Opportunities for Growth and Competitive Advantage for BC's Film and New Media Industries

A Report to the BC Competition Council

March 2006

A Message From the Chairs

The Film and New Media Industry Advisory Committee (IAC) is composed of ten members from the film, television, animation and interactive gaming industries in British Columbia. Four advisors from the service and educational sectors supporting these industries also provided assistance in the collection of data and development of this report. IAC members met three times to discuss the terms of reference and identify the key challenges and suggested recommendations. IAC members also each conducted interviews with leading executives operating in the industry; a complete listing of the individuals interviewed can be found in Appendix A. The purpose of the interviews was to establish/confirm BC's current competitive position, future potential for growth, factors that will influence that growth, and steps that can be taken by industry and government to resolve competitive issues.

These sectors share the same story as others in BC. The initial creation by a pioneering few creates a foundation upon which to build. But the lack of risk capital, senior talent and the limited size of the Canadian market make it very hard to grow to a new sustainable level. The migration of the ownership and intellectual property to foreign ownership becomes inevitable.

The study highlights the success of the industries and their inherent conflicts and weaknesses. We look forward to working with government to eliminate these barriers and to growing our industry to the benefit of all British Columbians.

The Co-Chairs express their gratitude to Rick Griffiths and his team at PricewaterhouseCoopers for the accumulation of the data underlying this report and its initial drafting.

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Executive Summary

This report encompasses both film and television production along with the interactive gaming industry. These two industries share similar technology and similar production funding models, and therefore have common issues relating to economic development and industry growth.

In order to bring a product to market, significant capital is required to produce a film or television project or interactive game. Local creators (e.g., production studios, animation studios, videogame developers) are forced to give up ownership of intellectual property rights to obtain the capital needed to produce their projects. Ownership of these rights, which is where the real value of the product lies, wind up belonging to large publishers or distributors who are not based in BC. International ownership of these rights has led to the local industry's emphasis on a service provider mode. If these local creators had access to risk capital, however, they could hold on to ownership of these intellectual property rights, moving themselves up on the value chain towards a flourishing proprietary sector. The industry's maturation from the service sector towards ownership and control of the exploitation of intellectual property rights would lead to more economic growth in the industry, more local jobs, and long-term revenue growth for the Province.

There is an erroneous perception that the film and television industry is founded on handouts. Government tax credits payable to both foreign and domestic producers attract those producers to British Columbia and thereby allow the service providers in film production to remain competitive against similar programs sprouting up across Canada, the United States and internationally. Government and policy leaders need to understand how the industry truly operates to be able to create policies that lead to economic growth and job creation.

The film, television and new media industries are converging as new and lower-cost platforms for the exhibition of entertainment content continue to rise. By 2010, the power of the present-day publisher/distributor of entertainment content will diminish as on-demand media grows. The future of film and new media is tied to the future of media consumption, which is turning towards individual choice in both programming and method of playing content. This convergence can mean more opportunity for BC companies as barriers to entry in the content-production markets lessen over the next four years but only if they can maintain intellectual property rights.

In order to create the conditions for local creators to own the intellectual property rights for their products, we recommend the following initiatives:

1. The Film and New Media Industry, like many BC industries, needs senior talent, recruited both from outside BC and from the growth of talent within the Province;
2. While the existing infrastructure of the film industry, i.e., hard assets such as studio space, equipment rental firms etc., grew from private market financing, the Film and New Media Industry needs to encourage the flow of private market risk capital into the development, production and exploitation of proprietary film/tv and gaming projects;
3. The Film and New Media Industry needs continued support of the service sector to maintain a level playing field with an increasingly competitive landscape as the industry grows the proprietary sector; and
4. The Film and New Media Industry must separate the need to create and preserve Canada's culture from the need to nurture the business policies that would create a thriving economic cluster in the film and new media industries for the Province.

Film and New Media Industries in BC – a snapshot

The film and television industry in BC has much in common with the Province's new media industry. Both rely heavily on talented people to create and produce content that requires special skills and expertise. Both rely on a publisher or distributor with deep pockets to take their creations to market. Both have become well known as great service providers to US and international publishers and producers/distributors. Both have a lack of senior talent moving here or being home-grown. And both industries locally, through lack of a capital base, are forced to give up ownership of projects they create in order to see their visions brought to global consumers and audiences.

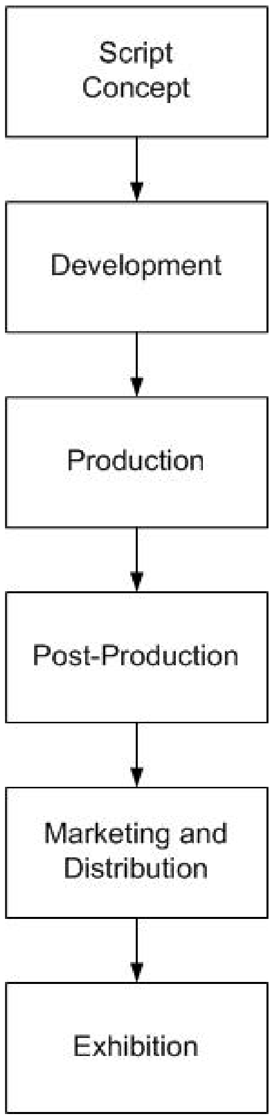
These two industries are converging. By 2010, the power of on-demand media, with consumers choosing where, when and how to get their content, will have changed the industry landscape. Consumers are increasingly calling the shots in a converging media world. Personal video recorders allow them to customize television line-ups. They pull stock-market updates, text messages and short-form video into their mobile phones and iPods. They come together in online communities, generate their own content, mix it and share it on a growing number of social networks. In the converged media world, opportunities for consumers to access and manipulate content and services will be overflowing. And these lower cost barriers of entry present a multitude of opportunities for BC companies, if they can capitalize on local expertise to become the ones generating and controlling the content.

