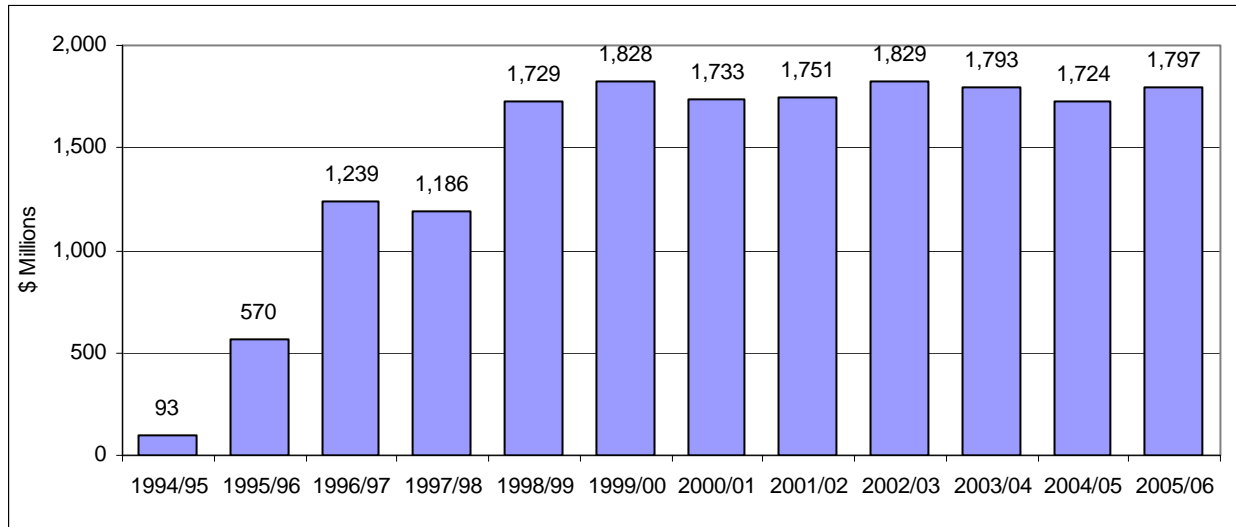
Figure 9 Number of CPTC-Supported Projects



Source: CAVCO

On a real-dollar basis, CPTC-supported production volume peaked in 1999/00. Measured in 2005 dollars, production volume supported by the CPTC reached \$2.1 billion in 1999/00 (Figure 11). After that year, real-dollar production volume moved lower. Between 2000/01 and 2002/03, real-dollar production volume dropped below \$2 billion; in 2003/04, it dropped below \$1.9 billion; in 2004/05 and 2005/06, production volume dropped below \$1.8 billion.

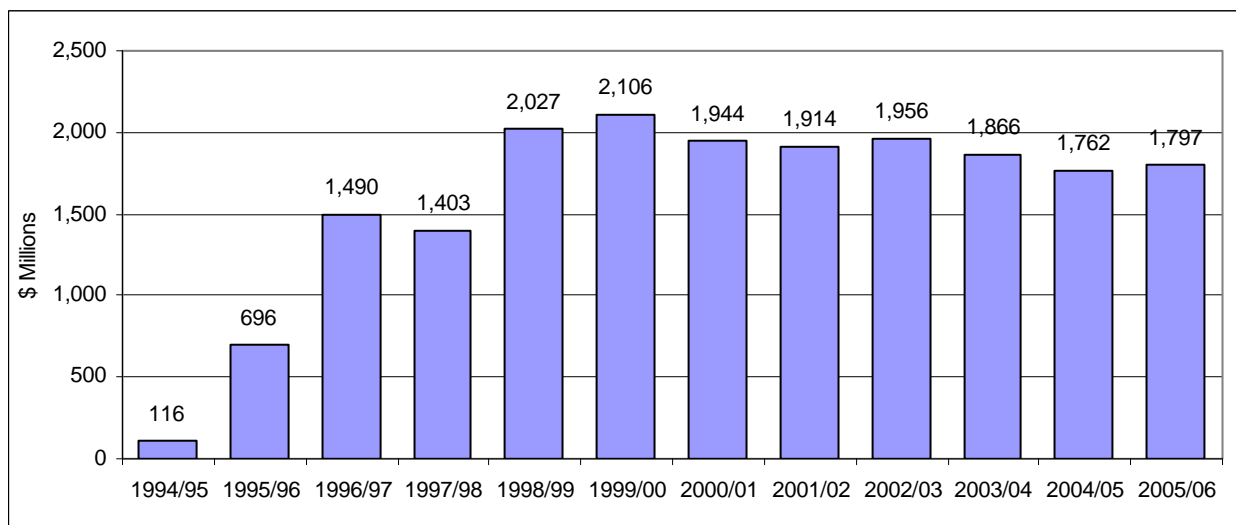
Figure 10 CPTC-Supported Production Volume



Source: CAVCO

The annual total amounts of CPTC claims reflect the annual totals of production budgets, as well as changes to the CPTC introduced in November 2003. CPTC claims exceeded \$100 million during the third fiscal year of the program – 1996/97 (Table 10). The total amount of tax credit claims rose above \$160 million in 1998/99; it stayed above that level in each year except 2001/02, when it dipped to \$154 million. As a result of changes to the CPTC in November 2003, annual CPTC claims rose to \$178 million in 2003/04; they rose above \$180 million in 2004/05 and 2005/06.

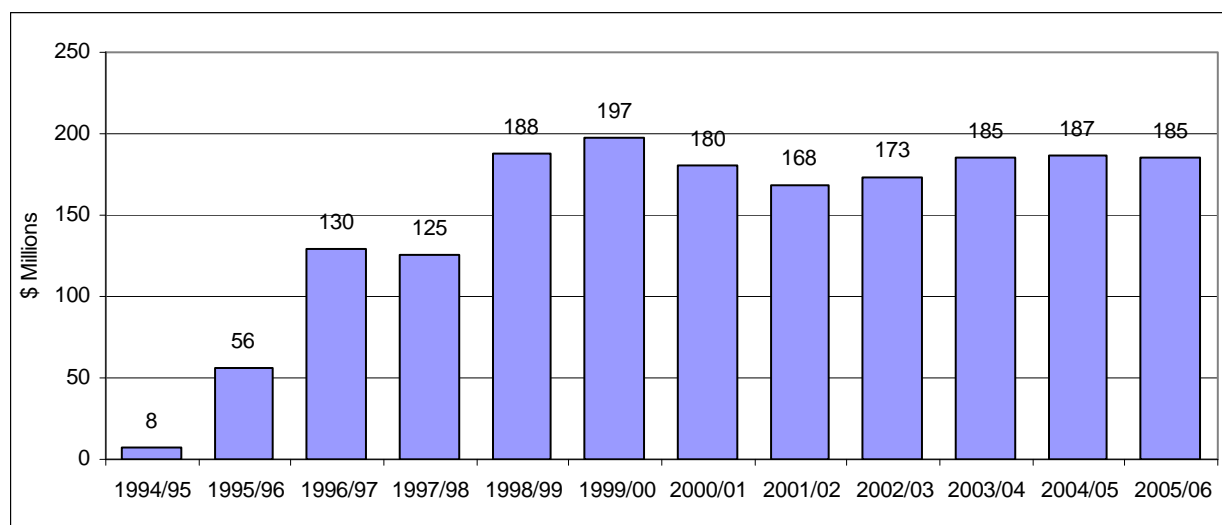
Figure 11 CPTC-Supported Production Volume, Real 2005 Dollars



Source: Nordicity calculations based on data from CAVCO and Statistics Canada, "Consumer Price Index, historical summary," CANSIM, Table 326-0021.

On a real-dollar basis, the value of CPTC claims also peaked in 1999/00; CPTC claims totalled \$197 million (in real 2005 dollars) in 1999/00. They dropped to \$168 million in 2001/02, before rising to \$187 million over the subsequent three years.

Figure 12 Value of CPTC Claims, Real 2005 Dollars

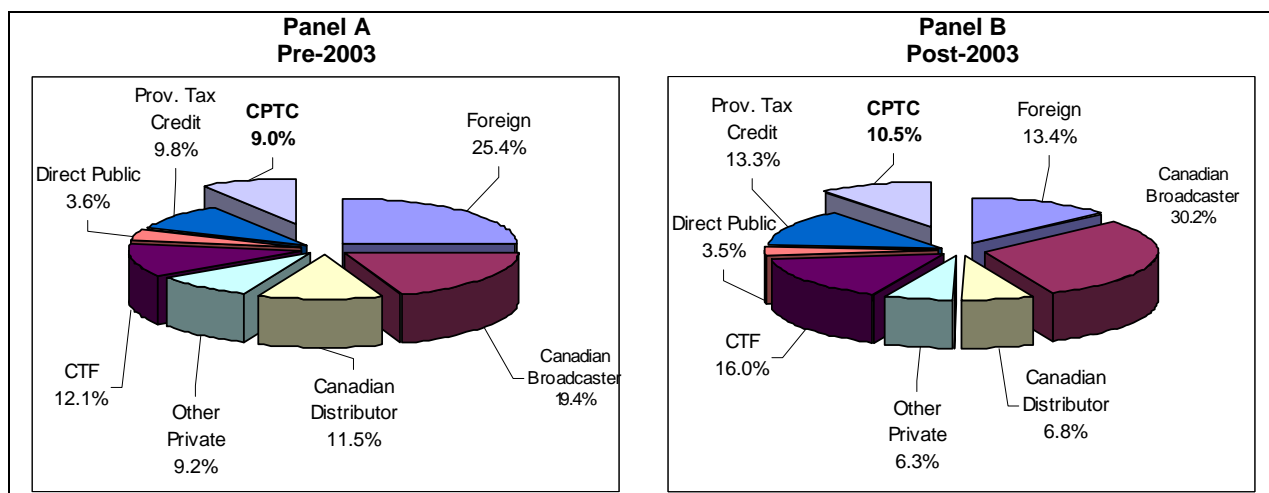


Source: Nordicity calculations based on data from CAVCO and Statistics Canada, "Consumer Price Index, historical summary," CANSIM, Table 326-0021.

November 2003 marks a significant juncture in the history of the CPTC. Although the federal government made no change to the statutory tax-credit rate, it did raise the ceiling on the labour share that was eligible for the tax credit. This change, along with new rules regarding the effect of third-party equity on tax-credit claims served to raise the effective CPTC assistance rate for supported projects. Between 1994/95 and 2002/03, the CPTC assistance rate ranged from 6.64% to 9.36% (Table 10); during this period it averaged 9.00%. In the two full fiscal years following the November 2003 changes – 2004/05 and 2005/06 – the average CPTC assistance rate increased to 10.45%.

A comparison of the financing sources for CPTC-supported production before and after 2003 shows some significant changes in the financing structures for Canadian film and television production – beyond the increased role of the CPTC. In general, the financing data show that there was a shift in demand and financing from foreign and private-sector sources to domestic and public-sector sources (Figure 13).

- Foreign financing decreased from 25.4% to 13.4%.
- Canadian distributor financing (partly a function of foreign demand) decreased from 11.5% to 6.8%.
- Other private financing decreased from 9.2% to 6.3%.
- The increased role of domestic demand and financing is exemplified by the rise in Canadian broadcasters' financing share – from 19.4% to 30.2%.
- Public-sector domestic sources other than the CPTC increased their share of financing from 25.5% to 32.8%.

Figure 13 Sources of Financing, CPTC-Supported Production

Source: CAVCO

2.2.2 Release Markets

The vast majority of film and video production volume supported by the CPTC between 1994/95 and 2005/06 was made for primary release in the television market.

- Between 1994/95 and 2005/06, production volume for CPTC-supported television projects totalled \$14.6 billion, or 84.5% of all production volume supported by the CPTC during that period (Table 11).
- CPTC-supported film and video projects made for primary release in theatrical markets generated total production volume of \$2.6 billion during the 12-year period, and accounted for 14.9% of all CPTC-supported production volume.
- The CPTC also provided tax credit support to film and video projects with other release markets such as educational markets and home-video markets. These types of projects generated \$119 million in production volume, or 0.7% of total CPTC-supported production volume during the 12-year period.

Table 11 CPTC-Supported Production Volume, by Release Market (\$)

Fiscal year	Television	Theatrical	Other	Total
1994/95	74,539,468	18,600,213	0	93,139,681
1995/96	460,085,930	104,800,693	4,824,111	569,710,734
1996/97	1,048,875,019	188,213,272	2,202,311	1,239,290,602
1997/98	936,658,926	242,522,957	6,632,045	1,185,813,928
1998/99	1,515,500,878	205,874,570	7,572,151	1,728,947,599
1999/00	1,587,154,875	228,751,048	12,459,524	1,828,365,447
2000/01	1,500,606,361	225,998,730	6,774,144	1,733,379,235
2001/02	1,513,822,075	231,636,677	5,053,967	1,750,512,719
2002/03	1,521,898,435	295,083,378	11,739,740	1,828,721,553
2003/04	1,433,024,593	332,132,723	27,604,666	1,792,761,982
2004/05	1,522,430,500	178,827,591	23,117,293	1,724,375,384
2005/06	1,472,307,240	313,775,067	11,107,018	1,797,189,325
Total	14,586,904,301	2,566,216,919	119,086,970	17,272,208,189
Percentage of total	84.5%	14.9%	0.7%	100.0%

Source: CAVCO

The CPTC provided tax credit support to 8,922 television projects between 1994/95 and 2005/06 (Table 12); the CPTC claims for these projects totalled \$1.4 billion. On average, the CPTC accounted for 9.7% of the total financing for CPTC-supported television projects. Between 1996/97 and 2002/03, the CPTC accounted for between 8.9% and 9.5% of production budgets (see Table A 2). With changes to the CPTC in November 2003, its share of financing rose above 10%.

Table 12 CPTC Funding and Assistance Rates, by Release Market, 1994/95 to 2005/06

Fiscal year	Television	Theatrical	Other	Total
Number of projects	8,922	736	96	9,754
Production volume (\$)	14,586,904,301	2,566,216,919	119,086,970	17,272,208,189
CPTC amount (\$)	1,416,330,189	191,673,405	12,121,406	1,620,124,999
CPTC assistance rate, 1994/95 to 2005/06	9.7%	7.5%	10.2%	9.4%
CPTC assistance rate, 1994/95 to 2002/03	9.2%	7.6%	9.7%	9.0%
CPTC assistance rate, 2004/05 to 2005/06	11.0%	7.3%	10.4%	10.5%

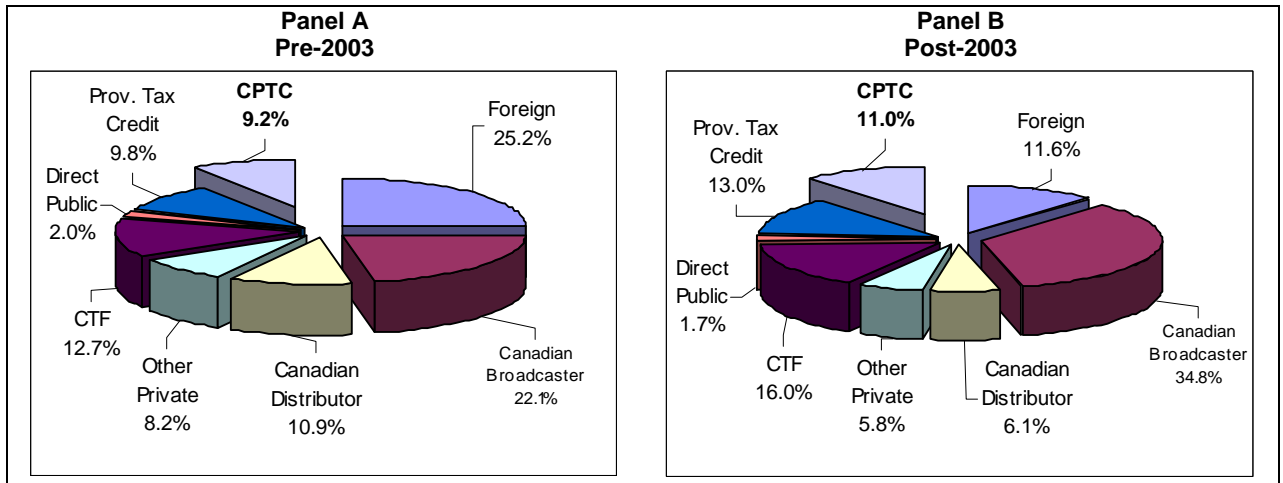
Source: CAVCO

The CPTC provided tax credit support to 736 theatrical projects between 1994/95 and 2005/06; the CPTC claims for these projects totalled \$192 million. On average, the CPTC accounted for 7.5% of the total financing for CPTC-supported theatrical projects; this rate was significantly lower than the average rate of 9.7% for television-market projects. What is more, the changes to the CPTC in November 2003 appear to have had no positive impact on the average CPTC assistance rate. Between 2004/05 and 2005/06, the CPTC assistance rate was equal to an average of 7.3%; between 1995/96 and 2002/03, the average assistance rate was 7.6%.

The fact that the November 2003 CPTC changes had no impact on the CPTC assistance rate for theatrical projects can be attributed to an increase in the amount of public assistance available to theatrical projects around the time of CPTC changes. In 2001/02,

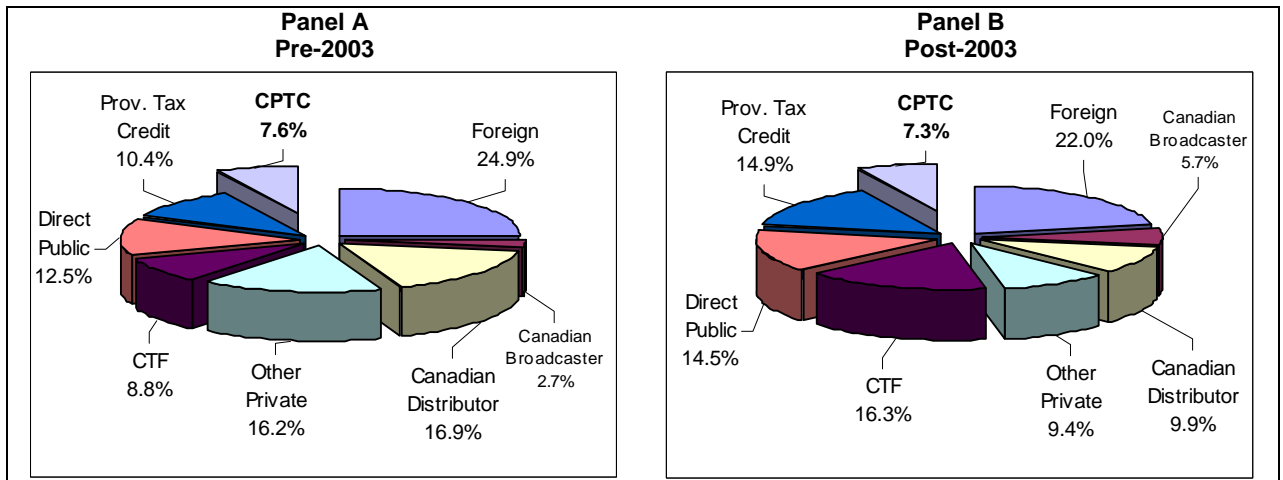
the federal government introduced the CFFF. As part of this policy, the federal government significantly increased the amount of financial resources available to the production of Canadian theatrical films. While the November 2003 CPTC changes did eliminate the equity grind associated with third-party equity, it did not remove the adjustment associated with public assistance within the financing structure of film or video projects. The introduction of higher levels of public assistance from the CFFF, therefore, offset the effects of the changes to the CPTC. So, while the television segment experienced an increase in its average CPTC assistance rate, the theatrical segment actually saw its CPTC assistance rate fall, as the injection of new public assistance drove down the CPTC assistance rate.

Figure 14 Sources of Financing, CPTC-Supported Television Production



Source: CAVCO

Figure 15 Sources of Financing, CPTC-Supported Theatrical Production



Source: CAVCO

CPTC support for projects in other release markets was very limited between 1994/95 and 2005/06. Projects in other release markets accounted for a total of 96 projects during the 12-year period (Table 12); CPTC claims totalled \$12.1 million. The CPTC did,

however, play a larger role in the financing of projects for other release markets, when compared to projects in television and theatrical markets. On average, the CPTC assistance rate was 10.2% for CPTC-supported production made for other release markets, compared to 9.7% and 7.5% in television and theatrical market, respectively.

The changes to the CPTC in November 2003 appear to have had little impact on projects made for other release markets. The average CPTC assistance rate was 9.7% for projects before the November 2003 changes; after the changes, the average was 10.4%. The post-2003 assistance rate was 70 basis points higher, but the increase was not statistically significant.

2.2.3 Language of Production

Over 70% of CPTC-supported production expenditures between 1994/95 and 2005/06 was originally made in the English language. When measured on the basis of the number of projects, however, English-language production accounted for about 60% of production activity; with French-language production accounting for 40% (see Table A 6 and Table A 7 in Appendix A).

- The CPTC supported \$12.7 billion of English-language film and video production volume during the 12-year period (Table 13). English-language production accounted for 73.3% of total CPTC-supported production volume during the 12-year period.
- CPTC-supported French-language production totalled just over \$4.0 billion between 1994/95 and 2005/06; this represented 23.4% of total CPTC-supported production volume.
- A small portion of CPTC-supported projects was made in a bilingual format (English-French), in Aboriginal languages, or in other languages. These *other-language* projects totalled \$573 million in production volume between 1994/95 and 2005/06, or 3.3% of total CPTC-supported production volume during that period.

Table 13 CPTC-Supported Production Volume, by Language (\$)

Fiscal year	English	French	Bilingual and other languages	Total
1994/95	45,161,564	47,978,117	0	93,139,681
1995/96	333,392,650	236,318,084	0	569,710,734
1996/97	958,706,675	275,002,049	5,581,878	1,239,290,602
1997/98	930,675,979	237,705,423	17,432,526	1,185,813,928
1998/99	1,416,803,893	289,672,258	22,471,448	1,728,947,599
1999/00	1,431,003,218	340,188,957	57,173,272	1,828,365,447
2000/01	1,272,258,863	330,517,814	130,602,558	1,733,379,235
2001/02	1,246,203,737	413,235,375	91,073,607	1,750,512,719
2002/03	1,326,189,317	432,479,855	70,052,381	1,828,721,553
2003/04	1,234,878,769	465,883,297	91,999,916	1,792,761,982
2004/05	1,207,002,447	471,495,592	45,877,345	1,724,375,384
2005/06	1,250,221,110	505,479,658	41,488,557	1,797,189,325
Total	12,652,498,222	4,045,956,479	573,753,488	17,272,208,189
Percentage of total	73.3%	23.4%	3.3%	100.0%

Source: CAVCO

The CPTC provided tax credit support to 5,827 English-language projects between 1994/95 and 2005/06 (Table 14). The CPTC claims for these projects totalled \$1.2 billion. On average, the CPTC assistance rate for English-language projects was 9.6% during the 12-year period.

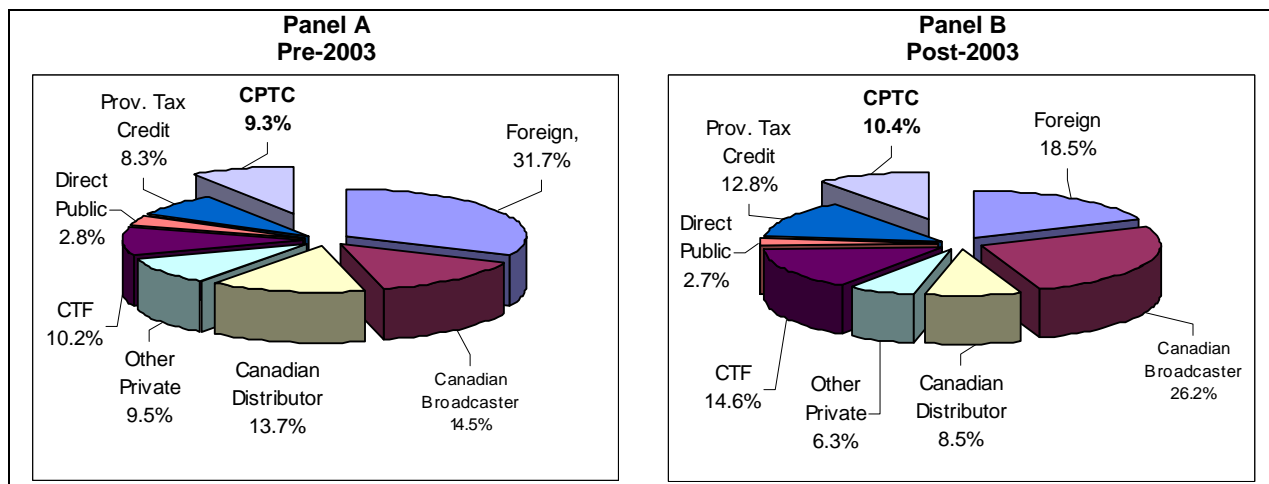
Table 14 CPTC Funding and Assistance Rates, by Language, 1994/95 to 2005/06

	English	French	Bilingual and other languages	Total
Number of projects	5,827	3,564	363	9,754
Production volume (\$)	12,652,498,222	4,045,956,479	573,753,488	17,272,208,189
CPTC amount (\$)	1,217,755,725	347,905,070	54,464,204	1,620,124,999
CPTC assistance rate, 1994/95 to 2005/06	9.6%	8.6%	9.5%	9.4%
CPTC assistance rate, 1994/95 to 2002/03	9.3%	7.8%	9.5%	9.0%
CPTC assistance rate, 2004/05 to 2005/06	10.4%	10.6%	10.4%	10.5%

Source: CAVCO

Between 1996/97 and 2002/03, the CPTC assistance rate for English-language projects ranged from 7.1% to 9.7% (Table A 6); the average rate for this period was 9.6%. With changes to the CPTC in November 2003, the CPTC assistance rate rose above 10%. The average CPTC assistance rate in 2004/05 and 2005/06 was 10.4%.

