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Taking Canada to the World:

Toward a National Export Strategy for Canadian Television and Digital Media Content

The Canadian Association of Content Exporters (CACE-ACEC) welcomes the opportunity to develop the following policy proposal for consideration as our submission to the Pre-Budget Consultations in Advance of the 2018 Budget.
CACE/ACEC proposes a complementary two stream policy framework that will encourage our distributors to take even greater financial and creative risks in partnership with Canadian independent producers:

- The first proposal contemplates the creation of a Distribution Advance Top-Up Fund, that will match private investment with public resources.
- The second proposal presents two distinct options that would enhance access to, and/or the value of, the Canadian Film or Video Production Tax Credit received

CACE-ACEC serves to represent the Canadian television and digital content distribution and export space and its members on matters of national interest. Members include: 9 Story Media Group, Blue Ant Media, Cineflix Media, Corus Entertainment, DHX Media, Distribution 360, Muse Entertainment, Incendo Productions, Proper Rights, Entertainment One (eOne) and its Quebec subsidiary Les Films Séville. CACE member companies operate internationally with staff in major film markets around the world and invest hundreds of millions of dollars on export annually.

We look forward to your feedback on this proposal and would be happy to arrange a roundtable with our members at your convenience to discuss further.

Summarized from report prepared by John Barrack
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The Value of Canadian Content Exports

Distributors are able to add significant value to Canadian exports. For example, pre-sales are an excellent indicator of revenue that can be derived by the export of Canadian content.

A May 2017 study commissioned by Canadian Media Producers Association (CMPA), with the assistance of its Quebec counterpart AQPM, CMF, and Telefilm Canada that is entitled *Exporting Canadian Television Globally – Trends, Opportunities and Future Directions*[1], reviewed the key trends and international sales of television programs generally and Canadian television programs specifically. The study identified policies, programs, and initiatives that support foreign sales in other jurisdictions and went on to make recommendations to ensure that Canadian initiatives are competitive.

The CMPA study provides an excellent overview of the domestic and international export landscape for television and digital media products. One of the charts created for the study tracks international pre-sales by genre and by year from 2006 to 2016.

Total Pre-sales, 2006-2007 to 2015-2016[2]

Language	Number of projects	Total international pre-sales
English	298	$308,789,214
French	33	$4,743,576
Total	331	$313,532,790

It is significant to note that pre-sales are a simple indicator that *do not* include data on total sales after the completion of the project, which are much higher than the numbers contained in the chart above. Canadian-based global distribution companies are critical to these pre-sales but play a large role in maximizing the sales that occur after the content has been produced. It is at this latter stage where, when done properly, the greatest opportunity exists to maximize return on investment from exports. Canadian-

[1] Maria De Rosa & Marilyn Burgess, *Exporting Canadian Television Globally – Trends, Opportunities and Future Directions,* for Canadian Media Producers Association, May 2017.
[2] Ibid, page 32

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based global distribution companies achieve this outcome.

The study demonstrates that English-language drama series with budgets greater than $20 million per season achieved a higher proportion of international pre-sales. This group of programs represented 30% of all pre-sold dramas and attracted 56% of all pre-sales between 2006-2007 to 2015-2016.

In short, CACE/ACEC submits that the better financed the program, the more likely it is to be exportable and when those exports occur, they will garner the highest possible price for Canadian rights holders.

The study also points out that there are greater global opportunities for English-language programs in the marketplace over their French counterparts.

Total international pre-sales of English-language programs amounted to $308.8M in the period between 2006 and 2017 whereas pre-sales of French-language programs were worth almost $5M.

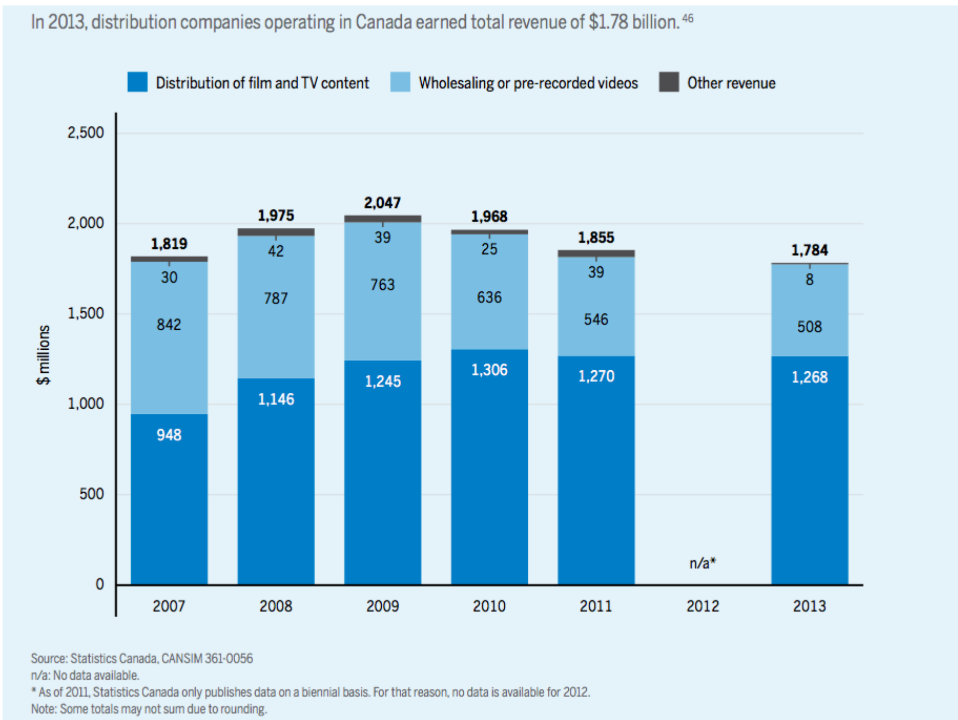
Any export strategy – including the CACE/ACEC proposals, will need to be applied in a manner that reflects and works to ameliorate the challenges faced by French-language content distributors.