Figure 16 Sources of Financing, CPTC-Supported English-language Production

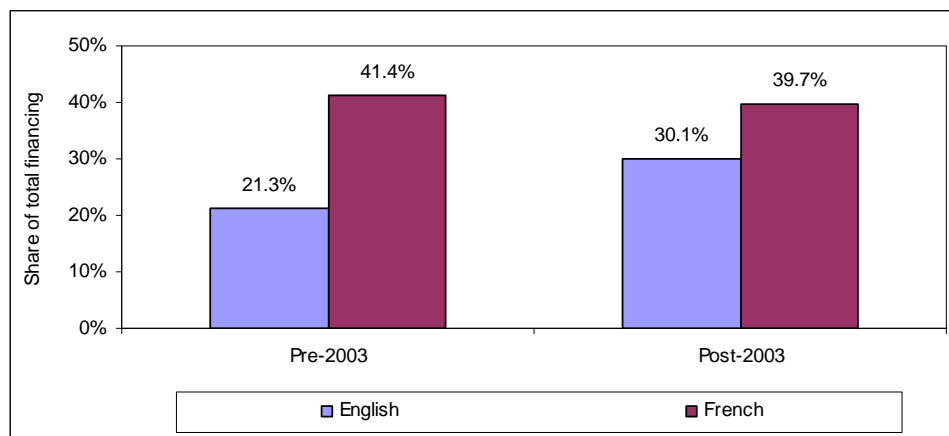


Source: CAVCO

The CPTC provided tax credit support to 3,564 French-language projects between 1994/95 and 2005/06 (Table 14). The CPTC claims for these projects totalled \$348 million. The average CPTC assistance rate for French-language production was 8.6% during the 12-year period. Between 1996/97 and 2002/03, the CPTC accounted for between 6.2% and 8.1% of production budgets (Table A 7); the average during this period was 7.8%. With changes to the CPTC in November 2003, the CPTC assistance rate for French-language production rose to an average of 10.6%.

Prior to the November 2003 CPTC changes, French-language projects displayed an average CPTC assistance rate that was 150 basis points lower than that of English-language projects – 7.8% compared to 9.3% (Table 14). This lower CPTC assistance rate can be attributed to the fact that many French-language projects had access to higher levels of public assistance available from the Government of Quebec. Prior to 2003, public assistance (including the financial support from the CTF) accounted for 41.1% of the total financing for French-language projects (Figure 17); for English-language projects, public assistance accounted for 21.3% of total financing. In the period following 2003, the public-assistance share for French-language productions dropped slightly to 39.7%; for English-language projects, the public-assistance share rose to 30.1%.

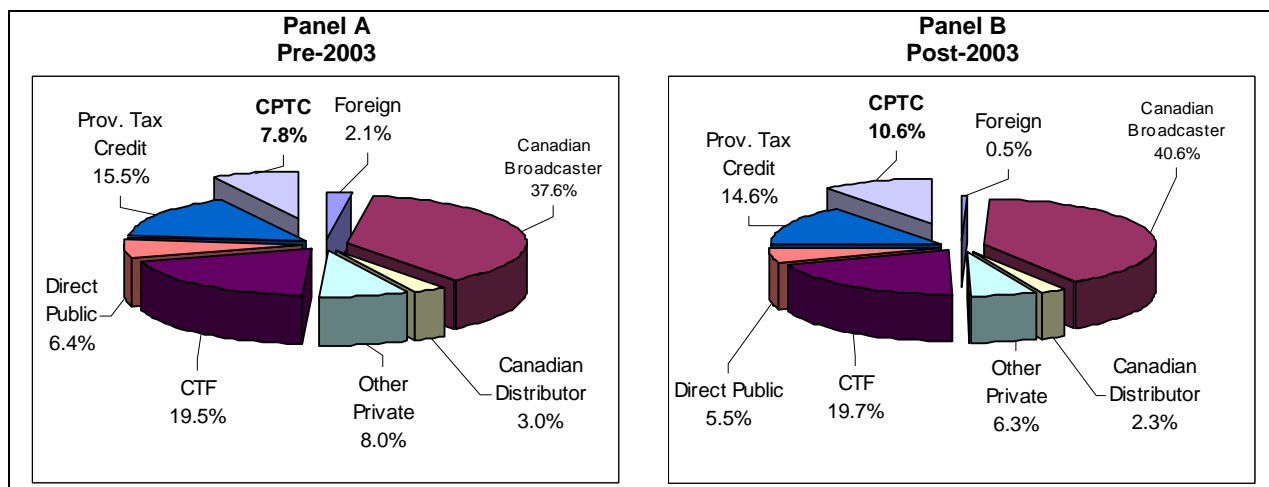
Figure 17 Total Public-Assistance* Share (excluding CPTC), by Language of Production



Source: CAVCO

* Total Public Assistance = CTF + Direct Public + Provincial Tax Credit

It appears however that the November 2003 CPTC changes led to some harmonization in the CPTC assistance rates between French-language and English-language projects. Following the November 2003 changes, French-language projects displayed a CPTC assistance rate of 10.6%, while the rate for English-language projects was 10.4% (Table 14).

Figure 18 Sources of Financing, CPTC-Supported French-language Production

Source: CAVCO

The CPTC provided tax credit support to 363 bilingual-and-other-language projects between 1994/95 and 2005/06. The CPTC claims for these projects totalled \$54 million (Table 14). On average, the CPTC accounted for 9.5% of the total financing for CPTC-supported other-language projects. Between 1996/97 and 2002/03, the CPTC accounted for between 8.4% and 10.4% of production budgets (Table A 8). The average during this period was 9.5%. With changes to the CPTC in November 2003, its share of financing rose to an average of 10.4%.

2.2.4 Genre

The majority of CPTC-supported production was in the fiction genre, with children's programming and documentaries also comprising significant shares.

- The CPTC supported just under \$10 billion of **fiction** production volume between 19994/95 and 2005/06 (Table 15). This represented 57.4% of total CPTC supported production volume.
- Fiction production typically requires significantly higher budgets on a per-hour basis than other genres. In 2005/06, the average per-hour budget of an English-language fiction television program was \$1.3 million, whereas a children's program was \$594,000, and a documentary was \$268,000 (CFTPA 2007, p. 35). As such, a given number of hours or programming will usually yield much higher total production expenditures than if it was in another genre.
- CPTC-supported **children's** programming totalled \$2.7 billion, or 15.9% of total production volume.
- **Documentary** programming accounted for \$2.35 billion in production volume, or 13.6%.
- Production of CPTC-supported **magazine** programming was \$930 million, or 5.4%.

- Production of **variety** programming was \$887 million, or 5.1%.
- Production in **other** genres totalled \$449 million, or 2.6% of total CPTC-supported production volume.

Table 15 CPTC-Supported Production Volume, by Genre (\$)

Fiscal year	Fiction	Children's	Documentary	Magazine	Variety	Other	Total
1994/95	35,702,319	22,692,008	18,213,450	9,672,827	5,952,487	906,590	93,139,681
1995/96	326,629,807	110,769,852	65,500,247	31,952,307	31,642,372	3,216,149	569,710,734
1996/97	809,620,424	216,753,505	104,650,931	48,954,499	44,207,093	15,104,150	1,239,290,602
1997/98	806,065,594	145,835,250	111,871,512	37,090,794	57,609,840	27,340,938	1,185,813,928
1998/99	1,029,586,303	330,653,074	220,088,051	58,956,917	60,193,483	29,469,771	1,728,947,599
1999/00	1,146,122,703	331,866,241	156,922,990	82,131,916	71,041,305	40,280,292	1,828,365,447
2000/01	973,968,830	312,056,466	222,257,662	104,349,090	84,368,863	36,378,324	1,733,379,235
2001/02	962,873,414	303,293,662	250,596,109	110,242,941	97,387,456	26,119,137	1,750,512,719
2002/03	1,006,396,735	258,431,298	267,096,246	120,320,810	119,929,961	56,546,503	1,828,721,553
2003/04	942,471,119	238,708,102	325,710,471	101,913,439	127,927,155	56,031,696	1,792,761,982
2004/05	852,754,116	236,163,941	317,373,792	118,965,727	102,852,394	96,265,414	1,724,375,384
2005/06	1,022,410,869	233,249,752	290,401,696	105,595,743	84,601,366	60,929,899	1,797,189,325
Total	9,914,602,233	2,740,473,151	2,350,683,158	930,147,010	887,713,775	448,588,863	17,272,208,189
Percentage of total	57.4%	15.9%	13.6%	5.4%	5.1%	2.6%	100.0%

Source: CAVCO

The CPTC provided tax credit support of \$900 million to 2,122 fiction projects between 1994/95 and 2005/06 (Table 17). Fiction production volume was at its all-time high in 1999/00, when it was over \$1.1 billion (Table 15). That year also marked the highest annual level of CPTC claims for the fiction genre; CPTC claims totalled \$108 million (Table A 10). The average CPTC assistance rate for fiction production during the 12-year period was 9.1% (Table 17). Between 1994/95 and 2002/03, the rate averaged 8.9%; in 2004/05 and 2005/06, the rate was 70 basis points higher, at 9.6%.

The time-series data for CPTC production also shed light on the impact of the CRTC's most recent television-policy framework. In *Building on Success – A Policy Framework for Canadian Television*, Public Notice CRTC 1999-97 (the "1999 Television Policy") the CRTC eliminated program expenditure requirements for certain conventional television broadcasters and introduced a new layer of exhibition requirements for some conventional broadcasters.

Prior to the 1999 Television Policy, certain conventional broadcasters, such as CTV and CanWest Global, had licence conditions requiring them to make minimum annual expenditures on Canadian television programs in the CRTC's entertainment category (drama and comedy, music and variety) (CRTC 1998, para. 12). In the case of CTV, these mandated expenditures were set at \$18 million during the 1994/95 broadcasting year, and then scheduled to grow at the same rate as CTV's annual growth in advertising revenues (CRTC 1994b, Appendix). The expenditure requirements set a floor for the amount of money that Canada's largest conventional broadcasters would contribute to Canadian fiction programming as well as music and variety programming. With the 1999 Television Policy, the CRTC removed this expenditure requirement.

At the same time as the CRTC removed the expenditure requirements, it implemented a new set of peak-period (7 p.m. to 11 p.m.) exhibition requirements for multi-station ownership groups (i.e., CTV, Global, TVA and CHUM). For the first time, certain Canadian broadcasters faced exhibition requirements requiring them to exhibit programming from certain genres and during the peak-viewing period. But while the pre-1999-Television-Policy expenditure and exhibition requirements focussed on the “under-represented” Canadian programming genres of drama, comedy, music, and variety, the post-1999-Television-Policy adopted a broader group of genres referred to as *priority programming* that also included long-form documentaries, entertainment-magazine programming and regionally produced programs. While the new policy did allow for broadcasters to earn bonus credit for the exhibition of Canadian drama programming, they could still comply with the new exhibition requirements by simply televising programming from lower-cost genres, particularly magazine programming.

The impact of the 1999 Television Policy is most noticeable when one examines the trends and fluctuations in the annual volume of fiction production. After reaching a peak of over \$1.1 billion in 1999/00, the volume of fiction production fell by 16% over the subsequent two years (Table 15). The combination of the new exhibition requirements and the removal of the expenditure floor for entertainment programming probably made a significant contribution to conventional broadcasters’ scaling back their investments in Canadian fiction programming. The lower licence-fee financing from conventional broadcasters likely put downward pressure on the overall volume of fiction production; in the Canadian television-production market, conventional broadcasters’ licence fees are a key component of the project financing.

Conventional broadcasters did, in fact, substantially reduce their licence fees for CPTC-supported fiction production following the 1999 Television Policy. In the first year following the enactment of the new policy, conventional broadcasters reduced their licence fees by 29% – from an estimated \$61.6 million to \$43.8 million (Table 16). In the specialty television segment, where there continued to be expenditure requirements, licence fees for fiction production continued to rise throughout the early 2000s. This increase partially offset the drop in the conventional television segment; however, it took three years before the total level of licence fees for fiction programming recovered to their 1999/00 level.

Table 16 Estimates of Canadian Broadcasters’ Licence Fees for CPTC-Supported Fiction Production (millions \$)

Fiscal year	Conventional television	Specialty television	Total
1997/98	43.8	3.0	46.7
1998/99	56.7	12.4	69.2
1999/00	61.6	12.7	74.3
2000/01	43.8	20.6	64.6
2001/02	41.5	21.5	63.0
2002/03	54.0	23.2	77.2
2003/04	49.2	33.6	82.8
2004/05	61.2	40.3	101.4
2005/06	86.5	33.5	120.0

Source: CAVCO

In 2004/05 and 2005/06, conventional broadcasters' licence fees rose sharply – pushing total licence fees above \$100 million. This increase was likely related to the expenditure requirements associated with the benefits package for the CTV-Bell Globemedia transaction. In 2001, Bell Canada Enterprises completed the purchase CTV and committed to *incremental* spending \$230 million on Canadian programming over a seven-year period.

The magazine and variety genres appear to have, in fact, benefited from the 1999 Television Policy. The policy introduced the category of *priority programming* to the exhibition-quota system; however, it left it open to broadcasters to fill this quota with fiction, long-form documentary, variety, or magazine programming. The latter two genres appear to have benefited from the 1999 Television Policy: Between 1998/99 and 2001/02, the volume of magazine-programming production grew by 86%; the volume of variety programming production grew by 62% (Table 15).

The documentary genre also experienced strong growth following the enactment of the 1999 Television Policy: between 1999/00 and 2004/05, the annual volume of production in this genre doubled from \$158 million to \$317 million. This rapid growth is more likely due to the proliferation of lifestyle programming – which falls within CAVCO's documentary genre – during the early 2000s, rather than increased demand for and production of long-form documentaries.

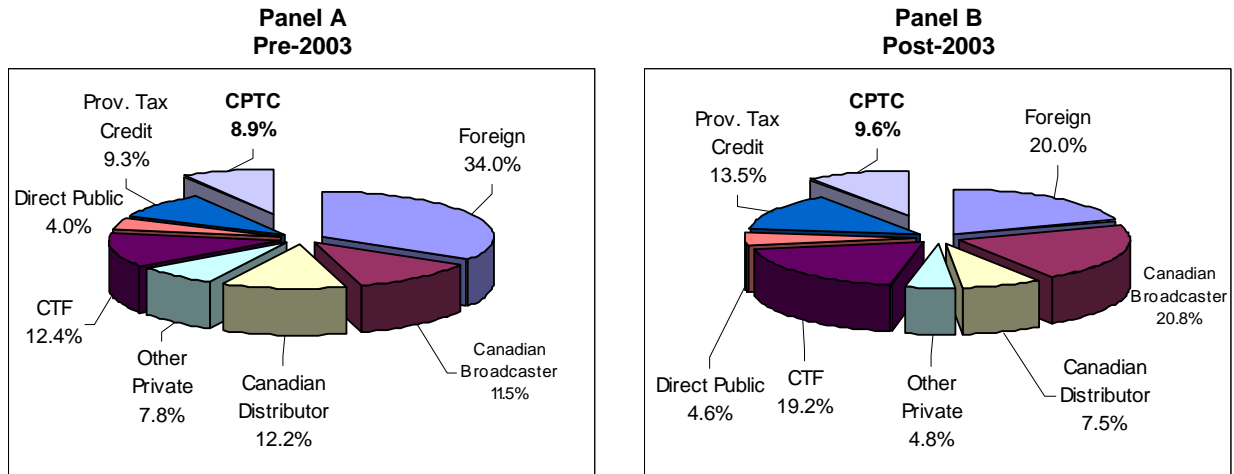
The CPTC provided tax credit support of \$270 million to 822 children's-programming projects between 1994/95 and 2005/06 (Table 17). Children's-programming production was also at its all-time high in 1999/00, when it was over \$330 million (Table 15). That year also marked the highest annual level of CPTC claims for the children's-programming genre, with just under \$32 million in CPTC claims (Table A 10). The average CPTC assistance rate for children's production during the 12-year period was 9.9% (Table 17). Between 1994/95 and 2002/03, the rate averaged 9.4%; in 2004/05 and 2005/06, the average rate was 11.4% – 200 basis points higher.

Table 17 CPTC Funding and Assistance Rates, by Primary Market, 1994/95 to 2005/06

Fiscal year	Fiction	Children's	Documentary	Magazine	Variety	Other
Number of projects	2,122	822	4,085	1,327	979	419
Production volume (\$)	9,914,602,233	2,740,473,151	2,350,683,158	930,147,010	887,713,775	448,588,863
CPTC amount (\$)	900,434,443	270,245,394	212,493,359	100,857,729	90,588,515	45,505,560
CPTC assistance rate, 1994/95 to 2005/06	9.1%	9.9%	9.0%	10.8%	10.2%	10.1%
CPTC assistance rate, 1994/95 to 2002/03	8.9%	9.4%	8.1%	10.0%	9.4%	9.2%
CPTC assistance rate, 2004/05 to 2005/06	9.6%	11.4%	10.7%	12.7%	11.9%	11.3%

Source: CAVCO

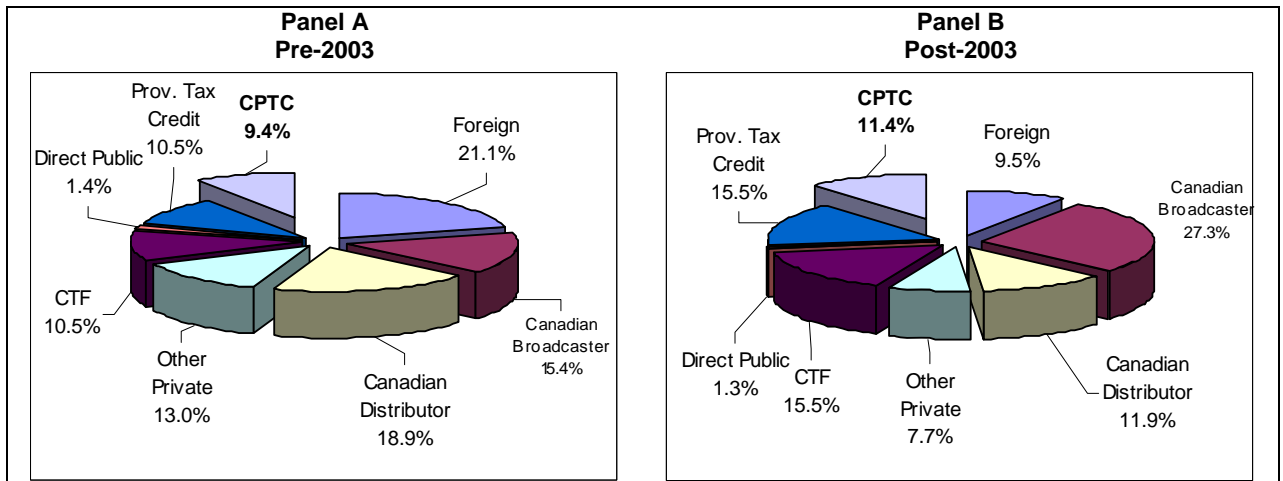
Figure 19 Sources of Financing, CPTC-Supported Fiction Production



Source: CAVCO

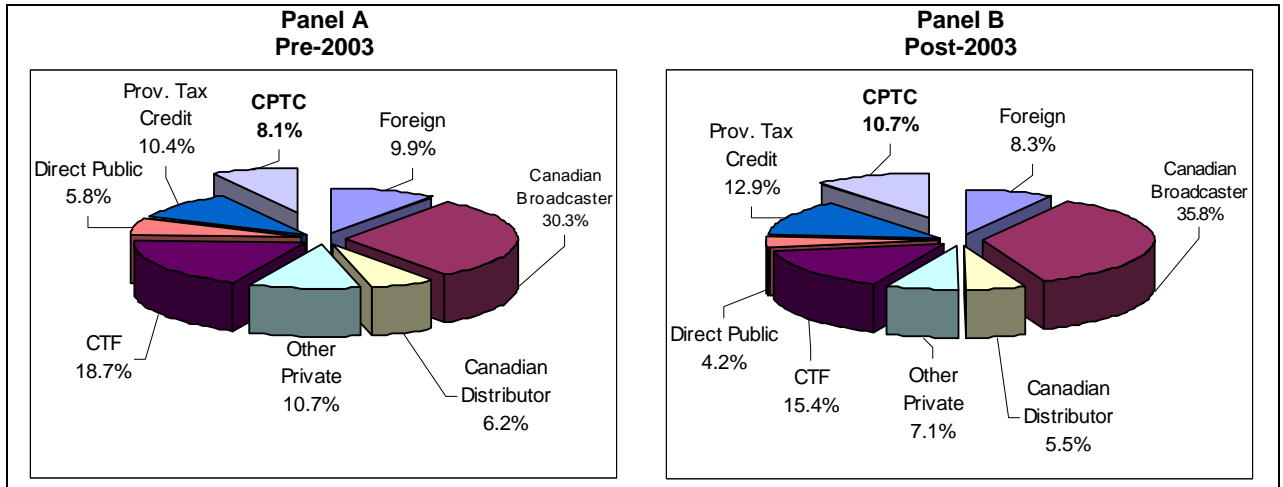
The CPTC provided tax credit support of \$212 million to 4,085 documentary projects between 1994/95 and 2005/06 (Table 17). While documentary production volume was about one-quarter of fiction production, documentary production activity – the number of projects – was 93% higher than the number of fiction projects between 1994/95 and 2005/06 (Table A 10 and Table A 12). CPTC-supported documentary production peaked at \$326 million in 2003/04; CPTC claims peaked the following year, in 2004/05 (Table A 12). The average CPTC assistance rate for the full 12-year period was 9.0% (Table 17). Between 1994/95 and 2002/03, the rate averaged 8.1%; in 2004/05 and 2005/06, the average rate was 260 basis points higher, at 10.7%.

Figure 20 Sources of Financing, CPTC-Supported Children’s Production



Source: CAVCO

Figure 21 Sources of Financing, CPTC-Supported Documentary Production

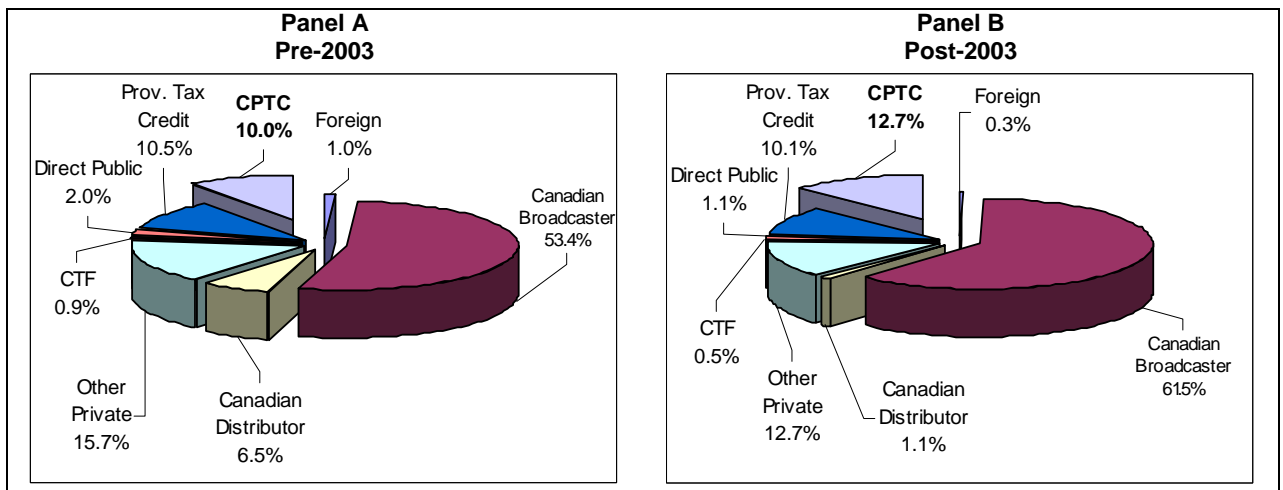


Source: CAVCO

Between 1994/95 and 2005/06, the CPTC supported 1,327 magazine-programming projects (Table 17); total CPTC claims from these projects amounted to just under \$101 million for this genre of television programming (Table A 13).

Magazine programming displayed the highest CPTC assistance rates among all genres, both before and after the November 2003 changes. Between 1994/95 and 2002/03, the CPTC assistance rate averaged 10% for magazine programming – a full 100 basis points above the overall average of 9.0% during that period (Table 17). In 2004/05 and 2005/06, the CPTC assistance rate for magazine programming rose to 12.7%; this was 220 basis points above the all-genre average of 10.5% during this period.

Figure 22 Sources of Financing, CPTC-Supported Magazine-Programming Production



Source: CAVCO

The magazine-programming genre displayed the highest proportional benefit from the CPTC between 1994/95 and 2005/06 – its CPTC assistance rates were higher than any other genre. The relatively large role played by the CPTC in the financing of magazine programming can be tied to two key aspects of production in the genre. First, the provincial government in Quebec does not offer tax credits to magazine programming; as such, CPTC claims for magazine programming originating from Quebec are not ground down by public assistance in the form of provincial tax credits. Second, the magazine-programming genre, in general, is not eligible for direct public assistance from the CTF; again, the CPTC is not ground down by government equity within the financing structure.

Financing statistics for CPTC-supported magazine-programming production show that the CTF assistance comprised less than one percent of total financing – both before and after 2003 (Figure 22). Direct public funding also held a small share of the financing pie for magazine-programming production. Before 2003, direct public funding contributed 2.0% of total financing; after 2003, it contributed 1.1%. In general, magazine-programming projects in Canada had very low levels of public assistance and equity within their financing structures; this led to a slightly higher reliance on the CPTC than other genres.

The CPTC provided tax credit support of \$91 million to 979 variety projects between 1994/95 and 2005/06 (Table A 14). Variety-programming production and CPTC claims peaked in 2003/04, when production totalled \$128 million and CPTC claims were over \$14 million. The average CPTC assistance rate for variety programming the 12-year period was 10.2%. Between 1994/95 and 2002/03, the rate averaged 9.4%; in 2004/05 and 2005/06, the rate was 11.9%.

Educational and other genres of programming comprised the balance of CPTC-supported programming. Between 1994/95 and 2005/06, the CPTC provided \$46 million in tax credit support to 419 projects in other genres (Table A 15).

2.2.5 Canadian Content Points

CAVCO measures the amount of Canadian content within CPTC projects – except international treaty co-productions – using the Canadian-content-points scale. Points are awarded according to the number of key creative positions filled by Canadian citizens. CPTC productions in the live-action format may earn between six and ten Canadian-content points on a ten-point scale; productions may also earn a maximum of ten points.

Between 1994/95 and 2005/06, the majority of CPTC-supported productions attained *full* points on the Canadian-content scale. A full-point score is denoted by “10/10 points.” Projects with 10/10 points accounted for \$9.2 billion in production volume between 1994/05 and 2005/06, or 53.1% of total CPTC-supported production volume during that period (Table 18). Full-point projects accounted for an even larger share of CPTC-supported production activity: ten-point projects accounted for 7,486, or 76.7% of total projects (Table 19). Productions with fewer than full points – including projects that received between six and nine points out of a total of ten points – accounted for a

combined 29.8% of production volume and 12.9% of production activity. International treaty co-productions accounted for 17.1% of total CPTC-supported production volume and 10.3% of CPTC-supported production activity.

Table 18 CPTC-Supported Production Volume, by Canadian Content Points (\$)

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	44,580,520	20,737,331	4,745,419	4,393,510	547,237	18,135,664	93,139,681
1995/96	283,000,166	40,626,651	60,395,067	83,525,944	31,446,328	70,716,578	569,710,734
1996/97	600,480,245	131,896,219	42,924,067	147,972,458	170,784,365	145,233,248	1,239,290,602
1997/98	562,642,807	154,605,592	37,012,781	188,886,621	70,676,504	171,989,623	1,185,813,928
1998/99	726,096,582	145,099,893	166,083,934	294,131,951	48,702,908	348,832,331	1,728,947,599
1999/00	858,189,336	155,286,583	116,026,101	371,943,375	61,360,475	265,559,577	1,828,365,447
2000/01	748,160,261	145,737,438	59,166,334	295,884,122	80,133,503	404,297,577	1,733,379,235
2001/02	907,289,972	96,401,136	83,985,406	254,299,088	40,209,210	368,327,907	1,750,512,719
2002/03	1,005,835,759	169,600,613	62,683,259	177,335,195	103,355,637	309,911,090	1,828,721,553
2003/04	1,093,044,923	108,744,861	60,305,083	141,758,609	48,548,178	340,360,328	1,792,761,982
2004/05	1,187,692,241	61,799,730	76,537,195	182,945,438	8,527,440	206,873,340	1,724,375,384
2005/06	1,156,583,905	110,628,735	43,414,781	151,238,923	35,415,694	299,907,287	1,797,189,325
Total	9,173,596,717	1,341,164,782	813,279,427	2,294,315,234	699,707,479	2,950,144,550	17,272,208,189
Percentage of total	53.1%	7.8%	4.7%	13.3%	4.1%	17.1%	100.0%

Source: CAVCO

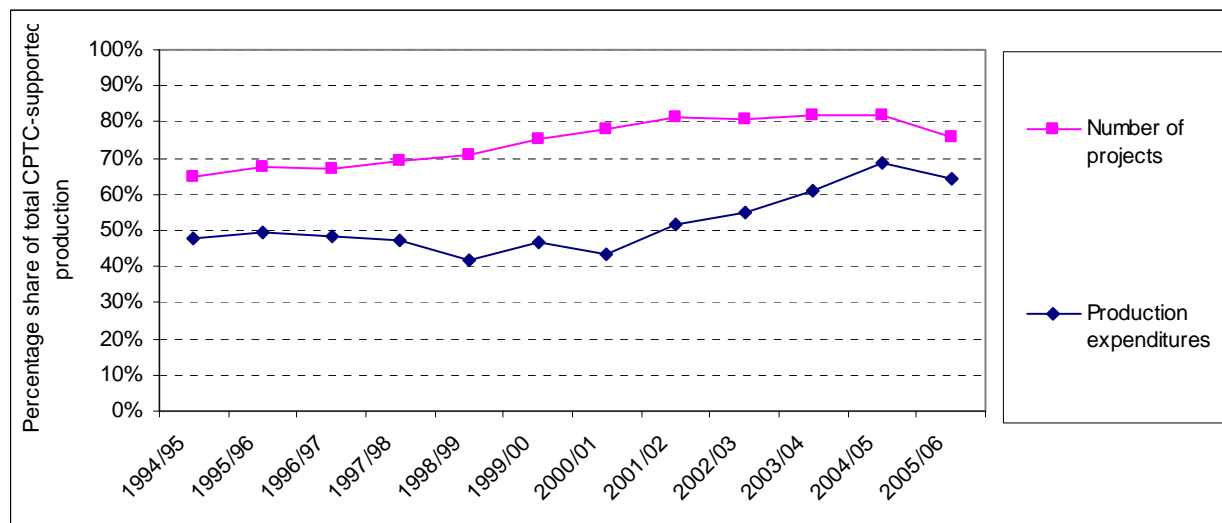
Table 19 Number of CPTC-Supported Projects, by Canadian Content Points

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	70	14	5	6	3	10	108
1995/96	233	34	23	21	6	29	346
1996/97	400	55	25	29	12	76	597
1997/98	390	61	24	27	6	57	565
1998/99	542	77	34	38	4	71	766
1999/00	659	84	23	35	4	70	875
2000/01	746	66	19	31	5	92	959
2001/02	850	44	24	22	4	99	1,043
2002/03	918	67	18	25	4	106	1,138
2003/04	925	45	17	25	7	113	1,132
2004/05	957	43	18	29	4	121	1,172
2005/06	796	35	12	42	5	163	1,053
Total	7,486	625	242	330	64	1,007	9,754
Percentage of total	76.7%	6.4%	2.5%	3.4%	0.7%	10.3%	100.0%

Source: CAVCO

In 2005/06, ten-point production experienced a drop in its share of CPTC-supported production, both in terms of production activity and volume. However, leading up to 2004/05, the ten-point category of projects increased its share of CPTC-supported production.

- In terms of production activity, the ten-point category saw its share of CPTC production increase steadily from 65% in 1994/95 to 82% in 2004/05, before dipping to 76% in 2005/06 (Figure 23).
- In terms of production volume, the ten-point category saw its share of CPTC production stay within a range of 40% to 50%, between 1994/95 and 2000/01. In 2001/02, its share broke through the 50% barrier, and then continued to rise steadily to 69% in 2004/05, before dipping to 64% in 2005/06.

Figure 23 Share of CPTC-Supported Production in the 10-Point Category

Source: CAVCO

When one views CPTC assistance rates on the basis of Canadian-content points, two patterns emerge. First, the average CPTC assistance rate rises as the number of Canadian-content points falls. And second, the category of ten-point projects was the only one that displayed a statistically significant change in the CPTC assistance rate before and after the November 2003 changes.

- Between 1994/95 and 2005/06, the average CPTC assistance rate for ten-point projects was 8.9%; for nine-point projects, it was 9.1% (Table 20). The rate rose to 10.2% for eight-point projects, 10.7% for seven-point projects. For six-point projects, the average rate was 10.5%.
- Between 1994/95 and 2002/03, ten-point projects displayed an average CPTC assistance rate of 8.1%. The average rate for 2004/05 and 2005/06 was 10.4% – 230 basis points higher. No other content-point category of production – except that of treaty co-production – displayed a statistically significant differential.

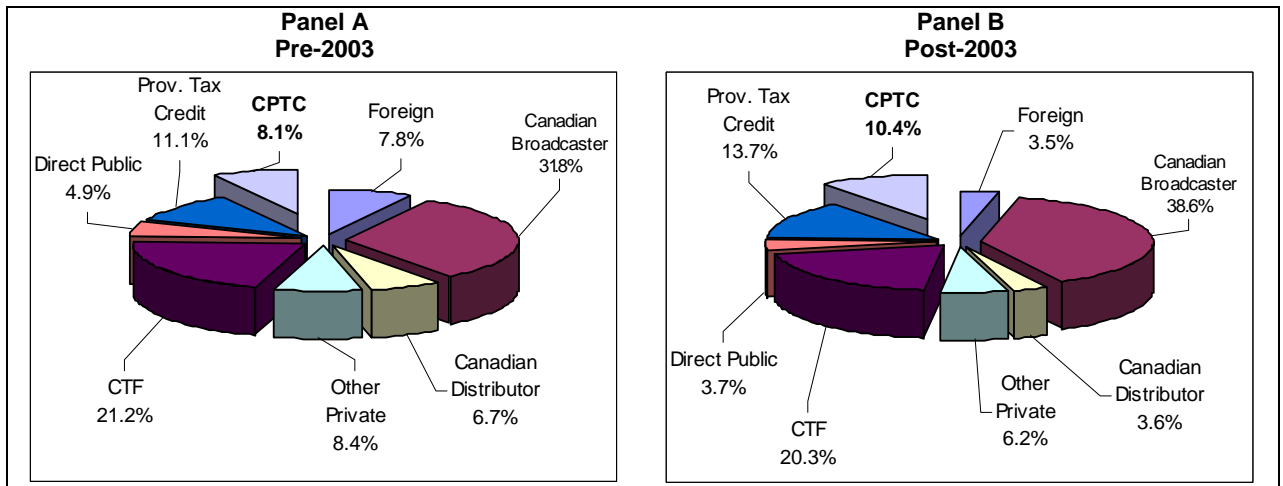
Table 20 CPTC Funding and Assistance Rates, by Primary Market, 1994/95 to 2005/06

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other
Number of projects	7,486	625	242	330	64	1,007
Production volume (\$)	9,173,596,717	1,341,164,782	813,279,427	2,294,315,234	699,707,479	2,950,144,550
CPTC amount (\$)	815,126,784	121,856,848	82,661,090	246,062,693	73,168,893	281,248,692
CPTC assistance rate, 1994/95 to 2005/06	8.9%	9.1%	10.2%	10.7%	10.5%	9.5%
CPTC assistance rate, 1994/95 to 2002/03	8.1%	8.9%	10.0%	10.6%	10.4%	9.2%
CPTC assistance rate, 2004/05 to 2005/06	10.4%	8.8%	10.8%	11.0%	10.6%	10.6%

Source: CAVCO

It appears that the November 2003 changes to the CPTC brought some harmonization to the CPTC assistance rates between ten-point production and productions with between six and nine points (projects with *lower* Canadian content). Before 2003, ten-point production had a CPTC assistance rate of 8.1% compared to 9.9% for projects with lower levels of Canadian (Figure 24 and Figure 25). In part, the lower CPTC assistance rate for ten-point projects was due to the higher proportions of CTF funding and direct public funding within their financing structures. Ten-point projects also had higher proportions of provincial tax credits prior to 2003, when compared to projects with lower levels of Canadian content. Following the November 2003 changes, the CPTC assistance rate for ten-point projects rose to 10.4%; for projects with lower levels of Canadian content, it increased to 10.3%.

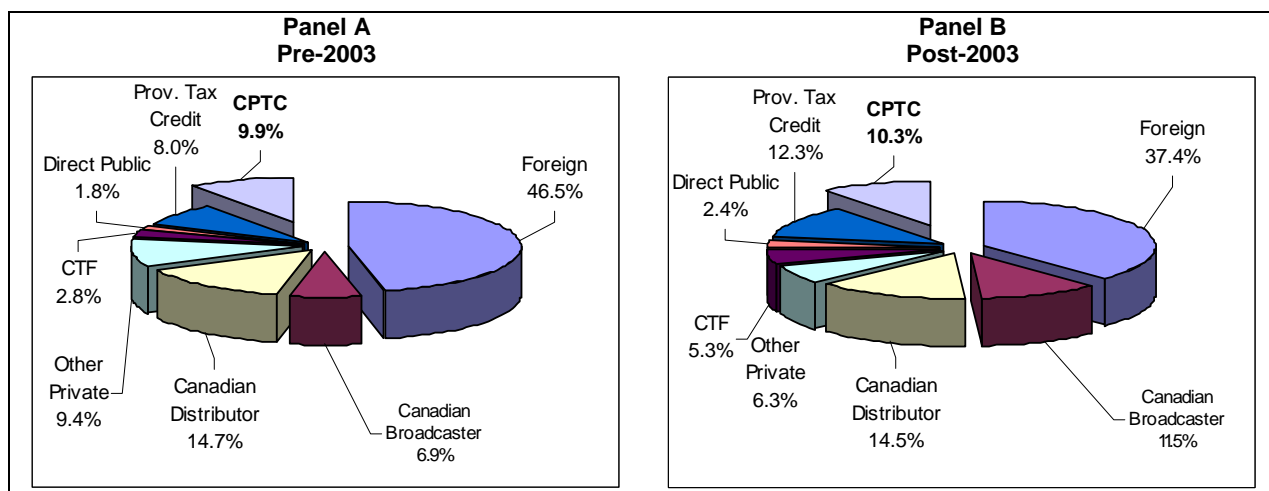
Figure 24 Sources of Financing, CPTC-Supported Production, 10-Point Projects



Source: CAVCO

Since public assistance received the same treatment under both the pre-2003 and post-2003 CPTC formulae, the most likely explanation for this harmonization lies in the varying levels of labour within the two types of projects. Before 2003, ten-point projects displayed an average labour share of 51.9%; the labour share rose to 54.6%, after 2003. Projects with lower levels of Canadian content had an average labour share of 49.4% prior to 2003; the rate was 49.9%, after 2003. It would appear, therefore, that the lifting of the CPTC labour-share ceiling in 2003, from 48% to 60%, provided relatively more benefit to ten-point productions: Their average labour share was already above 48% prior to changes. Producers of ten-point projects raised their projects' labour share following the 2003 changes.

Figure 25 Sources of Financing, CPTC-Supported Production, Projects with 6 to 9 Points



Source: CAVCO

2.2.6 Region

Ontario-based producers accounted for the largest share of CPTC-supported production, in terms of production volume, between 1994/95 and 2005/06; while Quebec-based producers generated the largest number of projects during that period.

- Ontario-based producers generated just under \$7.0 billion of CPTC-supported production between 1994/95 and 2005/06 (Table 21). This represented 40.4% of total CPTC-supported production volume.
- Quebec-based producers generated \$6.5 billion of CPTC-supported production, or 37.4% of total CPTC-supported production volume.
- Producers based in British Columbia generated \$2.3 billion of CPTC-supported production, accounting for 13.2% of the total volume.
- Producers in the Prairie Provinces and Far North accounted for \$887 million in production, or 5.1% of total production volume.
- Producers in Atlantic Canada accounted for \$666 million, or 3.9% of total production volume.

Table 21 CPTC-Supported Production Volume, by Region

Fiscal year	Ontario	Quebec	British Columbia	Prairie Provinces and Far North	Atlantic Canada	Total
1994/95	15,397,872	66,894,303	2,130,998	4,393,101	4,323,407	93,139,681
1995/96	194,109,591	314,095,037	41,765,660	11,774,847	7,965,599	569,710,734
1996/97	574,633,150	472,402,378	122,107,041	33,041,438	37,106,595	1,239,290,602
1997/98	521,204,010	481,531,333	96,200,599	50,114,533	36,763,453	1,185,813,928
1998/99	656,386,335	596,867,129	318,926,039	65,883,832	90,884,264	1,728,947,599
1999/00	707,641,206	658,180,499	307,487,479	95,740,509	59,315,754	1,828,365,447
2000/01	712,822,572	530,357,171	299,497,224	108,585,450	82,116,818	1,733,379,235
2001/02	752,073,275	644,672,391	208,027,387	82,847,722	62,891,944	1,750,512,719
2002/03	712,911,826	664,756,491	223,128,639	156,149,353	71,775,244	1,828,721,553
2003/04	754,324,420	698,661,576	188,617,679	89,588,133	61,570,174	1,792,761,982
2004/05	668,964,138	640,914,068	231,683,297	105,845,998	76,967,883	1,724,375,384
2005/06	704,145,977	694,280,195	241,258,013	83,456,649	74,048,491	1,797,189,325
Total	6,974,614,372	6,463,612,572	2,280,830,055	887,421,565	665,729,626	17,272,208,189
Percentage of total	40.4%	37.4%	13.2%	5.1%	3.9%	100.0%

Source: CAVCO

Ontario and British Columbia displayed the highest average CPTC assistance rates among the six regions; while Atlantic Canada experienced the largest increase in the average CPTC assistance rate following the November 2003 CPTC changes.

- Between 1994/95 and 2005/06, the average CPTC assistance rate for projects in Ontario and British Columbia was 9.9% (Table 22). For Quebec, the rate was 8.9%; for the Prairie Provinces and Far North, the rate was 8.4%. Atlantic Canada had the lowest average rate, 7.8%.
- Following the November 2003 CPTC changes, the average CPTC assistance rate in Atlantic Canada rose by 210 basis points, from 7.3% to 9.4%. Quebec also experienced a 210 basis-point increase; but the increase was from a higher starting base of 8.9%. For the Prairie Provinces and Far North, the increase was 170 basis points. In British Columbia, the increase was 100 basis points. Ontario experienced a 90 basis-point increase.

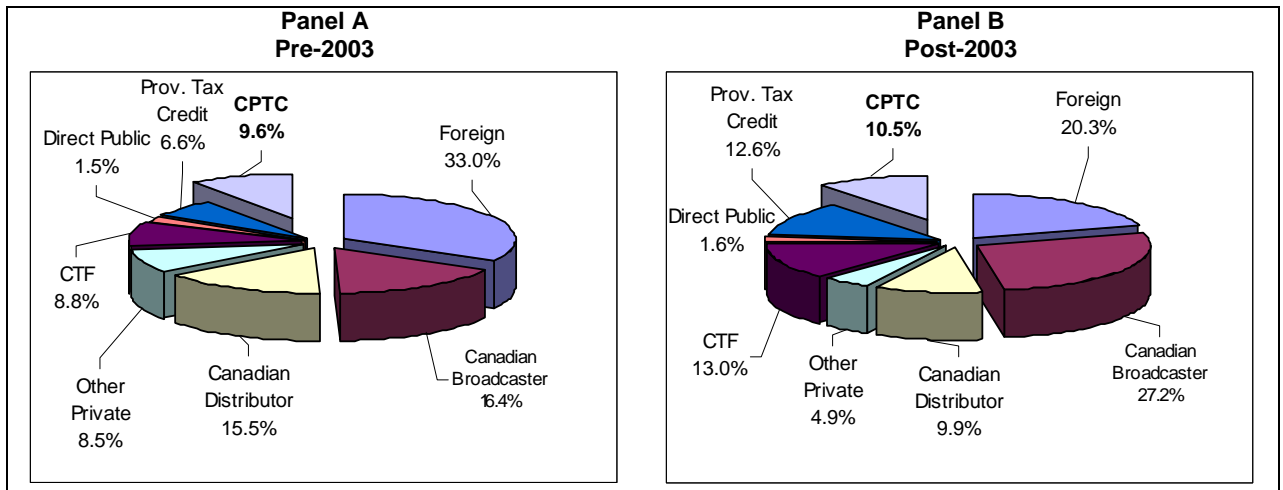
Table 22 CPTC Funding and Assistance Rates, by Primary Market, 1994/95 to 2005/06

Fiscal year	Ontario	Quebec	British Columbia	Prairie Provinces and Far North	Atlantic Canada
Number of projects	3,038	4,519	924	810	463
Production volume (\$)	6,974,614,372	6,463,612,572	2,280,830,055	887,421,565	665,729,626
CPTC amount (\$)	692,169,834	575,981,400	225,115,062	74,690,934	52,167,770
CPTC assistance rate, 1994/95 to 2005/06	9.9%	8.9%	9.9%	8.4%	7.8%
CPTC assistance rate, 1994/95 to 2002/03	9.6%	8.4%	9.6%	7.9%	7.3%
CPTC assistance rate, 2004/05 to 2005/06	10.5%	10.5%	10.6%	9.6%	9.4%

Source: CAVCO

It is interesting to compare the financing sources for production in Canada’s two largest provinces of production: Ontario and Quebec. Before 2003, the CPTC played a larger role in the financing of Ontario’s production: Ontario’s CPTC assistance rate was 9.6%, compared to Quebec’s rate of 8.4%. Quebec’s production, however, displayed much higher proportions of provincial tax credits, CTF funding, and direct public funding, compared to Ontario (Panel A, Figure 26 and Figure 27).

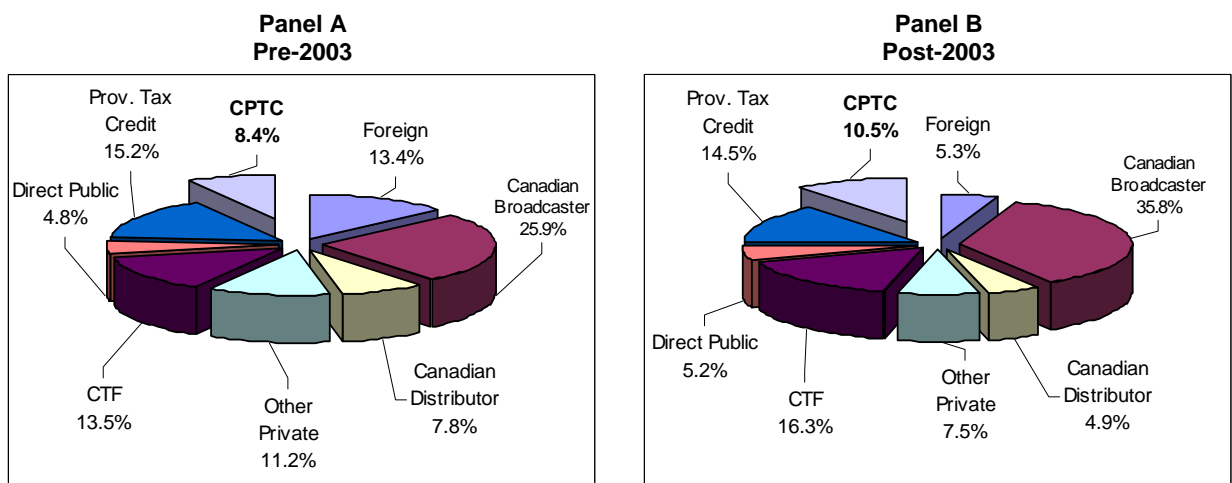
Figure 26 Sources of Financing, CPTC-Supported Production, Ontario



Source: CAVCO

Following the 2003 changes to the CPTC, Quebec continued to display higher proportions of public assistance within the financing structures of its productions. However, its CPTC assistance rate became aligned with that of Ontario, at 10.5% (Panel B, Figure 26 and Figure 27).

Figure 27 Sources of Financing, CPTC-Supported Production, Quebec



Source: CAVCO

2.2.7 Category

Approximately two-thirds of CPTC-supported production volume was comprised of television-series production, between 1994/95 and 2005/06. Feature films also accounted for a significant share of CPTC-supported production volume, while television movies of the week (MOWs), short films, and television mini-series accounted for small shares of production volume.

- Between 1994/95 and 2005/06, the CPTC supported \$11.5 billion in television-series production (Table 23); this amount represented 66.7% of total CPTC-supported production volume.
- CPTC-supported feature film production totalled just over \$3.0 billion and represented 17.7% of total CPTC-supported production volume.
- MOW production was \$1.1 billion, or 6.2% of total CPTC-supported production volume.
- Short film production amounted to just under \$1.0 billion, or 5.5% of total CPTC-supported production volume.
- The production of television mini-series totalled \$651 million, or 3.8% of total CPTC-supported production volume.

Table 23 CPTC-Supported Production Volume, by Category (\$)

Fiscal year	TV Series	Feature Film	MOWs	Short Film	Mini-Series	Total
1994/95	52,835,194	19,659,859	2,865,000	12,896,507	4,883,121	93,139,681
1995/96	391,775,053	122,323,052	7,590,761	31,780,730	16,241,138	569,710,734
1996/97	853,473,382	232,388,743	73,822,238	47,180,700	32,425,539	1,239,290,602
1997/98	755,199,794	263,793,641	78,763,307	46,572,930	41,484,256	1,185,813,928
1998/99	1,224,732,312	270,381,490	113,189,411	58,771,404	61,872,982	1,728,947,599
1999/00	1,292,608,367	308,916,728	102,947,512	68,269,383	55,623,457	1,828,365,447
2000/01	1,224,611,114	266,916,310	115,984,021	75,832,241	50,035,549	1,733,379,235
2001/02	1,214,203,509	258,381,857	87,124,115	118,123,768	72,679,470	1,750,512,719
2002/03	1,165,740,307	335,133,704	109,489,196	91,573,344	126,785,002	1,828,721,553
2003/04	1,150,212,221	373,872,382	69,112,751	135,749,595	63,815,033	1,792,761,982
2004/05	1,145,192,949	220,774,433	137,319,654	153,860,058	67,228,290	1,724,375,384
2005/06	1,057,588,874	387,632,478	179,969,053	113,107,357	58,891,563	1,797,189,325
Total	11,528,173,077	3,060,174,677	1,078,177,019	953,718,017	651,965,400	17,272,208,189
Percentage of total	66.7%	17.7%	6.2%	5.5%	3.8%	100.0%

Source: CAVCO

Television series and MOWs displayed the highest CPTC assistance rates (Table 24). Feature film production displayed the lowest rates, with short films and mini-series in the middle of the pack. Short films experienced the largest increase in the average CPTC assistance rate following the November 2003 changes; while feature-film production experienced virtually no change in its CPTC assistance rate following the 2003 changes.

- Between 1994/95 and 2005/06, the average CPTC assistance rate for television series was 9.9% (Table 24). It was followed by MOWs at 9.7%, mini-series at 8.5%, and short films at 8.4%. Feature films displayed the lowest average CPTC assistance rate: 7.7%.
- Following the November 2003 CPTC changes, the short-film category experienced an increase of 330 basis points in its average CPTC assistance rate – from 7.2% to 10.5%. At the other end of the spectrum, the average CPTC assistance rate for feature films increased by only 20 basis points – from 7.7% to 7.9%.