CMPA's publication known as *Profile 2016 – Economic Report on the Screen-Based Media Production Industry in Canada*[3] examined revenue derived from film and television and interactive productions between the years 2007 and 2013, the latest year for which Statistics Canada data is available. In *Profile*, CMPA finds that distribution companies in Canada have experienced a significant decline in revenue from wholesaling of pre-recorded videos, such as DVD's, as consumer demand has fallen and moved to online services. CACE/ACEC notes that much of this revenue ultimately flows back to Canadian producers.

[3] Nordicity Group Limited, *Profile 2016 – Economic Report on the Screen-Based Media Production Industry in Canada*, 2017 prepared for CMPA in collaboration with AQPM, Department of Canadian Heritage and Telefilm Canada.

The chart below is extracted from *Profile 2016*:

Total Revenue in the Canadian Distribution Sector[4]



In Profile 2016, CMPA also noted that distributors, by way of distribution advances paid to Canadian producers as against distribution revenues, contributed $283M to the financing of Canadian television productions and theatrical films in 2015/2016, 90% of this amount went to television production. Over the long-term, Canadian-based global distributors have increased their overall financing of Canadian productions. The Profile study confirms that this increased investment correlates directly to Canadian television programming's increased international appeal.

[4] Ibid, page 100.

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What Defines a Canadian Distributor?

Currently, CMF defines an "Eligible Distributor" as one that has demonstrated to CMF's satisfaction:

- A level of experience and expertise sufficient to arrange for the distribution of the Canadian television production in question;
- A sufficient volume of business and a business plan to ensure the company's future financial viability;
- One that regularly attends relevant, international television markets;
- That it has distributed productions of a similar size and nature; and
- That for projects that the distributor will distribute in Canada or Canada plus other territories, the distributor is Canadian-controlled within the meaning of the Investment Canada Act, as amended from time to time.

Telefilm Canada's guidelines are substantially the same.

CACE/ACEC does not oppose small-scale distribution, however we submit that in order to be eligible for the enhanced incentives proposed below, the bar must be raised. Accordingly, CACE/ACEC submits that only established Canadian-based distribution businesses of scale who are making truly significant and long-term investments in the global export of Canadian content and as a result are in a position to maximize the return on those public and private investments made in content, ought to be eligible to participate with Canadian producers in the proposed programs. Public dollars are scarce resources and as such, any access to the new incentives we have proposed must be maximized in the hands of those who are best capable of achieving the highest and best return on the public and private investments made in the production. Canadian-based global distribution companies are best positioned to achieve this outcome.

Accordingly, CACE/ACEC proposes defining Canadian-based global distribution companies as being:

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i) Canadian-controlled companies that have their head office in Canada;

ii) Companies that have a portion of their business activities meaningfully and materially dedicated to the marketing, distribution, and sale of audio-visual content internationally;

iii) Companies that are in the business of acquiring, marketing, and distributing third-party audio-visual content internationally that are also able to demonstrate a track record of investing in third-party content in the form of distribution advances against international rights. This investment is distinct from investment in the form of Canadian Broadcaster License Fees;

iv) Companies that represent at least fifty (50) distinct audio-visual content titles;

v) Companies that have staff in at least one territory outside of Canada, exclusively dedicated to the licensing/sale of audio-visual content rights under their control; and

vi) Companies that have a track record of attending a minimum of four (4) international markets annually.

CACE/ACEC acknowledges that modifications to this definition may be required for Quebec-based distribution companies distributing primarily French-language content.

CACE/ACEC PROPOSALS

CACE/ACEC would submit that the distribution and export space is an often-overlooked area of the Canadian content value chain. Canadian-based global distribution companies are primarily responsible for the export of Canadian television and digital media products. Implementing the proposals set out below leverages the private investment by Canadian distributors and will allow for greater focus on writing, casting, or other key creative elements that ultimately enhances the discoverability and by extension the exportability of our audio-visual content to benefit all stakeholders. The outcome from the application of this policy proposal could form the cornerstone of a Federal Export Strategy, which prioritizes the maximization of returns on the investments made by the public-private partnership and, at the same time, directs revenues back to Canadians for reinvestment in Canada.

Proposal 1: Creation of a $100M Distribution Advance Top-Up Fund

CACE/ACEC propose the creation of a $100M fund that would match distribution advances provided to Canadian productions by qualifying Canadian-based global distribution companies.

Proposal 2: Canadian Film and Video Production Tax Credit – Bonus Program

CACE/ACEC proposes that the Canadian Film and Video Production Tax Credit (CPTC), which currently provides a tax credit equal to twenty-five percent (25%) of eligible labour expenditures, capped at sixty-percent (60%) of total production costs, be bonussed upward by ten percent (10%) in those circumstances where an independent production contracts with a Canadian-based global distribution company in respect of a production, whereby the producer grants to the distributor worldwide rights exclusive of pre-sales, to exploit the production in all media. In addition to the ten percent (10%) bonus applied to the CPTC, CACE/ACEC would also propose that the current cap of sixty percent (60%) of total production costs be raised to seventy-five percent (75%) in order to make this bonus meaningful for those productions that would otherwise reach the cap.

The bonus program would work akin to the Ontario Regional Bonus, which is applied to the Ontario Film and Television Tax Credit. Ontario's Regional Bonus provides that a production shot in Ontario and entirely outside of the Greater Toronto Area (GTA) is eligible to receive a ten percent (10%) bonus on all Ontario labour expenditures.