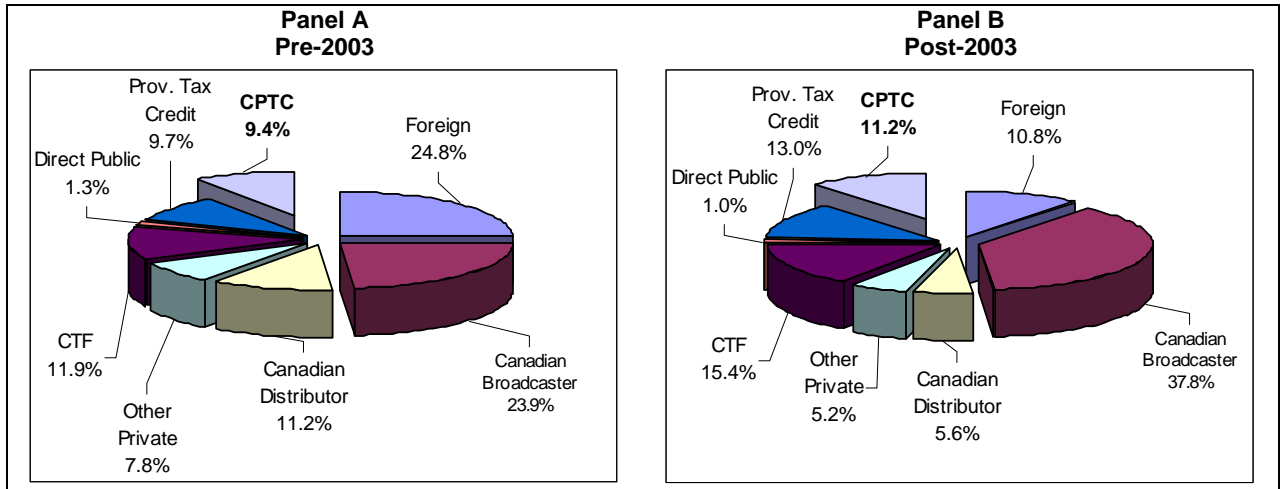
Table 24 CPTC Funding and Assistance Rates, by Primary Market, 1994/95 to 2005/06

	TV Series	Feature Film	MOWs	Short Film	Mini-Series
Number of projects	4,965	1,255	350	2,844	340
Production volume (\$)	11,528,173,077	3,060,174,677	1,078,177,019	953,718,017	651,965,400
CPTC amount (\$)	1,143,505,918	236,228,300	105,039,022	79,982,107	55,369,652
CPTC assistance rate, 1994/95 to 2005/06	9.9%	7.7%	9.7%	8.4%	8.5%
CPTC assistance rate, 1994/95 to 2002/03	9.4%	7.7%	9.4%	7.2%	8.3%
CPTC assistance rate, 2004/05 to 2005/06	11.2%	7.9%	10.7%	10.5%	8.9%

Source: CAVCO

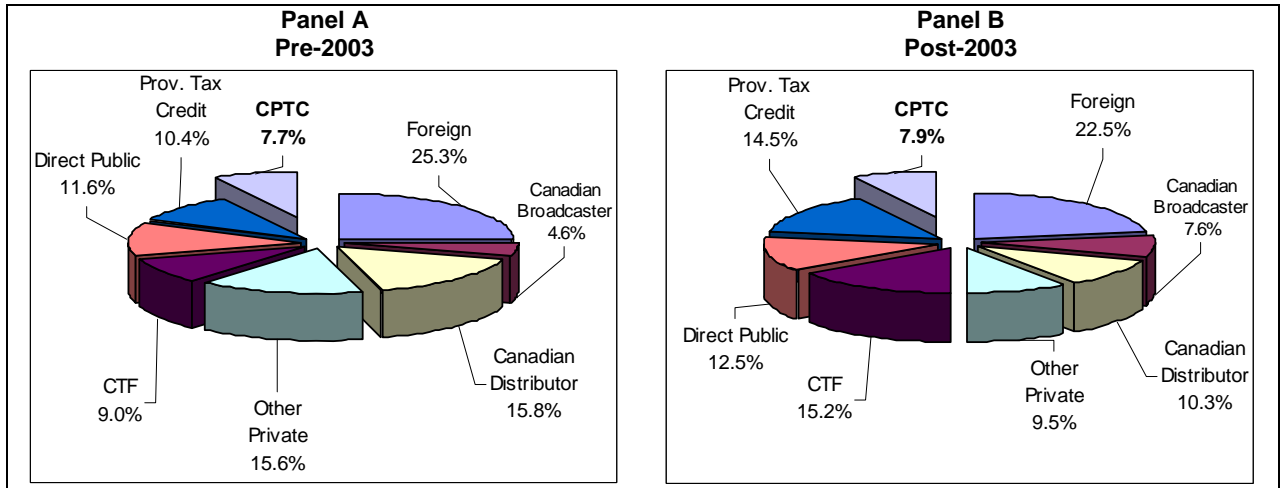
A comparison of the financing structures for television series production and feature film production reveals the reasons for the latter's lower CPTC assistance rate. In comparison to television series production, CPTC-supported feature film production displayed significantly higher proportions of public assistance comprised of direct public funding, CTF funding, and provincial tax credits. Before 2003, public assistance (other than the CPTC) accounted for 31.0% of total financing for feature film production; for television series production, public assistance accounted for 22.9% (Panel A, Figure 28 and Figure 29). After 2003, public assistance accounted for 42.2% of financing for feature film production; for television series production, the proportion was 29.4% (Panel B, Figure 28 and Figure 29). The relatively higher proportions of public assistance within the financing structures of feature film production ground down the CPTC assistance. So, while feature film productions displayed higher *overall* public assistance rates (including the CPTC), less of this assistance originated from the CPTC itself, but rather from direct public funding and provincial tax credits.

Figure 28 Sources of Financing, CPTC-Supported Television Series Production



Source: CAVCO

Figure 29 Sources of Financing, CPTC-Supported Feature Film Production



Source: CAVCO

2.2.8 CTF Production

Approximately one-half of CPTC-supported production volume between 1994/95 and 2005/06 also benefited from financial support from the CTF.

- The CPTC supported \$7.7 billion of CTF-supported production volume between 1994/95 and 2005/06 (Table 25). CTF production accounted for 44.3% of total CPTC-supported production volume during the 12-year period.
- CPTC-supported production made outside of the CTF (“non-CTF production”) totalled \$9.6 billion between 1994/95 and 2005/06, or 55.7% of total CPTC-supported production volume. Prior to the introduction of the CFFF in 2001, Canadian feature films received funding from the CTF; the CTF earmarked approximately \$15 million annually for support of feature films. Beginning in 2006, the CTF’s resources for funding feature films were transferred to the CFFF. As such, Canadian feature films that now receive direct public support are now defined as non-CTF production.

Table 25 CPTC-Supported Production Volume, CTF vs. Non-CTF Production (\$)

Fiscal year	CTF production	Non-CTF production	Total
1994/95	9,123,883	84,015,798	93,139,681
1995/96	226,183,345	343,527,389	569,710,734
1996/97	558,148,556	681,142,046	1,239,290,602
1997/98	522,487,405	663,326,523	1,185,813,928
1998/99	785,476,181	943,471,418	1,728,947,599
1999/00	597,201,919	1,231,163,528	1,828,365,447
2000/01	649,252,734	1,084,126,501	1,733,379,235
2001/02	769,297,743	981,214,976	1,750,512,719
2002/03	852,839,617	975,881,936	1,828,721,553
2003/04	826,749,746	966,012,236	1,792,761,982
2004/05	916,427,786	807,947,598	1,724,375,384
2005/06	945,366,607	851,822,718	1,797,189,325
Total	7,658,555,522	9,613,652,667	17,272,208,189
Percentage of total	44.3%	55.7%	100.0%

Source: CAVCO

The CPTC provided tax credit support to 4,352 CTF-supported projects between 1994/95 and 2005/06 (Table 26). The CPTC claims for these projects totalled \$633 million. On average, the CPTC assistance rate for CTF projects was 8.3% during the 12-year period. Between 1996/97 and 2002/03, the CPTC assistance rate for CTF production averaged 7.7%. With changes to the CPTC in November 2003, the CPTC assistance rate for CTF-supported production rose to 9.6%.

Table 26 CPTC Funding and Assistance Rates, CTF vs. Non-CTF Production, 1994/95 to 2005/06

Fiscal year	CTF production	Non-CTF production	Total
Number of projects	4,352	5,402	9,754
Production volume (\$)	7,658,555,522	9,613,652,667	17,272,208,189
CPTC amount (\$)	633,113,744	987,011,255	1,620,124,999
CPTC assistance rate, 1994/95 to 2005/06	8.3%	10.3%	9.4%

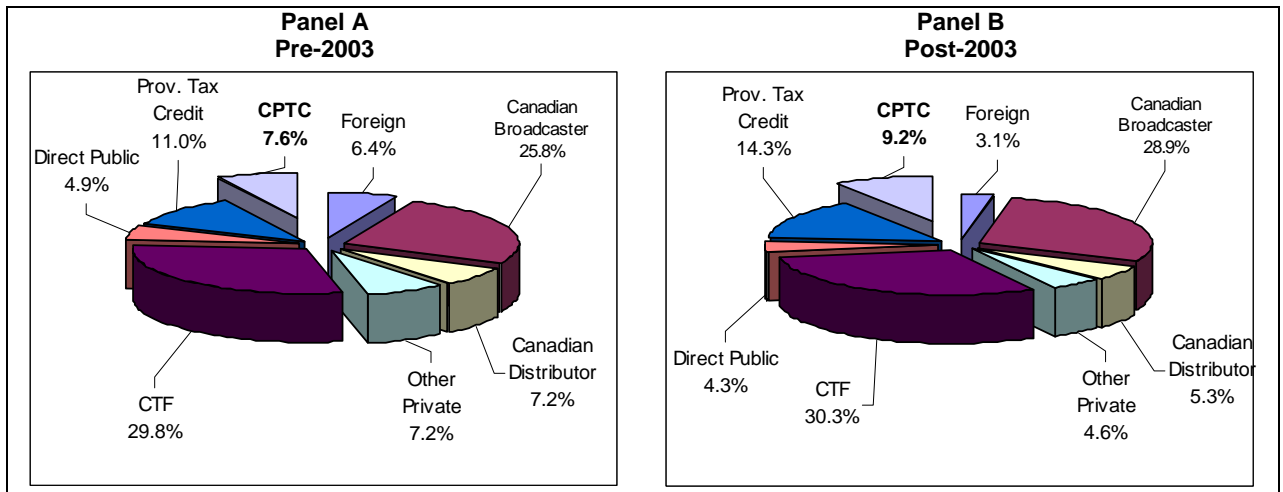
CPTC assistance rate, 1994/95 to 2002/03	7.7%	10.0%	9.0%
CPTC assistance rate, 2004/05 to 2005/06	9.6%	11.5%	10.5%

Source: CAVCO

A total of 5,402 non-CTF projects received \$987 million in financial support from the CPTC, between 1994/95 and 2005/06. During that period, the CPTC assistance rate for non-CTF production was 10.3%. Between 1994/95 and 2002/03, the rate averaged 10.0%; following the November 2003 changes, it increased to 11.5%.

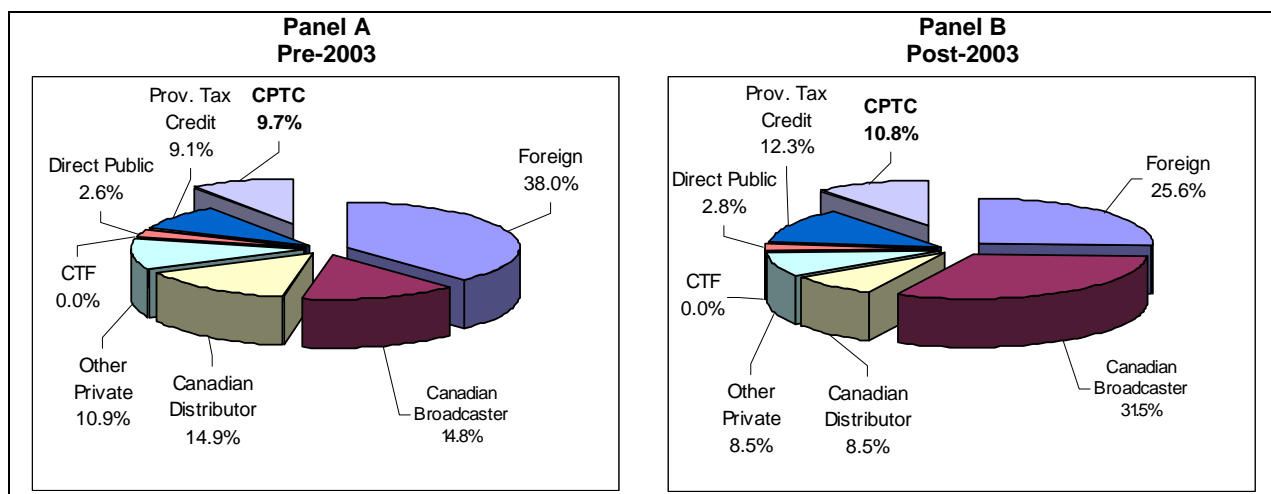
The CPTC assistance rates for CTF-supported production were generally lower than those for non-CTF production because the former had higher levels of public assistance and government equity – largely from the CTF itself. Before 2003, overall public assistance for CTF-supported productions represented 45.7% of total financing; after 2003, overall public assistance was 48.9% (Figure 30). For non-CTF production, the public-assistance proportions were 11.6% and 15.1%, before and after 2003, respectively (Figure 31).

Figure 30 Sources of Financing, CTF Production



Source: CAVCO

Figure 31 Sources of Financing, Non-CTF Production



Source: CAVCO

2.3 Profile of Firms Receiving CPTC

Statistics supplied by the Department of Finance indicate that the annual number of production companies applying for the CPTC varied from 731 in 2000 to 985 in 2004 (Table 27); in 2005, a total of 947 individual production companies applied for the CPTC.

Corporate entities involved in film and television production often form single-purpose subsidiaries for individual film or television projects. These single-purpose subsidiaries limit the liability of the parent company while at the same time fulfilling the requirement that tax credit recipients be Canadian companies “solely” engaged in the production of a film or video project (Department of Finance 2006, p. 4). At the end of the production cycle, the integrated parent company will re-absorb the single-purpose production subsidiary (Department of Finance 2006, p. 4). In 2005, this type of CPTC applicant accounted for 390 of the total of 947 CPTC applicants. The remaining 557 CPTC applicants in 2005 had no identifiable relationship with a corporate parent.

Table 27 Number of CPTC Applicants

Tax year	Subsidiaries of a corporate group	Stand-alone production companies	Total
2000	433	298	731
2001	492	338	830
2002	528	383	911
2003	541	404	945
2004	531	454	985
2005	390	557	947
Total	2,915	2,434	5,349

Source: Department of Finance analysis based on data from Canada Revenue Agency

The statistics and analysis provided by the Department of Finance indicate that CPTC claims are concentrated among a small group of production companies. Between 2000 and 2005, 5% of CPTC applicants (production companies) accounted for 41% of all CPTC claims (Table 28); 20% of production companies accounted for 63% of CPTC claims; and 90% of CPTC claims could be traced back to 60% of the production companies applying for the CPTC.

Table 28 Distribution of CPTC Claims

Cumulative distribution of CPTC applicants	Subsidiaries of a corporate group	Stand-alone production companies	All companies
5%	44%	45%	41%
10%	58%	59%	52%
20%	74%	75%	63%
40%	89%	90%	71%
60%	96%	96%	90%
100%	100%	100%	100%

Source: Department of Finance analysis based on data from Canada Revenue Agency

An analysis by the Department of Finance of data for the 2000-to-2004 period further underscores the concentration of the CPTC. The Department of Finance found that the top ten corporate groups (representing 330 individual production companies) accounted for 29% of CPTC claims during the period (Department of Finance 2006, p. 5).

3. Analysis of Incrementality

3.1 Introduction

The primary objective of the CPTC is to encourage the production of Canadian programming and the development of an “active domestic independent production sector” (Department of Canadian Heritage 1995). To investigate whether the CPTC achieved this objective, the study team developed a simple econometric model that it could use to analyse the incrementality of the CPTC – that is, the degree to which positive changes in Canadian production volume can be attributed to the introduction of the CPTC.

An ideal analysis of the incrementality of the CPTC would identify a treatment and control group existing before and after the introduction of the CPTC in 1995, and then compare the levels of film and video production activity within each group before and after the implementation of the policy. Unfortunately, the study team was prevented from employing this ideal approach because of the type of data available. The study team was unable to source suitable data to construct treatment and control groups before and after the exposure to the CPTC in 1995. First, CAVCO’s comprehensive data-collection program began in 1995; so there is very little comparable data for Canadian production prior to the introduction of the CPTC in 1995. And second, because all Canadian film and television production that meets the CPTC guidelines is eligible to receive the tax credit, a suitable control group does not exist. Film and television production does occur in Canada without assistance from the CPTC, but it either receives support from the PSTC or is an entirely different type of production (e.g., the production of television commercials).

In light of this data challenge, the study team developed an alternative analysis that is more generalized in its approach: Instead of analyzing the impact of the introduction of the CPTC per se, this alternative approach analyzes the effect that an *increase* in film and video tax credit rates, in general, has on film and video production budgets in the English-language market. This alternative approach is not ideal; but it does allow the study team to design and implement a quasi-experimental approach based on the type of data available to it. Of course, this approach does not permit one to investigate the impact of the CPTC or tax credit assistance, in general, on production in the French-language market. The historical pattern of tax credit support within the French-language market is such that a suitable control group does not exist.

Film and television production is a very risky endeavour. In this regard, it is somewhat analogous to industrial research and development. In most cases, the producers of films and television programs must make significant upfront investments to develop and produce a product before she or he knows if the product will generate an economic return – or even earn any positive return. Hollywood films are excellent examples of this risk pattern: Hollywood studios often spend tens of millions of dollars to develop, produce and market a feature film. The studios have no way of predicting what a feature film’s revenues will be until the film plays in theatres. The economics of television are similar,

except that the dollar magnitudes are typically lower. Television producers can often produce a television pilot or a small set of episodes and test them before producing a full television season of episodes.

In some ways, the Canadian industry faces the same fundamental economics as that of Hollywood, but on a much lower scale. Given the economics of film and television production and its contribution to Canadian culture, Canadian governments have implemented tax credit assistance to support it. These tax credit assistance programs are meant to reduce the costs borne by the private sector, so that Canadian governments can obtain a level film and television production output that is commensurate with their policy objectives.

To be successful, an increase in tax credit assistance for film and television production should lead to a higher level of production – where the increase matches or exceeds the amount of incremental fiscal stimulus provided to the industry.⁶ This is the essence of incrementality in the context of the CPTC or any similar tax credit assistance program: the degree to which it can stimulate production in excess of what would have occurred in the absence of the tax credit assistance.

If one assumes that other forms of public assistance for production remain unchanged in response to any increase in tax credit assistance, then the only way for overall production activity to remain unchanged, following the increase in assistance, would be due to a decrease in private-sector financing for production. As such, one test of incrementality is through an analysis of the degree to which an increase in tax credit assistance led to the crowding out of private financing for film and television production. This is the framework that governs the study team’s model for analyzing the incrementality of the CPTC.

3.2 Overview of Model and Statistical Analysis

The study team designed a model to test the impact that an increase in tax credit assistance for film and television had on the amount of private financing flowing to film and television projects. The model seeks to test for the existence of crowding out (or crowding in) of private financing on a given project following the increase in the tax credit. In other words, it seeks to reject the null hypothesis (H_0):

H_0 : The tax credit has no effect on private financing of film and television production budgets.

H_1 : The tax credit has a positive or negative effect on private financing for film and television production budgets.

⁶ The economic analysis in this study only considers the impact of the CPTC program on the level of film and television production; it does not extend the analysis to a welfare-analysis approach that considers the marginal cost and benefit of the CPTC program to society.

3.2.1 Experimental Design

As discussed above, to investigate the incrementality of the CPTC, the study team adopted a generalized approach in which it analyzed the impact of an increase in the effective tax credit assistance rate for film and video production budgets. This generalized approach allowed the study team to design a quasi-experimental analysis that exploits provincial variations over time in combined (federal + provincial) tax credit assistance rates available to film and television production.

The provincial variations arise from a set of changes to federal and provincial tax credit programs in recent years.

- In November 2003, the federal government made several changes to the CPTC (these changes are discussed earlier in this report) that resulted in an increase in the effective tax credit assistance for many types of film and video production.
- Just prior to the November 2003 changes to the CPTC, the Government of Quebec reduced its tax credit rate by 12.5% and applied a cap to tax credit claims. These changes in Quebec are important because they neutralized, to some degree, the changes to the CPTC. As a result, the overall tax credit assistance rate in Quebec did not increase in an appreciable way (see Table 29).
- In January 2005, the governments in Ontario and British Columbia implemented changes to their film and video tax credit programs that saw the statutory tax credit rates in each province rise from 20% to 30% of eligible expenditures. These simultaneous and identical policy reforms form the basis for the provincial variation used in this analysis.

Table 29 details the annual average tax credit assistance rates for English-language CPTC projects in Ontario, British Columbia, and Quebec. The rates in Ontario and British Columbia do climb gradually between 1996/97 and 2005/06; but there is a clear jump in the tax credit assistance rates following the January 2005 policy reforms. In Quebec, however, there is very little variation in the tax credit assistance rate throughout the ten-year period.

Table 29 Combined Tax Credit Assistance Rates for English-language CPTC Projects in Ontario, British Columbia, and Quebec

	Ontario	British Columbia	Quebec (English projects only)
1996/97	0.1140	0.0674	0.2263
1997/98	0.1264	0.0793	0.2243
1998/99	0.1435	0.1360	0.2273
1999/00	0.1489	0.1433	0.2292
2000/01	0.1678	0.1462	0.2348
2001/02	0.1652	0.1501	0.2430
2002/03	0.1701	0.1599	0.2478
2003/04	0.2046	0.1803	0.2418
2004/05	0.2315	0.2097	0.2459
2005/06	0.2646	0.2217	0.2490

The noticeable variation in Ontario and British Columbia, and the lack of variation in Quebec provided the basis for the study team's analysis design. The study team defined a control group that was comprised of English-language projects produced in Quebec. It defined a treatment group to include projects produced in Ontario and British Columbia. The latter were exposed to the policy reform: in this case, the increase in effective tax credit assistance rates resulting largely from the January 2005 increases to the statutory tax credit assistance rates in each province.⁷

3.2.2 Data Sources and Sample

The study team designed the econometric analysis around project-level data. CAVCO supplied all of the project data for the econometric analysis. The data consisted of project-level observations for the financing structures and characteristics of all CPTC-supported projects between 1996/97 and 2005/06 (as at February 2007).

From these statistical data, the study team made several adjustments before conducting the statistical analysis. These adjustments permitted the study team to remove outlier observations and clearly define the treatment and control groups.

1. The study team removed all observations from outside the provinces of Ontario, British Columbia, and Quebec. These three provinces provide the control observations (Quebec) and treatment observations (Ontario, British Columbia) required for the analysis.
2. The econometric analysis focussed on recent changes in tax credit assistance rates in Ontario and B.C. As such, to remove the effect of large increases in the tax credit assistance rates in Ontario and B.C. in 1997/98, the study team removed all observations from 1996/97 and 1997/98.
3. To remove certain outlying observations, the study team removed observations with total per-hour budgets exceeding \$10,000,000.
4. To confine the analysis to the English-language market, the study team removed all projects produced in French or other languages.
5. The study team removed international treaty-co-production because there were no data on the level of Canadian content (Canadian content points) for these projects.

The study team examined the characteristics of the resulting sample to ensure that the control and treatment groups were sufficiently similar. The study team compared the distribution of the number of sample projects in terms of release window (primary market), genre, and Canadian-content level. This comparison revealed that the control and treatment groups (pre- and post-reform) were similar in terms of primary release market for projects. There were, however, some significant differences in terms of the genre profile of the various sample groups. In particular, the study team found that in the

⁷ The study team investigated other variables such as *Canadian-content levels* and *qualified labour expenditures as a share of total production costs* as the basis for defining the treatment and control groups for the difference-in-difference modelling; however, the provincial variation in effective tax credit rates provided the best strategy for analysing the impact of changes in tax credit assistance.

pre-reform sample, there was a significantly higher share of variety and performing arts (VAPA) projects within the control group (15.9%) vs. the treatment group (5.4%) (see Table A 31, Appendix A). In the post-reform sample, the share of magazine-programming projects in the control group (21.6%) was also significantly higher than the magazine-programming genre's share within the treatment group (4.2%) (see Table A 31, Appendix A).

To ensure that the control and treatment groups were much closer in composition, the study team dropped from the sample 60 VAPA-genre observations from the pre-reform control group and 38 magazine-programming-genre observations from the post-reform treatment group. Following these adjustments, the sample had a profile as described in Table A 32 and Table A 33 (see Appendix A).⁸

Table 30 provides a simple breakdown of the structure of the sample used in the analysis. After making the adjustments described above, the study team was left with a total sample of 3,465 individual CPTC projects. Within this sample, the pre-reform control group consisted of 475 projects; the post-reform control group consisted of 170 projects. The treatment group consisted of 2,136 projects in the period before the reform, and 684 projects that were exposed to the policy reform.

Table 30 Number of Observations

	Pre-reform	Post-reform	Total
Control	475	170	645
Treatment	2,136	684	2,820
Total	2,611	854	3,465

⁸ The study team did not make adjustments to the sample in order to equalize the share of high Canadian content projects within the control and treatment groups. Such an adjustment would have entailed dropping over 1,000 observations. To control for any further variations in the composition of projects within the treatment and control groups, the study team included regression variables for market, genre, and level of Canadian content.

3.2.3 Difference-in-Difference Model

The study team employed a difference-in-difference model to isolate the effect of the provincial tax-credit reforms on private sector financing for film and television production in the sample.

A difference-in-difference model provides a powerful framework for investigating the effect of a policy change. It allows one to control for the effect of time trends that affect both the control and treatment groups; it also allows one to control for any time-invariant differences that may exist between the control and treatment groups.

The estimation equation for the difference-in-difference model took the following form:

$$\text{LOGPRIVFIN}_{it} = \alpha + \beta_1 \text{PROVREF}_i + \beta_2 \text{REFORM}_t + \beta_3 (\text{PROVREF} \cdot \text{REFORM})_{it} + \beta_4 t + \beta_5 \text{CANCON}_{it} + \varepsilon_{it}$$

Where:

LOGPRIVFIN _{it}	is equal to the logarithm of the real ⁹ per-hour level of private-sector financing for each sample project
PROVREF _i	is a discrete variable equal to “1” for the provinces that experienced the reform, i.e., Ontario and B.C.
REFORM _t	is a discrete variable equal to “1” for years in which the provincial reforms were in place
PROVREF·REFORM	is the interaction variable that identifies treatment-group observations following treatment exposure
CANCON _{it}	is a qualitative variable corresponding to the level of Canadian content in each project

In the above equation, the key parameter of interest is β_3 , which measures the effect on the treatment group following the policy exposure. That is, it measures the effect that the higher tax credit assistance rate had on the average level of per-hour private financing within the treatment-group projects. This parameter, therefore, provides an indication as to whether the change in the tax credit assistance rate led to any crowding out or crowding in of private financing for film and television production.

β_1 measures any ongoing differences between treatment and control groups in terms of the level of private financing for projects within each group. A positive (significant) parameter points to higher average levels of private financing for projects within the treatment group (B.C. and Ontario).

⁹ The study team used the Consumer Price Index - All Items published by Statistics Canada to adjust all dollar amounts to real 2006 dollars.

B_2 measures the effect of the policy reform on the levels of private financing within projects in both treatment and control groups. A positive (significant) parameter indicates that the policy reform led to higher levels of private financing in both groups.

The above regression equation includes fixed-effects variables for time, and a control variable for the amount of Canadian content in each project.¹⁰ The study team also included discrete-form control variables for primary release windows (TV vs. theatrical) and the various genres (fiction, documentary, children’s programming, magazine programming and VAPA).

The study team also investigated the effect of the reform on total budgets, total Canadian private financing, and Canadian broadcaster/distributor financing. Appendix B includes regression results with these variables as the dependent variables.

3.3 Results of Analysis

3.3.1 Descriptive Statistics

The study team began the analysis with a simple comparison of the statistical means in each of the sub-groups of the sample. Table 31 shows that there was a significant increase in the mean tax credit assistance rate – from 0.1658 to 0.2394 – in the treatment group. In the control group, there was also an increase – albeit much smaller – from 0.2313 to 0.2442. It was this differential in the effective tax credit assistance rates that provided the basis for the experimental design and incrementality analysis.

Table 31 Mean Tax Credit Assistance Rate

	Pre-reform	Post-reform	Total
Control	0.2313 (0.0459)	0.2442 (0.0447)	0.2347 (0.0459)
Treatment	0.1658 (0.0581)	0.2394 (0.0624)	0.1837 (0.0670)
Total	0.1777 (0.0615)	0.2404 (0.0593)	0.1932 (0.0667)

Source: Nordicity calculations based on data from CAVCO

Note: Standard deviation in parentheses

The study team also reviewed basic measures of production output. One measure of production output is the annual number of film and television projects. The statistics in Table 32 show how the annual number of projects in the control and treatment groups changed in response to the changes in the effective tax credit assistance rate (detailed annual data can be found in Table A 34 in Appendix A). In the control group, the mean annual number of projects actually rose from 89.2 in the pre-reform period to 104.0 in the post-reform period. In the treatment group, the annual number of projects actually

¹⁰ The amount of Canadian content in a film or television project is measured in terms of the number of Canadians that occupy the project’s ten key creative roles (e.g., director, writer, lead performer). To be eligible for the CPTC, at least six of the ten key creative roles on a project must be filled by Canadians.

declined following exposure to the higher tax credit assistance rate: the annual number of projects dropped from 356.0 to 342.0.

Table 32 Annual Number of Projects – Annual Averages

	Pre-reform	Post-reform	Total
Control	89.2	104.0	92.9
Treatment	356.0	342.0	352.5
Total	445.2	446.0	445.4

Source: Nordicity calculations based on data from CAVCO

Another measure of output is the annual real-dollar amount of production volume. The statistics in Table 33 show that both the control and treatment groups experienced decreases in the annual level of production volume following the policy reform. In the control group, annual production volume dropped from an average of \$174.1 million to \$156.0 million – a decrease of 10%. In the treatment group, annual production volume decreased by 13% – from \$874.5 million to \$761.7 million (detailed annual data can be found in Table A 35 in Appendix A).

Table 33 Total Production Volume (Inflation-Adjusted Amounts, \$ Millions)

	Pre-reform	Post-reform	Total
Control	174.1	156.0	169.6
Treatment	874.5	761.7	846.3
Total	1,048.6	917.6	1,015.9

Source: Nordicity calculations based on data from CAVCO

The annualized measures of production output in Table 32 (number of projects) and Table 33 (production volume) provide interesting information on top-level trends; but they do not offer a rigorous basis for analysing incrementality. The changes in production activity and production volume could be a function of year-to-year changes in the composition of projects: As the genre and Canadian-content composition of projects changes, so to will average budgets of projects. As such, the study team, focussed on project-to-project variations rather than year-to-year variations within a model that controls for the genre and Canadian content for each project.

The following descriptive statistics compare the means for project-by-project measures.

A comparison of the means of the per-hour budgets indicates that there was no statistically significant change in this output measure in either the control or treatment groups following the policy reform. In the control group, the mean per-hour budget dropped from \$840,006 to \$819,153; and the means were not statistically different. In the treatment group, there was a rise in per-hour budgets; however, the change was not statistically significant. These results suggest that the higher rate of tax credit assistance in the treatment group had no effect on per-hour budgets.

Table 34 Mean Total Budgets Per Hour

	Pre-reform	Post-reform	Total
Control	840,006 (1,242,852)	819,153 (1,017,664)	834,509 (1,186,922)
Treatment	613,461 (973,033)	666,069 (796,567)	626,221 (933,438)
Total	654,674 (1,030,851)	696,542 (846,751)	664,993 (988,713)

Source: Nordicity calculations based on data from CAVCO

Note: Standard deviation in parentheses

The key variable in the study team's model and analysis was per-hour private financing. A comparison of the pre- and post-reform means indicates that it, too, experienced no statistically significant change. The control group projects experienced a decrease in per-hour private financing following the policy reform; and, the change was not statistically significant (Table 35). In the treatment group, per-hour private financing actually dropped slightly following the policy reform; however, the change was not statistically significant. So, the data suggest that neither group experienced a change in per-hour private financing. Thus, a comparison of the means provides the study team with no basis to reject the null hypothesis that the increase in tax credit assistance among the treatment group projects had no effect (negative or positive) in per-hour private financing.

Table 35 Mean Total Private Financing Per Hour

	Pre-reform	Post-reform	Total
Control	521,174 (916,833)	462,268 (678,407)	505,648 (860,314)
Treatment	398,308 (730,801)	373,006 (456,862)	392,171 (674,664)
Total	420,660 (769,271)	390,775 (509,491)	413,295 (714,122)

Source: Nordicity calculations based on data from CAVCO

Note: Standard deviation in parentheses

The study team also examined the means for *Canadian* private financing and broadcaster/distributor financing (see Table A 36 and Table A 37 in Appendix A). For each these financing measures, both the control and treatment groups displayed higher per-hour means following the reform; the increases were statistically significant, in all cases, as well. Thus, the effect upon private-sector financing was not confined to the treatment group; the full post-reform sample actually experienced a positive impact on Canadian private financing and broadcaster/distributor financing.

3.3.2 Difference-in-Difference Model

The results of the difference-in-difference model estimation indicate that the policy exposure had no impact – positive or negative – on levels of private financing in CPTC projects. That is, the estimation of the difference-in-difference model provides no evidence of crowding out (or crowding in) following exposure to the increase in tax

credit assistance. Table 36 presents an abridged presentation of the regression results for the simple difference-in-difference model. The complete regression results can be found in Table B1 in Appendix B.

The results indicate that the key parameter, PROVREF·REFORM, is not significantly different from zero under any of the four specifications. That is, exposure of the treatment group to higher tax credit assistance (the policy reform) had no statistically significant impact (positive or negative) on total per-hour private financing, per-hour Canadian private financing, or per-hour financing from Canadian broadcasters/distributors. What is more, there was no impact on per-hour project budgets.

Table 36 Summary of Regression Results - Difference-in-Difference Models

	Total budget	Total private financing	Canadian private financing	Canadian broadcaster/distributor financing
PROVREF·REFORM	0.152 (1.50)	0.057 (0.55)	-0.120 (-1.07)	-0.128 (-1.12)
PROVREF	-0.034 (-0.63)	0.227*** (3.99)	0.174*** (3.02)	0.159*** (2.63)
REFORM	-0.058 (-0.52)	0.096 (0.85)	0.401*** (3.31)	0.417*** (3.38)
Constant	12.688*** (52.58)	11.474*** (20.99)	11.547*** (32.25)	11.255*** (26.61)
R-squared	0.5101	0.4655	0.2735	0.2742
N	3465	3434	3426	3332

t-values in parentheses

* significant at 10% level, ** significant at 5% level, *** significant at 1% level

The regression results do indicate that the treatment group, generally, had higher levels of private financing, Canadian private financing and broadcaster/distributor financing; although per-hour budgets were not significantly higher. However this difference existed before and after the policy reform. In the specification with total private financing as the dependent variable, the parameter estimate of 0.227 was statistically different from zero (at a one per cent probability level): total per-hour private financing was 22.7% higher for projects in the treatment group than in the control group. Total Canadian private financing was 17.4% higher in the treatment group; broadcaster/distributor financing was 15.9% higher in the treatment group.

The complete regression results (see Table B1 in Appendix B) suggest – as predicted – that genre has a strong impact on per-hour private financing. However, somewhat surprisingly, the regression results do not reveal any relationship between the various levels of Canadian content and levels of private financing within projects.

In summary, the regression results from the estimation of the difference-in-difference model indicate that there was no change – positive or negative – in per-hour levels of private financing following exposure to a higher tax-credit assistance rate. Therefore, the results provide no basis to reject the null hypothesis that the increase in tax credit assistance had no effect on private financing for film and television production. In other

words, there is no evidence of crowding out, and therefore, there was an incremental increase in the size of English-language television projects in the treatment group following the increase in tax credit assistance.

While the results from the difference-in-difference model point to tax credit assistance as not leading to any crowding out of private financing and therefore resulting in an increase in production expenditures, one should approach the results with caution. Caution should be exercised largely because the analysis really does not provide an experimental design that is suitable for testing the impact of the introduction of the CPTC in 1995.

4. Analysis of Corporate Development

4.1 Introduction

One of the objectives of the CPTC is “to encourage longer-term corporate development for production companies, rather than focus simply on single project financing” (Department of Canadian Heritage 1995). While there are many qualitative aspects to corporate development, one can use a company’s operating and financial data to make some inferences about the direction of its corporate development. Increasing revenues, profitability, salary expenditures, retained earnings, equity investments, and intangible assets all suggest that a company is developing into a larger enterprise with revenue-producing assets, multiple lines of business, and a broad customer base.

Indeed, a direct way that the CPTC could encourage long-term corporate development would be for it to be applied directly to the corporate balance sheet, as originally intended. However, the CPTC, in most cases, is included in the financial structure of a film and video project, and that tax credit has to be financed. Therefore, it has less of an opportunity to have the desired impact on corporate development.

If the particular structure of the tax credit is not conducive to a direct impact on corporate development, there are potential indirect indicators. For example, growth in production company staff specializing in directly relevant corporate functions is another indicator of improving corporate development. Alongside such quantitative measurement, then, one can assess corporate development at production companies by observing the functions that a production company has created internally, e.g. business affairs, new project development, and distribution. These indicators show that a company has reached a sufficient level of production volume and generates enough cash to be able to recruit and retain staff with these specialized skills.

4.2 Approach to Measuring Corporate Development

Original Methodology

At the outset of the project, the study team envisioned a longitudinal analysis of financial-statement data as the primary methodology for measuring corporate development among CPTC recipients. The study team planned to use CRA Business Numbers (BNs) as a basis for linking data on CPTC recipients to financial statistics available from Statistics Canada. Using this linked database, the study team planned to measure how exposure to the CPTC affected the following financial-statement indicators of corporate development:

Income Indicators

- Growth in revenues
- Growth in operating profits

Employment and Compensation Indicators

- Growth in the average number of “full-time” employees
- Growth in average per-employee labour earnings (wages and salaries)
- Growth in average per-employee employment benefits

Balance Sheet Indicators

- Growth in total assets
- Growth in intangible assets
- Growth in long-term debt
- Growth in shareholders’ equity

The study team intended to source the income, and employment and compensation indicators from Statistics Canada; it intended to source the balance-sheet indicators from CRA’s General Index of Financial Information (GIFI). As part of the study team’s analysis, it would have compared the performance of CPTC recipients on the basis of the above indicators to the performance of other Canadian film and video production companies and other companies in the information and cultural industries during the 1997-to-2004 period.

The study team had to suspend the longitudinal analysis for several reasons. First, the GIFI only provided data back to 2000; furthermore, it did not permit the study team to separate financial data for production activities of large media companies. This weakness of the GIFI effectively ruled out any analysis of balance-sheet indicators; Statistics Canada could not provide a substitute data source.

The Statistics Canada data also presented limitations. An investigation of BN linking by Statistics Canada revealed that there was only limited overlap between the CPTC-recipient data from CRA and Statistics Canada’s own database of financial-statement data. On the basis of the BNs, Statistics Canada could not establish suitable coverage of CPTC recipients. While a more exhaustive investigation may ultimately point to suitable coverage, the linkage and data-tabulation exercise could not be completed during the study’s schedule.

Alternative Methodology

In light of the empirical challenges presented by the original methodology, the study team pursued an alternative methodology based on a survey of CPTC recipients. The study team developed four qualitative indicators of corporate development within the film and television production community and included questions related to these four qualitative indicators on a survey of production companies administered by Kelly-Sears Consulting Group (“Kelly-Sears”).

Kelly-Sears e-mailed survey invitations to 400 production companies; it obtained the names and contact data for each of the 400 production companies from a list of CPTC-recipients provided by CAVCO. Many of the e-mail invitations were undeliverable; presumably the contact data was either out of date or inaccurate. Kelly-Sears kept the

online survey open for several weeks during the spring and summer of 2007. In total, Kelly-Sears received 126 responses to the survey – a response rate of approximately 30%.

Table 37 provides a profile of the survey respondents. The majority of responding production companies had fewer than five full-time employees. Seventeen per cent of companies reported that they had between five and ten full-time employees. Approximately one-quarter of responding companies reported that they employed more than ten full-time employees.

In terms of company sales, approximately one-half of responding companies reported annual company sales of under \$500,000; eight per cent reported sales of between \$500,000 and \$1 million. Thirty-eight per cent of responding companies reported annual sales of between \$1 million and \$10 million; and seven companies (6%) reported annual sales in excess of \$10 million.

In terms of the geographic scope of business, just over one-half (56%) of the responding production companies indicated that they have an international scope, as opposed to strictly a national scope (44%).

Table 37 Kelly-Sears Survey - Business Profile of Survey Respondents

Number of Full-Time Employees			Total Company Sales			Geographic Scope of Business		
Category	Number	Percent of total	Category	Number	Percent of total	Category	Number	Percent of total
Fewer than 5	74	59%	< \$500,000	61	48%	International	70	56%
5 to 10	22	17%	\$500,000 to \$1 million	10	8%	Local / regional / provincial /national	56	44%
More than 10	30	24%	\$1 million to \$10 million	48	38%			
			> \$10 million	7	6%			
Total	126	100%	Total	126	100%	Total	126	100%

Source: Kelly-Sears Survey

Table 38 provides additional detail on the production profile of the responding production companies. As well, the data from the Kelly-Sears survey indicate that 18 of the 126 companies, or 14%, were part of larger companies; the other 108 responding companies were companies set up specifically for a film or television production project – i.e., single-purpose corporations.

Table 38 Kelly-Sears Survey - Production Profile of Survey Respondents (continued)

Project Market			Genre			Corporate Affiliation (at time of CPTC application)		
Category	Number	Percent of total	Category	Number	Percent of total	Category	Number	Percent of total
Television	105	83%	Documentary	45	36%	Single-purpose production company	108	86%
Theatrical	17	13%	Fiction	32	25%	Part of large organization	18	14%
Non-theatrical	1	1%	Children	16	13%			
			Variety	13	10%			
			Magazine	5	4%			
			Education and other	15	12%			
Total	126	100%	Total	126	100%	Total	126	100%

Source: Kelly-Sears Survey

By way of the Kelly-Sears survey, the study team asked CPTC recipients to rate the degree to which the CPTC affected each of the four indicators. The survey questions asked CPTC recipients to rate the extent to which the CPTC has allowed their companies to do the following:

- a) engage in additional project development activities
- b) increase its level of equity in production projects
- c) hire/retain additional corporate personnel (e.g., business affairs)
- d) build a library of distribution rights for film and video properties

a) Engage in Additional Project Development Activities

In between film and television projects, production companies are largely engaged in two activities: exploiting their previously produced properties and developing new properties. The latter is referred to a project development (or just “development” for short). In some respects, development in the film and television production industry is akin to research and development in other sectors of the economy. For development, producers identify new stories or issues, develop a concept or treatment around the stories and then write a script.

Active project development is one of the characteristics that differentiate a *production company* from a project-to-project producer. While producers are always trying to develop new projects, production companies have the continuity and resources to actively develop several projects simultaneously. Anything that helps producers engage in additional project development activities helps them assemble a slate of projects. With a slate of projects, the producer is less likely to be caught in the financially precarious trap of living from project to project.

b) Increase its Level of Equity in Production Projects

Corporate development typically requires that production companies build a portfolio of intellectual property from which they can earn future revenues. The first stage in building such a portfolio is the retention of equity in projects. Without project equity, production companies are less likely to have claims on future revenues from successful projects, and therefore, less likely to be able to have recurring revenues from their intellectual property. Because of this relationship between project equity, future revenues and corporate development, the study team asked producers to rate the CPTC's impact on their ability to hold more equity in their projects.

c) Hire/Retain Additional Corporate Personnel

The employment of corporate personnel is another hallmark of production companies that have achieved some degree of corporate development. Corporate personnel such as business affairs managers and financial officers, only become economically viable for larger production companies that can depend on a slate of productions or other revenue-generating properties to cover the costs of in-house corporate functions. Because of the strong link between corporate personnel and corporate development, the study team asked producers to consider the role that the CPTC played in affecting their ability to hire and retain such personnel.

d) Build a Library of Distribution Rights for Film and Video Properties

A library of distribution rights is another hallmark of corporate development in the film and television production sector. As stated above, corporate development typically requires that production companies build a portfolio of intellectual property and programming rights from which they can earn future revenues. Distribution rights are an important element in the corporate development of production companies because they give the companies access to future revenues – often recurring – that they can use to fund other project-development and production activities. Therefore, the study team asked producers to rate how the CPTC directly affects this aspect of corporate development. Distribution rights are an important element in the corporate development of production companies because they give the companies access to future revenues – often recurring – that they can use to fund other project-development and production activities.

The survey question for corporate development indicators was posed in the following manner:

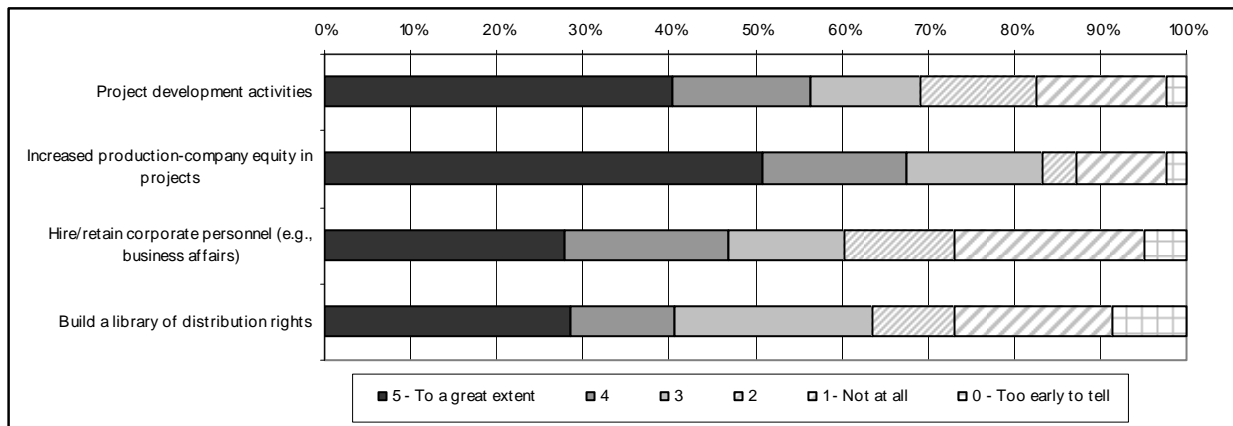
Thinking of all of the Canadian Film or Video Production Tax Credits your company has received over the past five years, how would you rate their impacts on the corporate development of your organization? For each of the following possible impacts, please respond using the 5-point scale, where “1” means “not at all” and 5 means “to a great extent.”

<i>The Canadian Film or Video Production Tax Credits has enabled your company to...</i>	1 Not at all	2	3	4	5 To a great extent	Don't Know / Not Sure
a) engage in additional project development activities	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
b) increase its level of equity in production projects	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
c) hire/retain additional corporate personnel (e.g., business affairs)	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
d) build a library of distribution rights for film and video properties	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>

4.3 Results of Analysis

Overall, the survey results indicate that the CPTC is helping at least some production companies – particularly larger ones – to a great extent in all the rated categories. In fact, about one-half of producers gave a “4” or “5” score on a five-point scale (“5” being the highest). However, there were fairly significant differences among the results. The survey results are shown in Figure 32, and each indicator is analyzed below.

Figure 32 Rating of the Impact of CPTC on Corporate Development, Survey Results



Source: Kelly-Sears Consulting survey of CPTC recipients
N=126

a) Engage in Additional Project Development Activities

Approximately 56% of survey respondents reported that the CPTC has a strong impact (a “4” or “5” rating) on their ability to engage in additional project development activities. Approximately 29% reported that the CPTC has only a weak impact, including 15% who reported that it has no impact at all.

b) Increase its Level of Equity in Production Projects

Sixty-eight per cent of respondents reported that the CPTC has a strong impact on their ability to increase their level of equity in production projects. Indeed, 51% of respondents indicated that the CPTC enabled them “to a great extent” (a “5” rating) to increase their equity in projects. Only 14% reported a weak impact; with 10% reporting no impact at all. These results are not surprising; within the financing structure of a project, any tax credit financing is deemed to be producer equity.

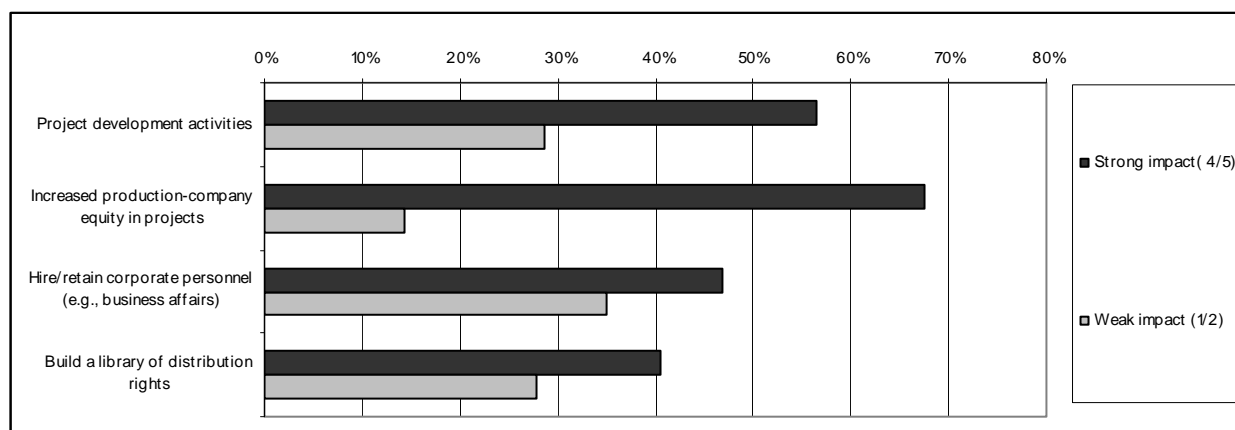
c) Hire/Retain Additional Corporate Personnel

Forty-seven per cent of survey respondents reported that the CPTC has a strong impact on their ability to hire and retain corporate personnel. Approximately 35% reported the CPTC has a weak impact; 22% reported that it has no impact at all. The survey results suggest that the CPTC has been a key factor in allowing a minority of production companies to grow and develop to the point where they could employ corporate personnel, but had not much impact for many other companies. The proportion of respondents that indicated that the CPTC enables them “to a great extent” to hire and retain corporate personnel was 28% – much lower than the rates for project development and equity retention.

d) Build a Library of Distribution Rights for Film and Video Properties

Forty-one percent of survey respondents reported that the CPTC has a strong impact (“4” or “5” on the rating scale) on their ability to build a library of distribution rights. However, only 29% of survey respondents reported that the CPTC has a “5” rating in the impact score. As well, 28% reported that the CPTC has a weak impact on this aspect of corporate development, with 18% reporting that it has no impact at all.

To further illustrate the results of the survey, the study team contrasted the strong vs. the weak impact scores in Figure 33 below.

Figure 33 Rating of the Impact of CPTC on Corporate Development, Strong Impact vs. Weak Impact Responses

Source: Kelly-Sears Consulting survey of CPTC recipients

N=126

Note: "Strong Impact" refers to the percentage of total respondents who indicated a rating of "4" or "5 - To a great extent."

"Weak Impact" refers to the percentage of total respondents who indicated a rating of "1" or "2 - To a great extent."

The study team also examined the survey results in relation to the size of the responding production company.¹¹ In general, the results indicate that larger production companies experienced a stronger impact on corporate development as a result of the CPTC (see Appendix A, Figure A 1). The most pronounced variances between large and small companies were with respect to project development and retention of corporate personnel. Among large production companies with five or more employees, 71% reported that the CPTC had a strong impact on project development activities; the incidence among small production companies with fewer than five employees was 46%. In terms of the CPTC's impact on retention of corporate personnel, 62% of large companies reported a strong impact; whereas 37% of small companies reported a strong impact.

The study team also examined the impact of the CPTC on production companies with an international scope as opposed to a strictly domestic scope (see Appendix A, Figure A 1). A production company's geographic scope had some bearing on the impact of the CPTC on two elements of corporate development: production company equity and the building a library of distribution rights. Whereas 68% of production companies reported that the CPTC had a strong impact on their ability to increase their equity in production projects, 74% of production companies with international scope reported a strong impact. Fifty per cent of production companies with international scope reported that the CPTC had a strong impact on their ability to build libraries of distribution rights; on an overall basis,

¹¹ The survey measured production-company size in terms of number of employees and total company sales. The study team chose to use number of employees as the index of size. A production company's sales can fluctuate significantly from year to year, whereas the employee-base is likely to be more stable and therefore a better indicator of company size – i.e., the production company's capacity for producing television programs and films. With only a few exceptions, there was a strong correspondence between the survey responses when measured on the basis of number of employees or total company sales. Where differences did exist, the study team has noted them in this report.

41% of production companies reported a strong impact on this aspect of corporate development.

Summary

Most producers believe that the CPTC has a strong positive impact on (i) project development and (ii) increased project equity. As explained earlier, the latter is perfectly understandable. When the tax credit is included in the financing structure, it builds equity for the producer.

The CPTC's impact on expanding corporate personnel within the production company is less certain among producers: while 45% saw a strong impact, 35% saw a weak impact. Even less certain was the opinion that that the CPTC has a strong impact on production companies' ability to build a library of distribution rights – the strong impact (a “4” or “5” score) was reported by only 41% of the producers.

The impact of the CPTC on corporate development also appears to vary with respect to the size of the production company. A higher proportion of large production companies reported strong impacts on each of the four indicators of corporate development. For large production companies, there was a significantly higher likelihood of a strong impact of the CPTC on project development activities and the retention of corporate personnel, in relation to small production companies. Production companies with an international scope were also more likely to experience a strong impact from the CPTC on their ability to increase their equity in projects and build distribution libraries.

5. Analysis of Financing Stability

5.1 Introduction

Another objective of the CPTC is “to encourage a more stable financing environment” (Department of Canadian Heritage 1995) for production companies. Stable financing can be a difficult concept for analysts to define, let alone observe and measure. Companies across the economy can access and obtain a variety of financing products at a wide range of rates and terms. Company financing may come in the form of public equity, i.e., the sale of company shares to the public. Companies may raise debt financing by issuing bonds; they may also raise debt financing by establishing bank lines of credit that permit them to access a fixed level of short-term debt financing, based on various measures of financial performance. In addition to conventional equity and debt financing, there exists a wide array of hybrid financing products that combine characteristics of both equity and debt.

In some cases, the credit-worthiness or economic prospects of Canadian companies prevents them from accessing external financing; for such companies the only sources of financing include the owners, their family and friends, retained earnings, and government assistance. For other companies that are, in fact, in a position to access external financing, the *cost* of this financing can vary along several dimensions. The cost of external financing, or the financiers’ required rate of return, depends on interest rates, the business risk of the company, and the specific risk of the financing.

An environment of stable financing conjures up images of situations in which companies have some certainty about the financing conditions that they face in the present and the future. In other words, the companies have the ability to plan their future operations and investments with a degree of certainty about the amount of financing available to them and the cost to them to access this financing.

In the context of the film and television production industry, financing stability can mean that production companies can readily access the amount of financing they require at reasonable rates so as to maintain their businesses. This type of definition or characterization of financing stability requires the analyst to investigate two separate questions.

1. Are companies able to obtain, on an ongoing basis, the financing they require to fulfil their projected working capital (short-term) and long-term capital requirements?
2. Are companies able to obtain their required financing at reasonable rates?

In terms of project financing, the tax credit can be considered “more stable” than the other major financing options available to Canadian producers. Funding from the federal government’s two largest direct funding programs for film and video production – the CTF and CFFF – is limited and its allocation is unpredictable: producers have no assurance that they will receive such funding year-in and year-out.

Before the CTF adopted its Broadcaster Performance Envelope (BPE) system to govern the allocation of CTF monies, the CTF was typically oversubscribed: producer demand for funding exceeded the fixed amount of annual funding available from the CTF. In 2003/04 (before the full introduction of the BPE system), for example, the CTF had a funding success rate of 65%: 362 projects out of a total of 553 applications received funding (Canadian Television Fund 2007b, p.13). Today, CTF funding is made available to producers through a BPE system, under which Canadian broadcasters make the funding allocation decisions, subject to CTF guidelines. The BPE system is market-based, but it still imparts a degree of uncertainty for Canadian producers seeking to finance their television projects.

While part of the CFFF is performance-based – and thereby relatively predictable for producers with performance envelopes – the Selective Component of the CFFF remains a source of uncertainty for feature film producers.

Foreign financing is also very unstable as a source of financing. It can fluctuate significantly from year-to-year depending on foreign broadcasters' programming needs or foreign distributors' expectations of how well a film or TV show will sell in foreign markets. Indeed, on an aggregate basis, foreign financing of Canadian film and video production has been on the decline. Between 2001/02 and 2005/06, the annual level of foreign financing of Canadian production dropped from \$432 million to \$261 million – a decrease of 40% (Table 39). As a share of total production financing, foreign financing decreased from 21% to 12%.

Canadian broadcaster licence fees are relatively consistent on an annual basis compared to other types of financing for Canadian production, but this is only because all Canadian television projects require a broadcaster licence. This does not mean that particular projects are receiving the same or more amounts in subsequent years, however. Between 2001/02 and 2005/06 Canadian broadcaster licence fees grew from \$423 million to \$617 million – an increase of 46% (Table 39 combining private and public broadcaster fees).

Table 39 Sources of Financing for Canadian Film and Television Production

	2001/02		2002/03		2003/04		2004/05		2005/06	
	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions
Private broadcaster licence fees	14%	290	17%	351	19%	383	21%	414	19%	418
Public broadcaster licence fees	7%	133	7%	155	8%	168	9%	181	9%	199
Federal tax credit	9%	173	9%	179	10%	198	10%	205	10%	213
Provincial Tax Credit	11%	220	11%	235	12%	253	13%	255	15%	330
Canadian distributor	12%	240	9%	187	8%	169	7%	134	6%	136
Foreign	21%	432	19%	386	16%	340	12%	245	12%	261
Production company	5%	99	4%	88	5%	94	3%	68	3%	70
Public*	11%	213	12%	244	11%	227	11%	220	11%	236
Other private**	11%	213	12%	259	11%	233	14%	271	14%	296
Total	100%	2,013	100%	2,084	100%	2,065	100%	1,993	100%	2,159

Source: Estimates based on data obtained from CAVCO. Based on CAVCO classifications. Note: some totals may not add due to rounding.

* Public includes financing from the Canadian Television Fund (Equity Investment Program), provincial governments, Telefilm Canada and other government departments and agencies.

** Other Private includes financing from the Canadian Television Fund (Licence Fee Program), independent production funds, broadcaster equity, and other private investors.

On an aggregate basis, the federal tax credit is relatively stable. It accounted for 9% to 10% of total industry financing between 2001/02 and 2005/06 – ranging from annual levels of \$173 million to \$213 million.

A further area to explore as to the impact on a sustainable financing environment is related to the issue of building up the balance sheet of production companies. As structured, the CPTC and other tax credits can indirectly assist producers to build equity in their projects and their business. The tax credit portion of a project's financing structure is often considered the producer's "equity" in a project. Indeed, Telefilm Canada's recoupment schedules deem it as such.¹² When the producer holds more equity in a project, there is potentially more to gain from any after-market revenues generated by the project – whether this is through sales to distributors or directly to broadcasters.

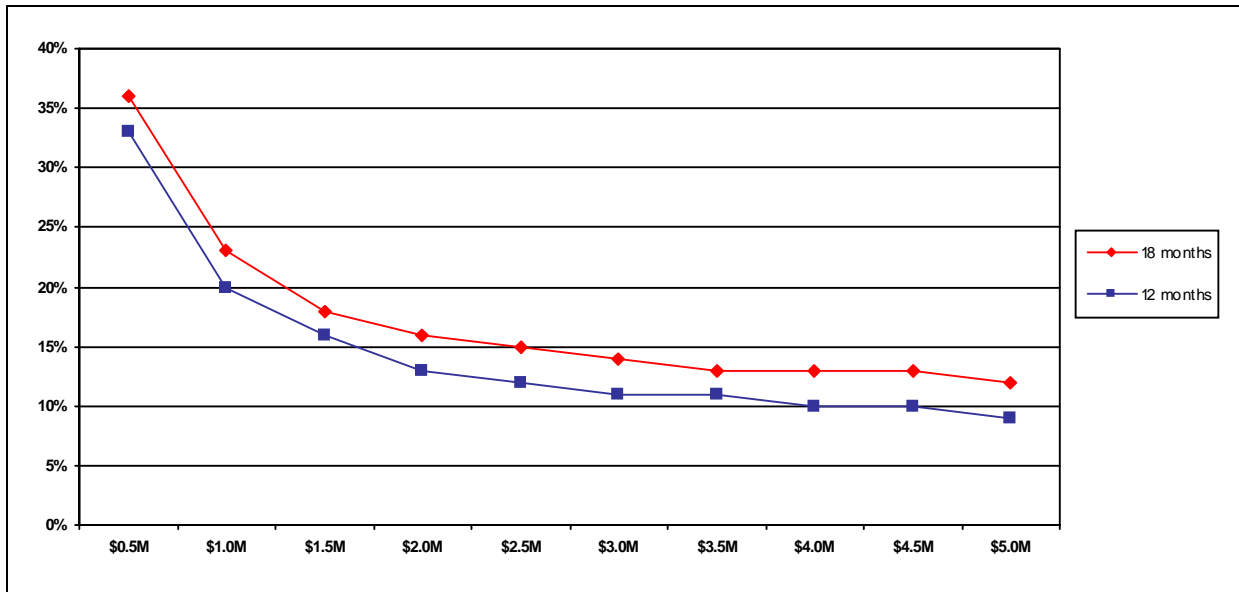
¹² Until recently, however, Telefilm Canada gave English-language producers a third-tier position in terms of equity recoupment on the basis of the tax credit. In other words, the equity of Telefilm Canada and other equity investors was given a preferred position in the recoupment grid vis-à-vis producer's tax credits. Telefilm Canada justified this by segmenting equity investments into "at-risk" investments and other investments. Telefilm Canada changed its recoupment policy in 2006. Going forward, producers' tax credits will be take a higher recoupment position than other equity (the recoupment model used for the French-language market

The producer does have to incur the cost of applying for and claiming the tax credit. Producers can initially access only 80% to 90% of their anticipated CPTC claim, because banks will only factor up to this amount in case some parts of the claim are not accepted following the final audit. What is more, a producer will face interim financing charges (typically 100 to 200 basis points above the Prime rate) to cash-flow the tax credits for production (Raymont 2007, p. 10; Nordicity 2005, p.64).

On top of the interest charges, producers face bank set-up fees of 2% of the loan amount (Raymont 2007, p. 10). Producers must also cover all of the legal fees associated with the bank transaction; these fees typically range from \$10,000 to \$20,000 (Raymont 2007, p. 10; Nordicity 2005, p.64). Notwithstanding these extra costs, the tax credit provides producers with unencumbered funding that they can apply towards equity in their projects. In effect, the relative certainty of the CPTC comes at a cost to producers.

Figure 34 shows the impact of these charges, illustrating that the cost is steeper for smaller productions because of the high set-up and legal fees.

Figure 34 Producer Cost of CPTC (producer’s total interest charges and administrative costs as a percentage of tax-credit claim)



Source: Nordicity calculations
 Assumptions: 8% interest rate; 2% set-up fee; \$15,000 in legal fees

For projects with budgets of \$5 million, the producer’s interest and administration costs can be equal to 9% to 12% of the bankable tax-credit amount (~85% of total CPTC claim) (Figure 34), depending on the time that elapses (12 months to 18 months) before the producer collects the CPTC. For projects with budgets under \$1 million, the costs can approach as high as 20% to 35% of the value of the CPTC claim (Figure 34). So, while the CPTC does make a significant contribution to the completion of project financing and at the same time provides the producer with additional equity in the project, the lag in the receipt of the monies diverts part of the project budget from the screen or from the production company.

5.2 Approach to Assessing Financing Stability

The definition for financing stability within the film and television production industry presents an empirical challenge. The type of data available from CAVCO, CRA and Statistics Canada does not provide the analyst with the type of data required to measure production companies' ability to access financing, or their ability to meet their business and investment requirements with the financing. The type of data from these sources also does not allow the analyst to observe and assess whether the financing terms are reasonable. Some type of primary-research approach is required to obtain the information or data that the analyst can use to address the measures or indicators of financing stability.

In light of these challenges, the study team elected to develop a set of indicators of financing stability and use a survey of CPTC recipients to ask them to rate the degree to which the CPTC enabled their production company to achieve the conditions described by the indicators. The survey questions asked CPTC recipients to rate the extent to which the CPTC has allowed their production company to do the following:

- a) improve management of the cash-flow requirements of film and video projects
- b) increase production company working capital
- c) increase its shareholders' equity on its balance sheet
- d) obtain external financing on "reasonable terms"
- e) establish an ongoing banking relationship

a) Improved Management of the Cash-Flow Requirements of Film and Video Projects

This survey question begins by asking producers to rate the impact that the CPTC had on their ability to improve their management of the cash-flow requirements of film and video projects. Although, the CPTC was originally designed to finance production companies between projects, there is no denying that it has become an important part of project financing. This question is designed to capture the project-financing aspect of the CPTC, with respect to financing stability. Film and video projects entail regularly scheduled outflows during principal photography; these outflows cover the labour and service costs of principal photography. The financing inflows for a film and video project, on the other hand, are far from regular and can often be mismatched with the outflows. Any financing tool that helps producers manage the cash flows of a project helps to improve financing stability.

b) Increased Production Company Working Capital

Production companies, themselves, also have cash-flow requirements, particularly between projects. Working capital refers to the difference between a company's current assets and liabilities. A company with a healthy working-capital position is better positioned to meet the short-term fluctuations in its business operations. A company with

a weak working-capital position is in a precarious situation: it may find itself having difficulty meeting its short-term financial obligations without resorting to long-term financing of some type.

For this survey question, the study team asks producers to rate the impact that the CPTC had on helping them build their working capital at the production-company level. While it is clear that the CPTC goes into the financial structure of projects, the objective was to determine whether there was still some direct or indirect value in terms of increased working capital from the producer's perspective.

c) Increased Its Shareholders' Equity on Its Balance Sheet

The survey asks producers to rate the impact that the CPTC had on their ability to increase the shareholders' equity on their production company's balance sheet. Shareholders' equity includes retained earnings; it also includes the book value of the production company's issued capital stock. These two sources of financing – retained equity and capital stock – can improve the financing situation of a production company because they allow the production company to have less reliance on debt financing. Again, the study team asked this question even though it recognized that the CPTC typically goes into the project financing.

d) Ability to Obtain External Financing on "Reasonable Terms"

The survey asks producers to rate the impact that the CPTC had on their production company's ability to obtain bank credit or other external financing on *reasonable* terms to invest in project development or other business activities.

In Section 5.1, the study team discussed how the terms of the financing is critical to the question of stability. A production company may still have access to financing; however, this financing may only be available at terms which make it uneconomic for the production company to actually obtain the funds on this basis.

The concept of *reasonable rates* is highly subjective and rather ambiguous. The survey defers to the responding producer's judgement to define this concept. Production companies – like other businesses – are subject to a wide range of interest rates and amortization schedules with respect to their business loans; the interest rates and amortization schedules are largely a function of a particular producer's credit-worthiness and loan collateral. Producer's can typically obtain loans collateralized by tax credit claims at rates just above the Prime rate – the rate often to considered the standard rate offered to banks business clients. Unsecured loans would typically be only available at higher rates, unless the producer's credit-worthiness can offset the lack of security.

The study team notes that there appears to be a very active market for cash-flow loans secured by tax credits. RBC and National Bank operate dedicated banking practices for tax credit loans; and their bankers are visible participants at industry trade shows. It is unclear if banks are as eager to finance production companies themselves; there is no

information to suggest that Canadian banks treat production companies any differently from other Canadian businesses with similar financial conditions.

Producers may also seek and obtain equity financing to capitalize their companies; it is more likely, however, that they will issue equity against particular projects. Again, equity investments come with an implied rate of return or cost of capital. The survey leaves it to the producer to judge if the implied rate of return it must offer equity investors is reasonable.

e) Ability to Establish an Ongoing Banking Relationship

The survey asks producers to rate the impact the CPTC had on their production company's ability to establish an ongoing business relationship with a bank or other financial institution that allows them to access financial credit for purposes *other* than principal photography or post production. This indicator is meant to capture the essence of stable financing at the corporate level – the ability to finance operations in between projects.

Production companies in Canada do not experience significant difficulty engaging banks to provide cash-flow financing or other types of financial products on the basis of the tax credits, direct government funding, or Canadian broadcaster licence fees. All of these forms of financing provide banks with a relatively high level of assurance that the production company will be able to pay back loans made on the basis of these primary sources of financing. The goal of the CPTC, however, is to help production companies operate between projects. For production companies to carry on their business between projects, they often require short-term credit services or other financial services from banks or other financial institutions. To obtain these types of financial services, a production company – or any company, for that matter – requires a productive business relationship with a bank or other financial institution.

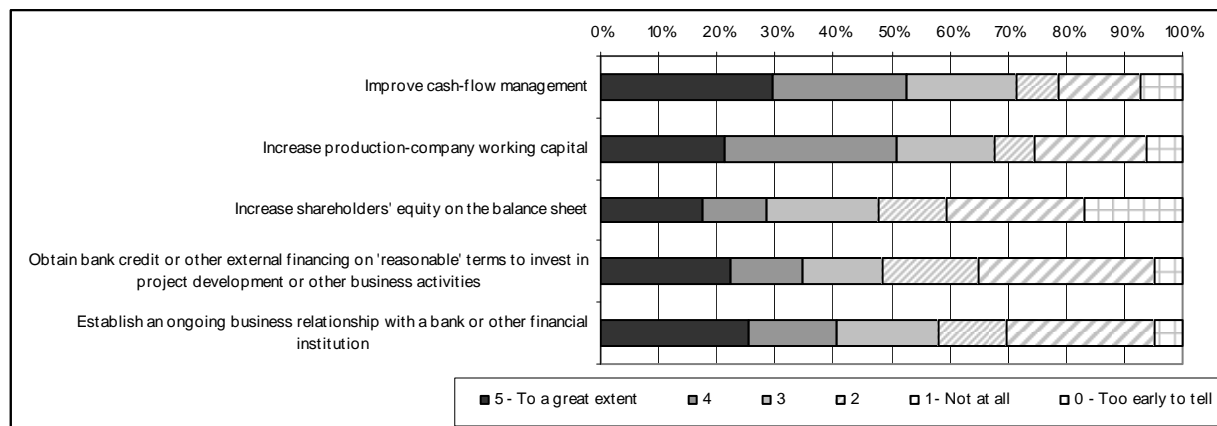
To address these indicators of financing stability, the study team posed the following survey question:

Thinking of all of the Canadian Film or Video Production Tax Credits your company has received over the past five years, how would you rate the impacts of the tax credits on your company's financial performance? For each of the following possible impacts, please respond using the 5-point scale, where "1" means "not at all" and 5 means "to a great extent."

<i>The Canadian Film or Video Production Tax Credits have enabled your company to...</i>	1 Not at all	2	3	4	5 To a great extent	Don't Know / Not Sure
a) improve its management of the cash-flow requirements of film and video projects	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
b) increase its working-capital position	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
c) increase its shareholders' equity on its balance sheet	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
d) obtain bank credit or other external financing on "reasonable terms" to invest in project development or business activities other than for the purpose of principal photography or post production	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>
e) establish an ongoing business relationship with a bank or other financial institution that allows your company to access financial credit for purposes other than principal photography or post production	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	8 <input type="checkbox"/>

5.3 Results of Analysis

Overall, producers reported that the CPTC does indirectly help their production companies address the cash-flow demands of a production schedule, but it does very little to improve their production companies' ability to develop sources of stable *company* financing – either through internal or external equity, or banking credit. Figure 35 shows the survey results for each of the five indicators rated – again along a five-point scale, where "5" is the top score ("to a great extent").

Figure 35 Rating of the Impact of CPTC on Financing Stability, Survey Results

Source: Kelly-Sears Consulting survey of CPTC recipients
N=126

a) Improved Management of the Cash-Flow Requirements of Film and Video Projects

Fifty-two per cent of survey respondents reported that the CPTC has a strong impact (“4” or “5” score) on their production company’s ability to improve the management of cash-flow requirements of film and video projects. In contrast, about 26% of respondents reported a weak impact; of this amount, 19% reported that the CPTC actually has no impact at all.

The results indicate that for about one-half of CPTC recipients, the CPTC makes an important contribution to the stable financing of film and video projects, by improving producers’ cash-flow management. This result is understandable: producers can typically obtain cash-flow financing from Canadian banks for 85% to 90% of the value of their estimated CPTC claim. So, while the production company does not actually receive the CPTC until 12 to 18 months after the start of the project, it can start meeting many of its financial obligations on the basis of the bank financing that it can obtain with the tax credit as collateral.

The tax credit is not the only form of project financing for which the producer may obtain cash-flow financing from Canadian banks. Broadcaster licence fees, payments from the CTF, and other direct government funding also represent reliable forms of project financing for which Canadian banks will provide cash-flow financing at reasonable terms. This additional level of financing possibly explains why approximately 14% of CPTC recipients felt that it had no impact at all on the management of their project cash flow.

b) Increased Production-Company Working Capital

Approximately one-half of survey respondents reported that the CPTC enables them to increase their production company’s working capital. This is a high rating, considering that most producers include the CPTC as part of the project-financing structure.

Evidently, producers see that including the CPTC in project financing and obtaining cash-flow financing with the CPTC as collateral takes enough pressure off the production company to allow it to build up its working capital during production.

c) Increased Its Shareholders' Equity on Its Balance Sheet

Twenty-nine per cent of survey respondents reported that the CPTC has a strong impact on their ability to raise the shareholders' equity of their production companies. Approximately 36% reported that the CPTC has a weak impact; from among this group of respondents, 24% indicated that the CPTC has no impact at all. So, while the CPTC is effective in allowing producers to retain equity in their projects, this ability has not translated into higher retained earnings at the corporate level.

The CPTC permits producers to obtain large amounts of debt financing for their projects, but it appears as though it has not helped them increase the most stable form of financing – retained earnings – for their production companies.

d) Ability to Obtain External Financing on “Reasonable Terms”

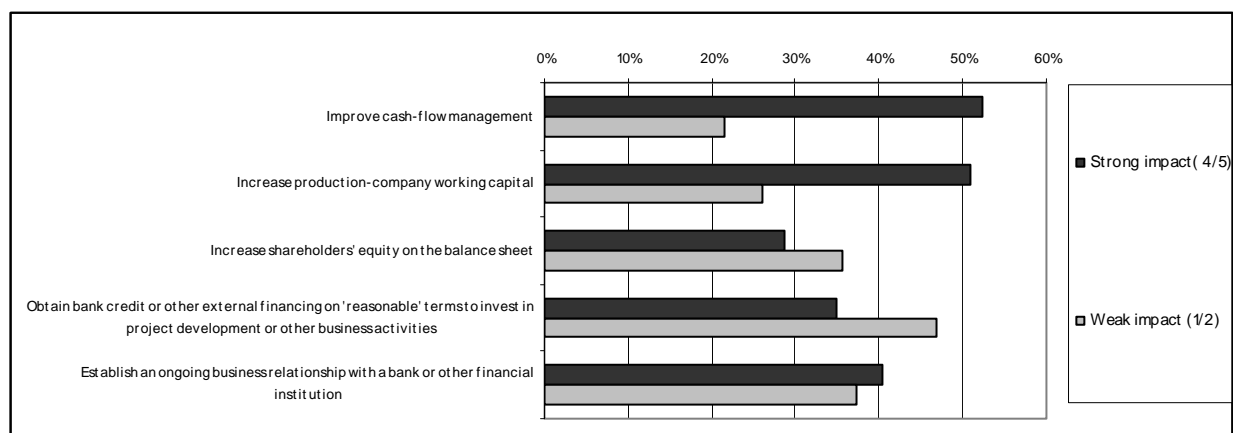
Thirty-five per cent of survey respondents reported that the CPTC has a strong impact on their ability to obtain external financing on reasonable terms for non-production activities such as project development. Conversely, 47% of respondents indicated that the CPTC has a weak impact on this aspect of the production business.

It is interesting to compare the results to this question to the results on the measures of corporate development. Whereas over one-half of producers felt that the CPTC did contribute to the development of non-production activities within their companies, about one-half felt that the CPTC did not help them obtain financing for such activities.

e) Ability to Establish an Ongoing Banking Relationship

Approximately 40% of survey respondents reported that the CPTC has a strong impact on their ability to establish an ongoing business relationship with a bank or other financial institution, allowing them to access financial credit for purposes other than principal photography or post-production activities. At the same time, 40% of survey respondents also reported that the CPTC has a weak impact or no impact at all. The results for this question were practically symmetrical along the rating axis, with 25% reporting that the CPTC factors into their ability “to a great extent” and 25% reporting no impact at all.

Figure 36 Rating of the Impact of CPTC on Financing Stability, Strong Impact vs. Weak Impact Responses



Source: Kelly-Sears Consulting survey of CPTC recipients

N=126

Note: "Strong Impact" refers to the percentage of total respondents who indicated a rating of "4" or "5 - To a great extent."

"Weak Impact" refers to the percentage of total respondents who indicated a rating of "1" or "2 - To a great extent."

The study team also examined the survey results in relation to the size of the responding production company. In general, the results indicate that large production companies (companies with five or more employees) were more likely to experience a strong positive impact on financing stability as a result of the CPTC (see Appendix A, Figure A 2). For four of the five indicators of financing stability, a significantly higher proportion of large production companies reported a strong positive impact. It was only when it came to establishing an ongoing business relationship with a bank or financial institution, that the proportion of large production companies reporting a strong impact (44%) was only slightly higher than the proportion of small production companies (fewer than five employees) (38%) reporting a strong impact.

The survey results point to only a weak relationship between the impact of the CPTC on financing stability and a production company's geographic scope (see Appendix A, Figure A 2). For all five indicators of financing stability, the proportion of production companies with international geographic scope which reported a strong impact was within four percentage points of the overall proportion.

Summary

Production companies report that the CPTC has a strong impact on improving their cash-flow management on production projects; they also report that the CPTC increases their working-capital position. These responses largely reflect the fact that the CPTC provides security that triggers interim bank financing for television and film projects.

The survey results indicate, however, that the CPTC has only a weak impact on production companies' ability to build internal sources of financing, i.e., retained earnings and shareholders' equity. What is more, because the CPTC is used within the

project-financing structure, it is having only a weak impact on production companies' ability to obtain reasonable credit outside of production projects.

The impact of the CPTC on financing stability does vary somewhat with respect to the size of the production company. A higher proportion of large production companies reported strong impacts on four of the five indicators of financing stability. Production-company size did not appear to be a strong factor for production companies' ability to establish an ongoing relationship with a bank or financial institution.

6. Summary of Findings and Relevance to Summative Evaluation of CPTC

6.1 Findings on Incrementality

Due to a lack of suitable data, the study team was unable to conduct an ideal experimental-design analysis that included control and treatment groups existing before and after the introduction of the CPTC. In light of this data challenge, the study team developed an alternative analysis that was more generalized in its approach: Instead of analyzing the impact of the introduction of the CPTC per se, the study team used provincial variations in the combined (provincial + federal) tax credit assistance rates to analyze the impact that an increase in the tax credit assistance rate had on per-hour private financing for Canadian film and television projects.

The study team developed a difference-in-difference econometric model to investigate the impact that higher tax credit assistance had on private financing levels for CPTC projects. The study estimated the difference-in-difference model using a simple parameter-estimation approach. With the model, the study team sought to investigate if the increase in tax credit assistance led to crowding out of private financing – that is, a reduction in private financing flowing to English-language television production.

The regression results from the estimation of the difference-in-difference model indicate that there was no change – positive or negative – in per-hour levels of private financing following exposure to a higher tax-credit assistance rate. Therefore, the results provide no basis to reject the null hypothesis that the increase in tax credit assistance had no effect on private financing for film and television production. In other words, there is no evidence of crowding out, and therefore, there was an incremental increase in the size of English-language television projects in the treatment group following the increase in tax credit assistance.

While the results from the difference-in-difference model point to tax credit assistance as not leading to any crowding out of private financing and therefore resulting in an increase in production expenditures, one should approach the results with caution. Caution should be exercised largely because the analysis really does not provide an experimental design that is suitable for testing the impact of the introduction of the CPTC in 1995.

6.2 Findings on Corporate Development

One of the objectives of the CPTC is “to encourage longer-term corporate development for production companies, rather than focus simply on single project financing” (Department of Canadian Heritage 1995). While there are many qualitative aspects to corporate development, one can use company’s operating and financial data to make some inferences about the direction of its corporate development. Increasing revenues, profitability, salary expenditures, retained earnings, equity investments, and intangible

assets all suggest that a company is developing into a larger enterprise with revenue-producing assets, multiple lines of business, and a broad customer base.

At the outset of the project, the study team envisioned a longitudinal analysis of financial-statement data as the primary methodology for measuring corporate development among CPTC recipients. However, because of limitations in available data, the study team resorted to a survey-based analysis. The survey asked producers to rate the impact that the CPTC has on the following four qualitative indicators of corporate development within the film and television production community: (i) engage in additional project development activities; (ii) increase its level of equity in production projects; (iii) hire/retain additional corporate personnel (e.g., business affairs); and (iv) build a library of distribution rights for film and video properties.

The survey results indicate that most producers believe that the CPTC does indeed have a strong positive impact on (i) project development and (ii) increased project equity. The latter is perfectly understandable: when the tax credit is included in the financing structure, it builds equity for the producer. The CPTC's impact on expanding corporate personnel within the production company is less certain among producers: while 45% saw a strong impact, 35% saw a weak impact. Even less certain was the opinion that that the CPTC has a strong impact on production companies' ability to build a library of distribution rights – the strong impact (a “4” or “5” score) was reported by only 41% of the producers.

In conclusion, the research results do not really permit the study team to strongly conclude that the CPTC is having a positive impact on production companies' corporate development. Part of the industry is experiencing corporate development attributable to the CPTC; but a large share of CPTC recipients is not experiencing the same positive effect or cannot attribute any positive impact to the CPTC.

Of course, this type of environment is entirely expected. In most industries where there are relatively low barriers to entry, one is likely to find populations of firms that have established some type of competitive advantage and thereby are able to earn extra-normal rates of return that attract capital and allow them to develop on a corporate basis; one can also expect to find firms that lack competitive advantage and ultimately earn sub-normal rates of return that warrant exit in the long-term. The survey is a snapshot of this environment. What is more, the tax credit assistance essentially stimulates entry of firms that would otherwise find it uneconomic to enter; it also allows these marginal firms to earn rates of return that likely preclude exit, when compared to a situation without tax credit assistance.

6.3 Findings on Financing Stability

In terms of project financing, the tax credit can be considered more stable than the other major financing options available to Canadian producers. Funding from the federal government's two largest direct funding programs for film and video production – the CTF and CFFF – is limited and its allocation is unpredictable: producers have no

assurance that they will receive such funding year-in and year-out. Foreign financing is also very unstable as a source of financing; it can fluctuate significantly from year-to-year depending on foreign broadcasters' programming needs or foreign distributors' expectations of how well a film or TV show will sell in foreign markets. Canadian broadcasters' licence fees are relatively consistent on an annual basis compared to other types of financing for Canadian production, but this is only because all Canadian television projects require a broadcaster licence.

As structured, the CPTC and other tax credits can indirectly assist producers to build equity in their projects and their business, and thereby help them build-up their company's balance sheet. The tax credit portion of a project's financing structure is often considered the producer's *equity* in a project. Indeed, Telefilm Canada's recoupment schedules deem it as such. When the producer holds more equity in a project, there is potentially more for her to gain from any after-market revenues generated by the project – whether this is through sales to distributors or directly to broadcasters.

The producer does have to incur the cost of applying for and claiming the tax credit, however. Producers can initially access only 80% to 90% of their anticipated CPTC claim, because banks will only factor up to this amount in case some parts of the claim are not accepted in the final audit of the claim. What is more, a producer will face interim financing charges (typically 100 to 200 basis points above the Prime rate) to cash-flow the tax credits for production (Raymont 2007, p. 10; Nordicity 2005, p.64). On top of the interest charges, producers face bank set-up fees of 2% of the loan amount (Raymont 2007, p. 10). Producers must also cover all of the legal fees associated with the bank transaction; these fees typically range from \$10,000 to \$20,000 (Raymont 2007, p. 10; Nordicity 2005, p.64). Notwithstanding these extra costs, the tax credit provides producers with unencumbered funding that they can apply towards equity in their projects. In effect, the relative certainty of the CPTC comes at a cost to producers.

Production companies report that the CPTC does indeed have a strong impact on improving their cash-flow management on production projects; they also report that the CPTC increases their working-capital position. These responses largely reflect the fact that the CPTC provides security that triggers bank financing for television and film projects.

However, producers also report that the CPTC has only a weak impact on their ability to build internal sources of financing, i.e., retained earnings and shareholders' equity. What is more, because the CPTC is used within project-financing structures, it is having only a weak impact on production companies' ability to obtain reasonable credit outside of production projects.

In conclusion, the CPTC has definitely injected a higher degree of financing stability into film and television projects; and in this regard, it is probably an improvement over the CCA. However, the dynamics of the Canadian television marketplace have probably prevented the CPTC from also being an effective tool for improving financing stability at the production-company level. Producers have, for many years, had difficulty raising the

budgets required to create high-quality Canadian films and television programs without including the CPTC and other tax credits as budget items. While rules and guidelines (such as the CTF guidelines) can compel or at least encourage producers do keep part of their tax credit assistance outside of production projects, this may only result in lower-budget projects, smaller projects (fewer episodes) or fewer projects.

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Appendix A Statistical Tables and Figures

Table A 1 CPTC-Supported Production Volume, by Release Market

Fiscal year	Television	Theatrical	Other	Total
1994/95	74,539,468	18,600,213	0	93,139,681
1995/96	460,085,930	104,800,693	4,824,111	569,710,734
1996/97	1,048,875,019	188,213,272	2,202,311	1,239,290,602
1997/98	936,658,926	242,522,957	6,632,045	1,185,813,928
1998/99	1,515,500,878	205,874,570	7,572,151	1,728,947,599
1999/00	1,587,154,875	228,751,048	12,459,524	1,828,365,447
2000/01	1,500,606,361	225,998,730	6,774,144	1,733,379,235
2001/02	1,513,822,075	231,636,677	5,053,967	1,750,512,719
2002/03	1,521,898,435	295,083,378	11,739,740	1,828,721,553
2003/04	1,433,024,593	332,132,723	27,604,666	1,792,761,982
2004/05	1,522,430,500	178,827,591	23,117,293	1,724,375,384
2005/06	1,472,307,240	313,775,067	11,107,018	1,797,189,325
Total	14,586,904,301	2,566,216,919	119,086,970	17,272,208,189
Percentage of total	84.5%	14.9%	0.7%	100.0%

Source: CAVCO

Table A 2 CPTC-Supported Production for Television Market

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	96	74,539,468	5,988,442	8.0%
1995/96	307	460,085,930	38,525,485	8.4%
1996/97	538	1,048,875,019	92,896,356	8.9%
1997/98	498	936,658,926	84,362,908	9.0%
1998/99	708	1,515,500,878	143,596,898	9.5%
1999/00	795	1,587,154,875	151,004,214	9.5%
2000/01	890	1,500,606,361	142,854,312	9.5%
2001/02	968	1,513,822,075	138,957,300	9.2%
2002/03	1,046	1,521,898,435	139,790,300	9.2%
2003/04	1,020	1,433,024,593	149,910,501	10.5%
2004/05	1,093	1,522,430,500	167,757,435	11.0%
2005/06	963	1,472,307,240	160,686,039	10.9%
Total	8,922	14,586,904,301	1,416,330,189	9.7%
Average 1995/96 to 2002/03	--	--	--	9.2%
Average 2004/05 to 2005/06	--	--	--	11.0%

Source: CAVCO

Table A 3 CPTC-Supported Production for Theatrical Market

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	12	18,600,213	193,829	1.0%
1995/96	36	104,800,693	7,046,469	6.7%
1996/97	57	188,213,272	14,745,074	7.8%
1997/98	64	242,522,957	20,935,611	8.6%
1998/99	52	205,874,570	16,237,681	7.9%
1999/00	71	228,751,048	19,051,044	8.3%
2000/01	64	225,998,730	16,997,502	7.5%
2001/02	67	231,636,677	14,367,540	6.2%
2002/03	80	295,083,378	20,728,966	7.0%
2003/04	92	332,132,723	25,252,152	7.6%
2004/05	61	178,827,591	12,540,658	7.0%
2005/06	80	313,775,067	23,576,879	7.5%
Total	736	2,566,216,919	191,673,405	7.5%
Average 1995/96 to 2002/03	--	--	--	7.6%
Average 2004/05 to 2005/06	--	--	--	7.3%

Source: CAVCO

Table A 4 CPTC-Supported Production for Other Release Markets

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	0	0	0	--
1995/96	3	4,824,111	534,016	11.1%
1996/97	2	2,202,311	263,979	12.0%
1997/98	3	6,632,045	623,576	9.4%
1998/99	6	7,572,151	705,865	9.3%
1999/00	9	12,459,524	1,087,621	8.7%
2000/01	5	6,774,144	690,665	10.2%
2001/02	8	5,053,967	476,684	9.4%
2002/03	12	11,739,740	1,177,863	10.0%
2003/04	20	27,604,666	3,016,968	10.9%
2004/05	18	23,117,293	2,448,040	10.6%
2005/06	10	11,107,018	1,096,129	9.9%
Total	96	119,086,970	12,121,406	10.2%
Average 1995/96 to 2002/03	--	--	--	9.7%
Average 2004/05 to 2005/06	--	--	--	10.4%

Source: CAVCO

Table A 5 CPTC-Supported Production Volume, by Language

Fiscal year	English	French	Bilingual and other languages	Total
1994/95	45,161,564	47,978,117	0	93,139,681
1995/96	333,392,650	236,318,084	0	569,710,734
1996/97	958,706,675	275,002,049	5,581,878	1,239,290,602
1997/98	930,675,979	237,705,423	17,432,526	1,185,813,928
1998/99	1,416,803,893	289,672,258	22,471,448	1,728,947,599
1999/00	1,431,003,218	340,188,957	57,173,272	1,828,365,447
2000/01	1,272,258,863	330,517,814	130,602,558	1,733,379,235
2001/02	1,246,203,737	413,235,375	91,073,607	1,750,512,719
2002/03	1,326,189,317	432,479,855	70,052,381	1,828,721,553
2003/04	1,234,878,769	465,883,297	91,999,916	1,792,761,982
2004/05	1,207,002,447	471,495,592	45,877,345	1,724,375,384
2005/06	1,250,221,110	505,479,658	41,488,557	1,797,189,325
Total	12,652,498,222	4,045,956,479	573,753,488	17,272,208,189
Percentage of total	73.3%	23.4%	3.3%	100.0%

Source: CAVCO

Table A 6 CPTC-Supported English-Language Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	45	45,161,564	3,196,228	7.1%
1995/96	186	333,392,650	29,367,254	8.8%
1996/97	406	958,706,675	86,765,056	9.1%
1997/98	377	930,675,979	87,260,876	9.4%
1998/99	490	1,416,803,893	135,239,275	9.5%
1999/00	526	1,431,003,218	138,435,103	9.7%
2000/01	571	1,272,258,863	121,090,011	9.5%
2001/02	607	1,246,203,737	112,215,753	9.0%
2002/03	671	1,326,189,317	120,655,521	9.1%
2003/04	661	1,234,878,769	127,797,512	10.3%
2004/05	683	1,207,002,447	128,502,958	10.6%
2005/06	604	1,250,221,110	127,230,178	10.2%
Total	5,827	12,652,498,222	1,217,755,725	9.6%
Average 1995/96 to 2002/03	--	--	--	9.3%
Average 2004/05 to 2005/06	--	--	--	10.4%

Source: CAVCO

Table A 7 CPTC-Supported French-language Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	63	47,978,117	2,986,042	6.2%
1995/96	160	236,318,084	16,738,717	7.1%
1996/97	189	275,002,049	20,661,236	7.5%
1997/98	180	237,705,423	16,855,104	7.1%
1998/99	259	289,672,258	23,282,363	8.0%
1999/00	323	340,188,957	27,272,213	8.0%
2000/01	332	330,517,814	26,430,254	8.0%
2001/02	389	413,235,375	32,663,626	7.9%
2002/03	409	432,479,855	35,182,729	8.1%
2003/04	409	465,883,297	42,509,619	9.1%
2004/05	434	471,495,592	49,574,031	10.5%
2005/06	417	505,479,658	53,749,136	10.6%
Total	3,564	4,045,956,479	347,905,070	8.6%
Average 1995/96 to 2002/03	--	--	--	7.8%
Average 2004/05 to 2005/06	--	--	--	10.6%

Source: CAVCO

Table A 8 CPTC-Supported Production in Bilingual Format and Other Languages

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	0	0	0	--
1995/96	0	0	0	--
1996/97	2	5,581,878	479,118	8.6%
1997/98	8	17,432,526	1,806,114	10.4%
1998/99	17	22,471,448	2,018,806	9.0%
1999/00	26	57,173,272	5,435,562	9.5%
2000/01	56	130,602,558	13,022,214	10.0%
2001/02	47	91,073,607	8,922,145	9.8%
2002/03	58	70,052,381	5,858,879	8.4%
2003/04	62	91,999,916	7,872,491	8.6%
2004/05	55	45,877,345	4,669,143	10.2%
2005/06	32	41,488,557	4,379,732	10.6%
Total	363	573,753,488	54,464,204	9.5%
Average 1995/96 to 2002/03	--	--	--	9.5%
Average 2004/05 to 2005/06	--	--	--	10.4%

Source: CAVCO

Table A 9 CPTC-Supported Production Volume, by Genre

Fiscal year	Fiction	Children's	Documentary	Magazine	Variety	Other	Total
1994/95	35,702,319	22,692,008	18,213,450	9,672,827	5,952,487	906,590	93,139,681
1995/96	326,629,807	110,769,852	65,500,247	31,952,307	31,642,372	3,216,149	569,710,734
1996/97	809,620,424	216,753,505	104,650,931	48,954,499	44,207,093	15,104,150	1,239,290,602
1997/98	806,065,594	145,835,250	111,871,512	37,090,794	57,609,840	27,340,938	1,185,813,928
1998/99	1,029,586,303	330,653,074	220,088,051	58,956,917	60,193,483	29,469,771	1,728,947,599
1999/00	1,146,122,703	331,866,241	156,922,990	82,131,916	71,041,305	40,280,292	1,828,365,447
2000/01	973,968,830	312,056,466	222,257,662	104,349,090	84,368,863	36,378,324	1,733,379,235
2001/02	962,873,414	303,293,662	250,596,109	110,242,941	97,387,456	26,119,137	1,750,512,719
2002/03	1,006,396,735	258,431,298	267,096,246	120,320,810	119,929,961	56,546,503	1,828,721,553
2003/04	942,471,119	238,708,102	325,710,471	101,913,439	127,927,155	56,031,696	1,792,761,982
2004/05	852,754,116	236,163,941	317,373,792	118,965,727	102,852,394	96,265,414	1,724,375,384
2005/06	1,022,410,869	233,249,752	290,401,696	105,595,743	84,601,366	60,929,899	1,797,189,325
Total	9,914,602,233	2,740,473,151	2,350,683,158	930,147,010	887,713,775	448,588,863	17,272,208,189
Percentage of total	57.4%	15.9%	13.6%	5.4%	5.1%	2.6%	100.0%

Source: CAVCO

Table A 10 CPTC-Supported Fiction Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	24	35,702,319	1,277,794	3.6%
1995/96	88	326,629,807	25,023,090	7.7%
1996/97	163	809,620,424	70,826,048	8.7%
1997/98	153	806,065,594	72,040,069	8.9%
1998/99	174	1,029,586,303	97,311,679	9.5%
1999/00	215	1,146,122,703	107,666,649	9.4%
2000/01	182	973,968,830	89,245,014	9.2%
2001/02	206	962,873,414	81,751,305	8.5%
2002/03	226	1,006,396,735	86,074,548	8.6%
2003/04	210	942,471,119	88,344,362	9.4%
2004/05	231	852,754,116	83,987,839	9.8%
2005/06	250	1,022,410,869	96,886,046	9.5%
Total	2,122	9,914,602,233	900,434,443	9.1%
Average 1995/96 to 2002/03	--	--	--	8.9%
Average 2004/05 to 2005/06	--	--	--	9.6%

Source: CAVCO

Table A 11 CPTC-Supported Children's Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	10	22,692,008	2,067,075	9.1%
1995/96	40	110,769,852	10,497,603	9.5%
1996/97	64	216,753,505	19,247,642	8.9%
1997/98	57	145,835,250	14,758,407	10.1%
1998/99	87	330,653,074	31,318,612	9.5%
1999/00	88	331,866,241	31,985,716	9.6%
2000/01	82	312,056,466	30,885,145	9.9%
2001/02	88	303,293,662	28,126,627	9.3%
2002/03	78	258,431,298	22,873,294	8.9%
2003/04	70	238,708,102	24,935,484	10.4%
2004/05	77	236,163,941	27,298,569	11.6%
2005/06	81	233,249,752	26,251,220	11.3%
Total	822	2,740,473,151	270,245,394	9.9%
Average 1995/96 to 2002/03	--	--	--	9.4%
Average 2004/05 to 2005/06	--	--	--	11.4%

Source: CAVCO

Table A 12 CPTC-Supported Documentary Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	47	18,213,450	1,162,430	6.4%
1995/96	127	65,500,247	4,532,606	6.9%
1996/97	226	104,650,931	8,061,021	7.7%
1997/98	204	111,871,512	7,989,431	7.1%
1998/99	312	220,088,051	17,658,876	8.0%
1999/00	312	156,922,990	12,690,167	8.1%
2000/01	401	222,257,662	18,606,467	8.4%
2001/02	453	250,596,109	21,414,511	8.5%
2002/03	481	267,096,246	23,002,582	8.6%
2003/04	550	325,710,471	32,281,993	9.9%
2004/05	528	317,373,792	33,607,906	10.6%
2005/06	444	290,401,696	31,485,370	10.8%
Total	4,085	2,350,683,158	212,493,359	9.0%
Average 1995/96 to 2002/03	--	--	--	8.1%
Average 2004/05 to 2005/06	--	--	--	10.7%

Source: CAVCO

Table A 13 CPTC-Supported Magazine-Programming Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	15	9,672,827	920,389	9.5%
1995/96	45	31,952,307	2,960,482	9.3%
1996/97	54	48,954,499	4,621,180	9.4%
1997/98	62	37,090,794	3,597,344	9.7%
1998/99	88	58,956,917	5,855,838	9.9%
1999/00	135	82,131,916	8,378,743	10.2%
2000/01	146	104,349,090	10,313,309	9.9%
2001/02	146	110,242,941	10,893,122	9.9%
2002/03	189	120,320,810	12,527,742	10.4%
2003/04	148	101,913,439	12,313,019	12.1%
2004/05	168	118,965,727	14,891,294	12.5%
2005/06	131	105,595,743	13,585,267	12.9%
Total	1,327	930,147,010	100,857,729	10.8%
Average 1995/96 to 2002/03	--	--	--	10.0%
Average 2004/05 to 2005/06	--	--	--	12.7%

Source: CAVCO

Table A 14 CPTC-Supported Variety Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	9	5,952,487	652,661	11.0%
1995/96	38	31,642,372	2,807,133	8.9%
1996/97	74	44,207,093	3,866,720	8.7%
1997/98	65	57,609,840	5,144,798	8.9%
1998/99	68	60,193,483	5,661,974	9.4%
1999/00	89	71,041,305	6,798,876	9.6%
2000/01	109	84,368,863	8,236,186	9.8%
2001/02	119	97,387,456	9,256,479	9.5%
2002/03	113	119,929,961	11,565,128	9.6%
2003/04	105	127,927,155	14,244,022	11.1%
2004/05	98	102,852,394	12,126,385	11.8%
2005/06	92	84,601,366	10,228,154	12.1%
Total	979	887,713,775	90,588,515	10.2%
Average 1995/96 to 2002/03	--	--	--	9.4%
Average 2004/05 to 2005/06	--	--	--	11.9%

Source: CAVCO

Table A 15 CPTC-Supported Production, Educational and Other

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	3	906,590	101,921	11.2%
1995/96	8	3,216,149	285,057	8.9%
1996/97	16	15,104,150	1,282,799	8.5%
1997/98	24	27,340,938	2,392,046	8.7%
1998/99	37	29,469,771	2,733,464	9.3%
1999/00	36	40,280,292	3,622,728	9.0%
2000/01	39	36,378,324	3,256,358	9.0%
2001/02	31	26,119,137	2,359,481	9.0%
2002/03	51	56,546,503	5,653,835	10.0%
2003/04	49	56,031,696	6,060,743	10.8%
2004/05	70	96,265,414	10,834,140	11.3%
2005/06	55	60,929,899	6,922,989	11.4%
Total	419	448,588,863	45,505,560	10.1%
Average 1995/96 to 2002/03	--	--	--	9.2%
Average 2004/05 to 2005/06	--	--	--	11.3%

Source: CAVCO

Table A 16 CPTC-Supported Production Volume, by Canadian Content Points

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	44,580,520	20,737,331	4,745,419	4,393,510	547,237	18,135,664	93,139,681
1995/96	283,000,166	40,626,651	60,395,067	83,525,944	31,446,328	70,716,578	569,710,734
1996/97	600,480,245	131,896,219	42,924,067	147,972,458	170,784,365	145,233,248	1,239,290,602
1997/98	562,642,807	154,605,592	37,012,781	188,886,621	70,676,504	171,989,623	1,185,813,928
1998/99	726,096,582	145,099,893	166,083,934	294,131,951	48,702,908	348,832,331	1,728,947,599
1999/00	858,189,336	155,286,583	116,026,101	371,943,375	61,360,475	265,559,577	1,828,365,447
2000/01	748,160,261	145,737,438	59,166,334	295,884,122	80,133,503	404,297,577	1,733,379,235
2001/02	907,289,972	96,401,136	83,985,406	254,299,088	40,209,210	368,327,907	1,750,512,719
2002/03	1,005,835,759	169,600,613	62,683,259	177,335,195	103,355,637	309,911,090	1,828,721,553
2003/04	1,093,044,923	108,744,861	60,305,083	141,758,609	48,548,178	340,360,328	1,792,761,982
2004/05	1,187,692,241	61,799,730	76,537,195	182,945,438	8,527,440	206,873,340	1,724,375,384
2005/06	1,156,583,905	110,628,735	43,414,781	151,238,923	35,415,694	299,907,287	1,797,189,325
Total	9,173,596,717	1,341,164,782	813,279,427	2,294,315,234	699,707,479	2,950,144,550	17,272,208,189
Percentage of total	53.1%	7.8%	4.7%	13.3%	4.1%	17.1%	100.0%

Source: CAVCO

Table A 17 Number of CPTC-Supported Projects, by Canadian Content Points

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	70	14	5	6	3	10	108
1995/96	233	34	23	21	6	29	346
1996/97	400	55	25	29	12	76	597
1997/98	390	61	24	27	6	57	565
1998/99	542	77	34	38	4	71	766
1999/00	659	84	23	35	4	70	875
2000/01	746	66	19	31	5	92	959
2001/02	850	44	24	22	4	99	1,043
2002/03	918	67	18	25	4	106	1,138
2003/04	925	45	17	25	7	113	1,132
2004/05	957	43	18	29	4	121	1,172
2005/06	796	35	12	42	5	163	1,053
Total	7,486	625	242	330	64	1,007	9,754
Percentage of total	76.7%	6.4%	2.5%	3.4%	0.7%	10.3%	100.0%

Source: CAVCO

Table A 18 CPTC Claim Amounts, by Canadian Content Points

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	2,683,038	1,824,340	125,178	453,411	46,352	1,049,951	6,182,270
1995/96	18,991,365	3,102,164	6,355,157	8,476,185	3,299,038	5,882,062	46,105,971
1996/97	46,743,789	11,360,265	3,933,234	15,491,952	17,832,968	12,543,202	107,905,409
1997/98	44,195,880	15,167,515	3,294,794	20,900,295	6,061,141	16,302,469	105,922,094
1998/99	59,504,589	13,223,575	16,918,765	31,885,103	5,565,109	33,443,304	160,540,444
1999/00	73,672,006	14,937,556	11,855,784	39,622,048	6,462,437	24,593,048	171,142,878
2000/01	61,929,746	13,264,796	6,116,469	31,987,886	8,692,524	38,551,058	160,542,479
2001/02	73,607,235	8,740,530	8,552,483	25,686,148	3,557,439	33,657,690	153,801,524
2002/03	83,450,562	14,170,885	6,146,039	18,546,195	11,469,036	27,914,412	161,697,129
2003/04	105,729,207	10,947,558	6,419,780	16,180,853	5,539,305	33,362,919	178,179,621
2004/05	125,611,237	5,428,408	9,044,821	19,961,280	995,927	21,704,459	182,746,132
2005/06	119,008,130	9,689,257	3,898,586	16,871,338	3,647,617	32,244,119	185,359,046
Total	815,126,784	121,856,848	82,661,090	246,062,693	73,168,893	281,248,692	1,620,124,999
Percentage of total	50.3%	7.5%	5.1%	15.2%	4.5%	17.4%	100.0%

Source: CAVCO

Table A 19 CPTC Assistance Rates, by Canadian Content Points

Fiscal year	10/10 points	9/10 points	8/10 points	7/10 points	6/10 points	Treaty and other	Total
1994/95	6.0%	8.8%	2.6%	10.3%	8.5%	5.8%	6.6%
1995/96	6.7%	7.6%	10.5%	10.1%	10.5%	8.3%	8.1%
1996/97	7.8%	8.6%	9.2%	10.5%	10.4%	8.6%	8.7%
1997/98	7.9%	9.8%	8.9%	11.1%	8.6%	9.5%	8.9%
1998/99	8.2%	9.1%	10.2%	10.8%	11.4%	9.6%	9.3%
1999/00	8.6%	9.6%	10.2%	10.7%	10.5%	9.3%	9.4%
2000/01	8.3%	9.1%	10.3%	10.8%	10.8%	9.5%	9.3%
2001/02	8.1%	9.1%	10.2%	10.1%	8.8%	9.1%	8.8%
2002/03	8.3%	8.4%	9.8%	10.5%	11.1%	9.0%	8.8%
2003/04	9.7%	10.1%	10.6%	11.4%	11.4%	9.8%	9.9%
2004/05	10.6%	8.8%	11.8%	10.9%	11.7%	10.5%	10.6%
2005/06	10.3%	8.8%	9.0%	11.2%	10.3%	10.8%	10.3%
Total	8.9%	9.1%	10.2%	10.7%	10.5%	9.5%	9.4%
Average 1995/96 to 2002/03	8.1%	8.9%	10.0%	10.6%	10.4%	9.2%	8.9%
Average 2004/05 to 2005/06	10.4%	8.8%	10.8%	11.0%	10.6%	10.6%	10.5%

Source: CAVCO

Table A 20 CPTC-Supported Production Volume, by Region

Fiscal year	Ontario	Quebec	British Columbia	Prairie Provinces and Far North	Atlantic Canada	Total
1994/95	15,397,872	66,894,303	2,130,998	4,393,101	4,323,407	93,139,681
1995/96	194,109,591	314,095,037	41,765,660	11,774,847	7,965,599	569,710,734
1996/97	574,633,150	472,402,378	122,107,041	33,041,438	37,106,595	1,239,290,602
1997/98	521,204,010	481,531,333	96,200,599	50,114,533	36,763,453	1,185,813,928
1998/99	656,386,335	596,867,129	318,926,039	65,883,832	90,884,264	1,728,947,599
1999/00	707,641,206	658,180,499	307,487,479	95,740,509	59,315,754	1,828,365,447
2000/01	712,822,572	530,357,171	299,497,224	108,585,450	82,116,818	1,733,379,235
2001/02	752,073,275	644,672,391	208,027,387	82,847,722	62,891,944	1,750,512,719
2002/03	712,911,826	664,756,491	223,128,639	156,149,353	71,775,244	1,828,721,553
2003/04	754,324,420	698,661,576	188,617,679	89,588,133	61,570,174	1,792,761,982
2004/05	668,964,138	640,914,068	231,683,297	105,845,998	76,967,883	1,724,375,384
2005/06	704,145,977	694,280,195	241,258,013	83,456,649	74,048,491	1,797,189,325
Total	6,974,614,372	6,463,612,572	2,280,830,055	887,421,565	665,729,626	17,272,208,189
Percentage of total	40.4%	37.4%	13.2%	5.1%	3.9%	100.0%

Source: CAVCO

Table A 21 CPTC-Supported Production, Ontario

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	22	15,397,872	1,240,188	8.1%
1995/96	92	194,109,591	17,704,082	9.1%
1996/97	221	574,633,150	53,334,042	9.3%
1997/98	188	521,204,010	50,321,282	9.7%
1998/99	236	656,386,335	64,194,427	9.8%
1999/00	257	707,641,206	70,811,579	10.0%
2000/01	314	712,822,572	69,882,318	9.8%
2001/02	349	752,073,275	70,616,657	9.4%
2002/03	353	712,911,826	68,753,908	9.6%
2003/04	364	754,324,420	80,482,151	10.7%
2004/05	345	668,964,138	71,615,687	10.7%
2005/06	297	704,145,977	73,213,512	10.4%
Total	3,038	6,974,614,372	692,169,834	9.9%
Average 1995/96 to 2002/03	--	--	--	9.6%
Average 2004/05 to 2005/06	--	--	--	10.5%

Source: CAVCO

Table A 22 CPTC-Supported Production, Quebec

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	73	66,894,303	4,523,653	6.8%
1995/96	208	314,095,037	23,562,301	7.5%
1996/97	258	472,402,378	38,694,799	8.2%
1997/98	252	481,531,333	40,220,014	8.4%
1998/99	347	596,867,129	51,973,693	8.7%
1999/00	414	658,180,499	57,921,682	8.8%
2000/01	415	530,357,171	45,075,488	8.5%
2001/02	470	644,672,391	52,943,823	8.2%
2002/03	520	664,756,491	55,210,989	8.3%
2003/04	517	698,661,576	65,073,021	9.3%
2004/05	535	640,914,068	68,111,271	10.6%
2005/06	510	694,280,195	72,670,665	10.5%
Total	4,519	6,463,612,572	575,981,400	8.9%

Source: CAVCO

Table A 23 CPTC-Supported Production, British Columbia

Fiscal year	Number of projects	Production budgets	CPTC amount	CPTC assistance rate
1994/95	8	2,130,998	125,014	5.9%
1995/96	16	41,765,660	3,729,459	8.9%
1996/97	52	122,107,041	11,117,525	9.1%
1997/98	56	96,200,599	9,046,789	9.4%
1998/99	84	318,926,039	31,795,481	10.0%
1999/00	93	307,487,479	29,593,490	9.6%
2000/01	100	299,497,224	29,617,191	9.9%
2001/02	95	208,027,387	19,970,321	9.6%
2002/03	102	223,128,639	20,563,970	9.2%
2003/04	101	188,617,679	19,394,019	10.3%
2004/05	117	231,683,297	25,666,913	11.1%
2005/06	100	241,258,013	24,494,889	10.2%
Total	924	2,280,830,055	225,115,062	9.9%

Source: CAVCO

Table A 24 CPTC-Supported Production, Prairies Provinces and Far North

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	4	4,393,101	273,498	6.2%
1995/96	22	11,774,847	706,184	6.0%
1996/97	39	33,041,438	2,387,335	7.2%
1997/98	44	50,114,533	3,649,387	7.3%
1998/99	55	65,883,832	5,463,609	8.3%
1999/00	67	95,740,509	8,384,407	8.8%
2000/01	85	108,585,450	9,198,437	8.5%
2001/02	80	82,847,722	5,924,395	7.2%
2002/03	106	156,149,353	12,015,025	7.7%
2003/04	98	89,588,133	8,499,361	9.5%
2004/05	115	105,845,998	9,958,677	9.4%
2005/06	95	83,456,649	8,230,618	9.9%
Total	810	887,421,565	74,690,934	8.4%

Source: CAVCO

Table A 25 CPTC-Supported Production, Atlantic Canada

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	1	4,323,407	19,917	0.5%
1995/96	8	7,965,599	403,944	5.1%
1996/97	27	37,106,595	2,371,709	6.4%
1997/98	25	36,763,453	2,684,622	7.3%
1998/99	44	90,884,264	7,113,235	7.8%
1999/00	44	59,315,754	4,431,720	7.5%
2000/01	45	82,116,818	6,769,045	8.2%
2001/02	49	62,891,944	4,346,328	6.9%
2002/03	57	71,775,244	5,153,236	7.2%
2003/04	52	61,570,174	4,731,069	7.7%
2004/05	60	76,967,883	7,393,584	9.6%
2005/06	51	74,048,491	6,749,362	9.1%
Total	463	665,729,626	52,167,770	7.8%

Source: CAVCO

Table A 26 CPTC-Supported Production Volume, by Category

Fiscal year	TV Series	Feature Film	MOWs	Short Film	Mini-Series	Total
1994/95	52,835,194	19,659,859	2,865,000	12,896,507	4,883,121	93,139,681
1995/96	391,775,053	122,323,052	7,590,761	31,780,730	16,241,138	569,710,734
1996/97	853,473,382	232,388,743	73,822,238	47,180,700	32,425,539	1,239,290,602
1997/98	755,199,794	263,793,641	78,763,307	46,572,930	41,484,256	1,185,813,928
1998/99	1,224,732,312	270,381,490	113,189,411	58,771,404	61,872,982	1,728,947,599
1999/00	1,292,608,367	308,916,728	102,947,512	68,269,383	55,623,457	1,828,365,447
2000/01	1,224,611,114	266,916,310	115,984,021	75,832,241	50,035,549	1,733,379,235
2001/02	1,214,203,509	258,381,857	87,124,115	118,123,768	72,679,470	1,750,512,719
2002/03	1,165,740,307	335,133,704	109,489,196	91,573,344	126,785,002	1,828,721,553
2003/04	1,150,212,221	373,872,382	69,112,751	135,749,595	63,815,033	1,792,761,982
2004/05	1,145,192,949	220,774,433	137,319,654	153,860,058	67,228,290	1,724,375,384
2005/06	1,057,588,874	387,632,478	179,969,053	113,107,357	58,891,563	1,797,189,325
Total	11,528,173,077	3,060,174,677	1,078,177,019	953,718,017	651,965,400	17,272,208,189
Percentage of total	66.7%	17.7%	6.2%	5.5%	3.8%	100.0%

Source: CAVCO

Table A 27 Number of CPTC-Supported Projects, by Category

Fiscal year	TV Series	Feature Film	MOW / MFT	Short Film	Mini-Series	Total
1994/95	54	15	1	35	3	108
1995/96	172	62	4	97	11	346
1996/97	283	98	21	177	18	597
1997/98	277	96	24	152	16	565
1998/99	391	94	39	223	19	766
1999/00	469	123	31	231	21	875
2000/01	513	120	25	267	34	959
2001/02	539	132	29	310	33	1,043
2002/03	596	135	38	317	52	1,138
2003/04	553	132	22	372	53	1,132
2004/05	585	115	51	374	47	1,172
2005/06	533	133	65	289	33	1,053
Total	4,965	1,255	350	2,844	340	9,754
Percentage of total	50.9%	12.9%	3.6%	29.2%	3.5%	100.0%

Source: CAVCO

Table A 28 CPTC-Supported CTF Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	12	9,123,883	805,967	8.8%
1995/96	133	226,183,345	15,213,176	6.7%
1996/97	326	558,148,556	41,127,940	7.4%
1997/98	266	522,487,405	39,843,162	7.6%
1998/99	397	785,476,181	63,096,516	8.0%
1999/00	356	597,201,919	45,509,125	7.6%
2000/01	441	649,252,734	50,560,966	7.8%
2001/02	515	769,297,743	58,476,270	7.6%
2002/03	495	852,839,617	66,048,816	7.7%
2003/04	435	826,749,746	74,500,665	9.0%
2004/05	513	916,427,786	89,744,565	9.8%
2005/06	463	945,366,607	88,186,574	9.3%
Total	4,352	7,658,555,522	633,113,744	8.3%

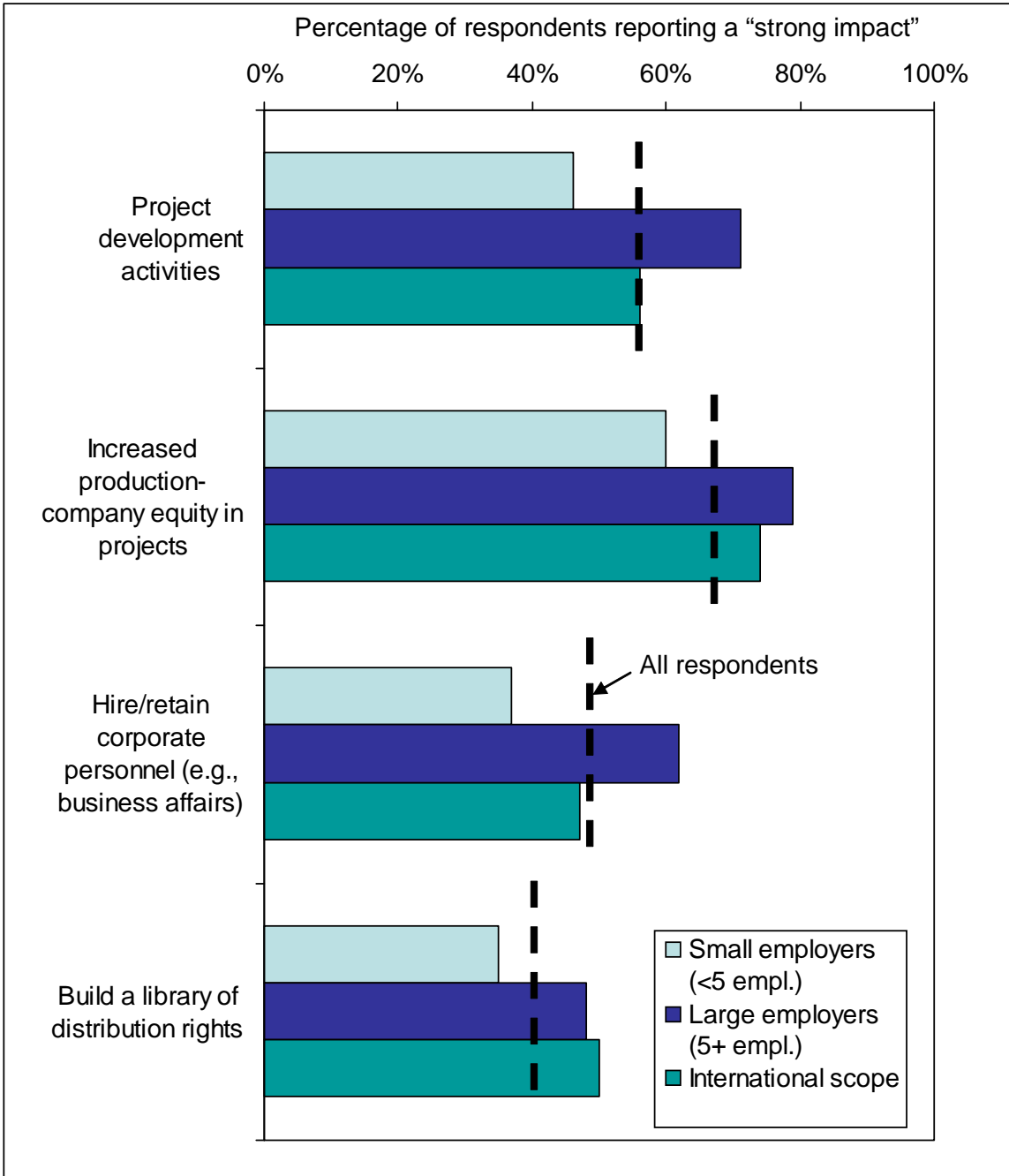
Source: CAVCO

Table A 29 CPTC-Supported Non-CTF Production

Fiscal year	Number of projects	Production volume	CPTC amount	CPTC assistance rate
1994/95	96	84,015,798	5,376,303	6.4%
1995/96	213	343,527,389	30,892,794	9.0%
1996/97	271	681,142,046	66,777,470	9.8%
1997/98	299	663,326,523	66,078,932	10.0%
1998/99	369	943,471,418	97,443,928	10.3%
1999/00	519	1,231,163,528	125,633,753	10.2%
2000/01	518	1,084,126,501	109,981,513	10.1%
2001/02	528	981,214,976	95,325,254	9.7%
2002/03	643	975,881,936	95,648,314	9.8%
2003/04	697	966,012,236	103,678,956	10.7%
2004/05	659	807,947,598	93,001,567	11.5%
2005/06	590	851,822,718	97,172,473	11.4%
Total	5,402	9,613,652,667	987,011,255	10.3%

Source: CAVCO

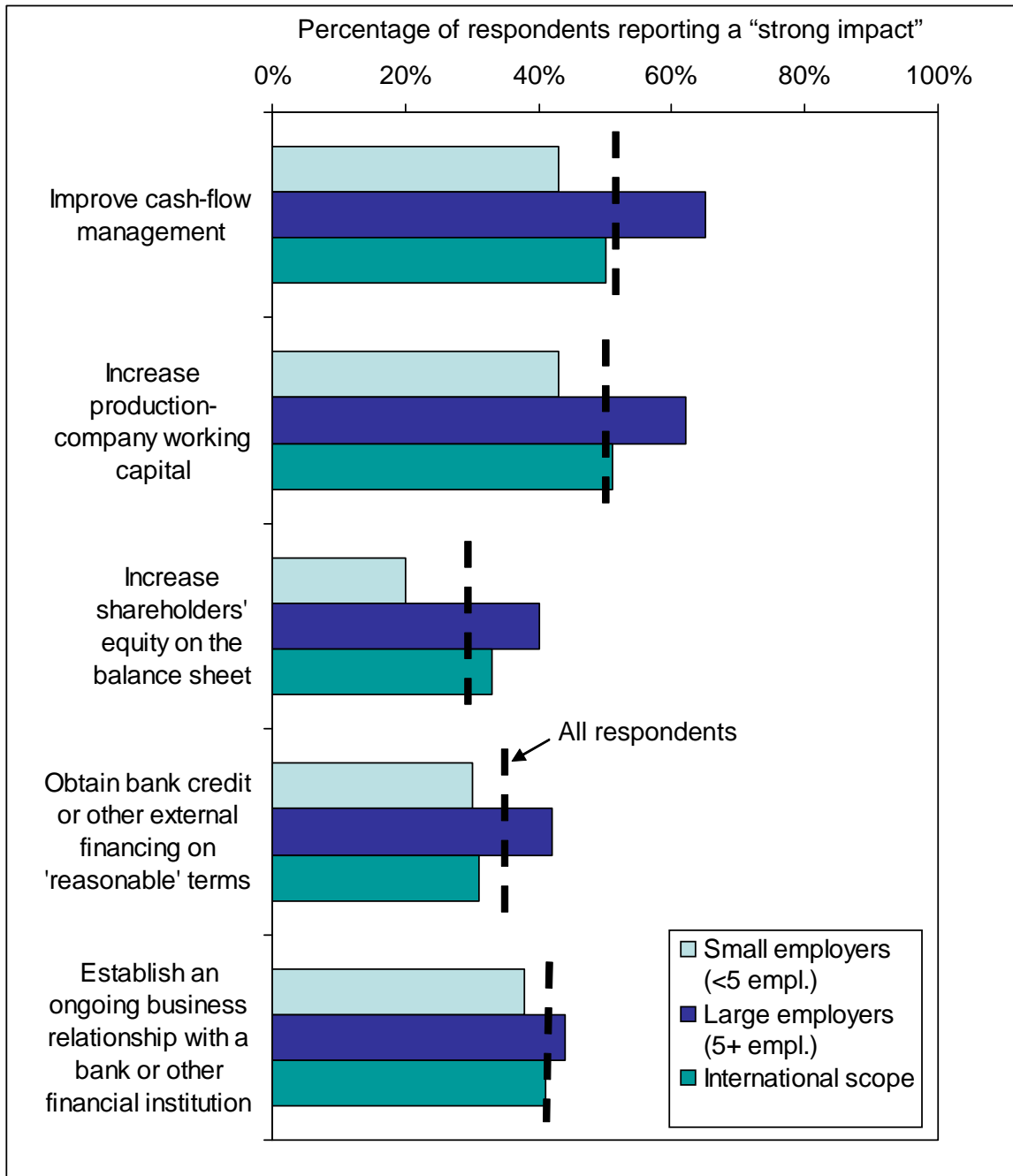
Figure A 1 Rating of Impact of CPTC on Corporate Development by Company Size and Geographic Scope



Source: Kelly-Sears Consulting survey of CPTC recipients

Note: "Strong Impact" refers to the percentage of total respondents who indicated a rating of "4" or "5 - To a great extent."

Figure A 2 Rating of Impact of CPTC on Financing Stability by Company Size and Geographic Scope



Source: Kelly-Sears Consulting survey of CPTC recipients

Note: "Strong Impact" refers to the percentage of total respondents who indicated a rating of "4" or "5 - To a great extent."

Table A 30 Number of Projects in Initial Sample

	Pre-Reform Sample		Post-Reform Sample	
	Control Group	Treatment Group	Control Group	Treatment Group
Market				
TV	496	1982	195	629
Film	39	154	13	55
Total	535	2,136	208	684
Genre				
Fiction	121	405	56	184
Documentary	205	1,056	72	307
VAPA	85	115	19	31
Magazine	65	246	45	29
Kids	27	164	6	67
Other	32	150	10	66
Total	535	2,136	208	684
Canadian Content				
High	483	2,015	185	637
Low	52	121	23	46
Total	535	2,136	208	683

Source: Nordicity calculations based on data from CAVCO

Table A 31 Distribution of Projects in Initial Sample

	Pre-Reform Sample		Post-Reform Sample	
	Control Group	Treatment Group	Control Group	Treatment Group
Market				
TV	92.7%	92.8%	93.8%	92.0%
Film	7.3%	7.2%	6.3%	8.0%
Total	100.0%	100.0%	100.0%	100.0%
Genre				
Fiction	22.6%	19.0%	26.9%	26.9%
Documentary	38.3%	49.4%	34.6%	44.9%
VAPA	15.9%	5.4%	9.1%	4.5%
Magazine	12.1%	11.5%	21.6%	4.2%
Kids	5.0%	7.7%	2.9%	9.8%
Other	6.0%	7.0%	4.8%	9.6%
Total	100.0%	100.0%	100.0%	100.0%
Canadian Content				
High	90.3%	94.3%	88.9%	93.3%
Low	9.7%	5.7%	11.1%	6.7%
Total	100.0%	100.0%	100.0%	100.0%

Source: Nordicity calculations based on data from CAVCO

Table A 32 Number of Projects in Adjusted Sample

	Pre-Reform Sample		Post-Reform Sample	
	Control Group	Treatment Group	Control Group	Treatment Group
Market				
TV	436	1982	157	629
Film	39	154	13	55
Total	475	2136	170	684
Genre				
Fiction	121	405	56	184
Documentary	205	1056	72	307
VAPA	25	115	19	31
Magazine	65	246	7	29
Kids	27	164	6	67
Other	32	150	10	66
Total	475	2136	170	684
Canadian Content				
High	425	2015	146	637
Low	50	121	24	47
Total	475	2136	170	684

Source: Nordicity calculations based on data from CAVCO

Table A 33 Distribution of Projects in Adjusted Sample

	Pre-Reform Sample		Post-Reform Sample	
	Control Group	Treatment Group	Control Group	Treatment Group
Market				
TV	91.8%	92.8%	92.4%	92.0%
Film	8.2%	7.2%	7.6%	8.0%
Total	100.0%	100.0%	100.0%	100.0%
Genre				
Fiction	25.5%	19.0%	32.9%	26.9%
Documentary	43.2%	49.4%	42.4%	44.9%
VAPA	5.3%	5.4%	11.2%	4.5%
Magazine	13.7%	11.5%	4.1%	4.2%
Kids	5.7%	7.7%	3.5%	9.8%
Other	6.7%	7.0%	5.9%	9.6%
Total	100.0%	100.0%	100.0%	100.0%
Canadian Content				
High	89.5%	94.3%	85.9%	93.1%
Low	10.5%	5.7%	14.1%	6.9%
Total	100.0%	100.0%	100.0%	100.0%

Source: Nordicity calculations based on data from CAVCO

Table A 34 Annual Number of Projects

Year	Control group	Treatment group	Total
1999	78	289	367
2000	82	316	398
2001	83	353	436
2002	82	383	465
2003	102	398	500
2004	108	397	505
2005	108	380	488
2006	100	304	404

Source: Nordicity calculations based on data from CAVCO

Table A 35 Total Production Volume (Inflation-Adjusted Amounts, \$ Millions)

Year	Control group	Treatment group	Total
1999	228.6	939.7	1,168.3
2000	222.3	1,082.3	1,304.6
2001	162.4	826.9	989.3
2002	151.1	743.3	894.4
2003	158.9	807.8	966.7
2004	121.2	847.2	968.4
2005	138.8	795.7	934.5
2006	173.1	727.6	900.7

Source: Nordicity calculations based on data from CAVCO

Table A 36 Mean Total Canadian Private Financing per Hour

	Pre-reform	Post-reform	Total
Control	233,036 (499,503)	325,792 (413,349)	257,483 (479,740)
Treatment	215,832 (409,011)	246,965 (311,372)	223,383 (387,772)
Total	218,961 (426,850)	262,657 (335,370)	229,731 (406,611)

Source: Nordicity calculations based on data from CAVCO

Note: Standard deviation in parentheses

Table A 37 Mean Total Canadian Broadcaster/Distributor Financing per Hour

	Pre-reform	Post-reform	Total
Control	208,638 (436,077)	308,447 (408,822)	234,944 (431,000)
Treatment	191,046 (397,833)	223,548 (290,745)	198,930 (374,932)
Total	194,246 (405,069)	240,448 (319,296)	205,634 (386,174)

Source: Nordicity calculations based on data from CAVCO

Note: Standard deviation in parentheses

Appendix B Regression Tables

Table B 1 Complete Regression Results – Difference-in-Difference Models

	Total budget	Total private financing	Total Canadian private financing	Canadian broadcaster/distributor financing
PROVREF·REFORM	0.152 (1.50)	0.057 (0.55)	-0.120 (-1.07)	-0.128 (-1.12)
PROVREF	-0.034 (-0.63)	0.227*** (3.99)	0.174*** (3.02)	0.159*** (2.63)
REFORM	-0.058 (-0.52)	0.096 (0.85)	0.401*** (3.31)	0.417*** (3.38)
Market=television	-0.328*** (-4.36)	0.064 (0.7)	-0.195** (-2.02)	0.041 (0.36)
Genre=fiction	1.721*** (18.8)	1.440*** (16.6)	1.085*** (12.47)	1.085*** (11.51)
Genre=documentary	0.535*** (6.83)	0.293*** (4.1)	0.189*** (2.71)	0.156** (2.02)
Genre=variety	0.476*** (4.44)	0.352*** (3.59)	0.356*** (3.71)	0.427*** (4.25)
Genre=children's	1.139*** (11.07)	0.921*** (9.44)	0.810*** (8.43)	0.753*** (7.20)
Genre=magazine	-1.087*** (-11.04)	-0.950*** (-9.71)	-0.916*** (-9.50)	-1.043*** (-9.14)
Year=2000	-0.003 (-0.04)	-0.040 (-0.55)	-0.038 (-0.54)	-0.096 (-1.27)
Year=2001	0.056 (0.85)	0.056 (0.8)	0.143* (1.87)	0.115 (1.44)
Year=2002	0.051 (0.76)	0.039 (0.53)	0.101 (1.34)	0.091 (1.14)
Year=2003	-0.035 (-0.52)	0.010 (0.15)	0.065 (0.93)	0.058 (0.76)
Year=2004	0.021 (0.32)	0.090 (1.3)	0.178** (2.54)	0.170** (2.28)
Year=2005	(dropped)	(dropped)	-0.053 (-0.77)	-0.063 (-0.84)
Year=2006	0.112* (1.84)	0.053 (0.85)	(dropped)	(dropped)
Cancon=6	0.263 (1.00)	0.898 (1.64)	-0.231 (-0.60)	-0.177 (-0.39)
Cancon=7	0.446** (2.14)	0.992 (1.87)	-0.193 (-0.57)	-0.148 (-0.37)
Cancon=8	0.182 (0.83)	0.484 (0.9)	0.121 (0.35)	0.090 (0.22)
Cancon=9	-0.175 (-0.82)	0.012 (0.02)	-0.144 (-0.43)	-0.113 (-0.28)
Cancon=10	-0.557*** (-2.75)	-0.467 (-0.88)	-0.311 (-0.96)	-0.347 (-0.89)
Constant	12.688*** (52.58)	11.474*** (20.99)	11.547*** (32.25)	11.255*** (26.61)
R-squared	0.5101	0.4655	0.2735	0.2742
N	3465	3434	3426	3332

t-values in parentheses

* significant at 10% level, ** significant at 5% level, *** significant at 1% level