Beneath the gloss and glamour of the movie business and interactive gaming lie risky and uniquely complex business models. Exactly how a film makes it to the screen or a game makes it to the shelf would baffle and bemuse most experienced business people. Neither industry in BC has successfully explained its business and economic underpinnings to either government or the public. However, without a fundamental understanding of the guiding principles of how the industry works, debate and policy strategy may be misguided at best, futile at worst.

The following sections describe such guiding principles in more detail and also summarize some of the economic data relating to those industries.

How the Film and Television Industry works

The life of a film or TV program



A project begins with a group of creative people who craft an idea for a film or television production that they believe will resonate with viewers.

With a compelling script idea in hand, the producer begins development. This phase involves extensive rewriting until it is built into a final screenplay or teleplay that is ready to put on film. The script development sets both the creative tone (e.g., story, setting and actors) and the financial tone (e.g., budget location, size of crew, special effects) for the project. The producer must also raise financing for production, negotiate agreements for locations, actors and equipment. This financing comes from a variety of sources—private individuals, a small number of private funds, but in large part from the presales of the project's distribution rights to territories around the world. Many times these presales are to one buyer, a U.S. major studio, which may offer financing for a project in return for complete ownership and control of the project upon its completion. This phase can take years to complete and is the most risky. Only a small percentage of projects that begin in development move on to full production. Most successful producers have many projects in development at any one time.

During the production phase, the script is committed to film. This phase involves monumental coordination of hiring staff, scouting and securing film sites, ordering equipment, and costuming and capturing plot on film. Depending on the project, this phase can last anywhere from a few weeks to many months.

Once a project has been filmed, it moves to post-production where attention turns to picture editing, sound and music composition. The production and post-production phases are capital intensive, requiring significant financing and state-of-the-art technology and facilities.

Once a film is complete, it must be marketed and distributed. This phase is key to the economic viability of a project. Marketing and distribution campaigns can be either "guerrilla" strategies where producers self-distribute directly to cinemas and broadcasters, or multi-million dollar marketing efforts by distributors with specialized skills in a marketplace and access to multiple territories.

The final phase is exhibition where the finished product is presented to the viewing audience. The most popular exhibition vehicles are release through a cinema for films or a broadcast television show for television productions. However, increasingly important vehicles for exhibition include film festivals, DVD, video-on-demand, satellite, the Internet and mobile phones and a variety of personal viewing platforms.

Intellectual Property Rights

The original creator of the project essentially owns exclusive world wide rights to the property (copyright). These rights are then slowly divided up (e.g., by territory or time) and sold to create revenue. When all of the various rights are sold, the creator's copyright is basically worthless.

Film and television business models

Within this basic process for making a film or television project, a company can choose one of three principal business models.

The proprietary or studio model

The foundation of the proprietary model is that the producer owns the rights, including the worldwide distribution, i.e., exploitation rights, or intellectual property ("IP") to the film and therefore, stands to benefit or bear the ultimate risk from the success or failure of the film.

Under a proprietary model, a producer either receives a script or develops a script concept internally. The producer incurs all costs involved in the development and production of a film. When the film is complete, the producer will sell rights to distribute the property or alternatively, distribute the property directly themselves.

Under this model, a producer can build a library of property rights, or IP, and can generate perpetual revenues from all present and future distribution (e.g., film, television, games or merchandising).

The independent model

The Independent model is a subset of the Proprietary Model and a very common model among smaller non-studio independent producers. Under this model, a producer either does not have enough capital to fund a project or decides to spread the risk among multiple parties. In this case, the producer will begin by seeking financing for the development of a project. The producer may look to public or private investors and a distributor to become an investor. In the television industry, it is common for Canadian broadcasters to provide financing in the development stage of a television production so that they can have creative input to the production. However, in the film industry, it is very rare for distributors to finance the development phase of a project.

In return for a financing advance, the producer will have to give up some IP to the film. If the producer cannot secure an investor, he/she must assume the entire cost and risk of the development phase of a project.

Once development is complete, the producer turns his/her attention to production financing. In Canada, the balance of financing may involve a number of different sources, such as government investments, provincial programs, foreign pre-sales of IP, advances from distributors and deferrals. As with development financing, the producer will need to sell some additional rights to the film in return for an "advance" to finance production. With financing commitments and government program entitlements, a producer will likely have to seek interim financing from a bank. The producer will receive a loan, and pay interest, for two to three years until production is complete and committed funds are recouped and the bank is repaid.

Once the project is complete, the producer can sell residual distribution rights to a distributor. However, unlike the propriety model, the producer only receives the portion of proceeds from a film or television exhibition – those that have been protected during multiple rounds of financing with investors to fund development and production. The independent producer hopes to have retained as much IP along the way as possible to benefit from continuing revenues over time. Distribution is almost always undertaken by a professional distribution organization and rarely undertaken directly by the independent producer, who has neither the skills, resources or finance to do so.

The production services model

Both the proprietary and independent models require a large number of service providers to physically make a production. These services providers may include production crews at one or more locations, extra actors, equipment suppliers, technical labour, studio facilities, transportation, special effects, and post-production services. Producers will hire services for a fixed price rather than providing rights to the ultimate production. Generally, there is no long-term earning potential for service providers. Studios or independent producers typically choose “for hire” service providers primary based on cost, making the demand for services mobile and vulnerable to competitive pressures for other jurisdictions. The nature and type of work can be sporadic and unpredictable.

In BC, the vast majority of film and TV industry activity is carried out under this service model.

The BC Film and Television Industry

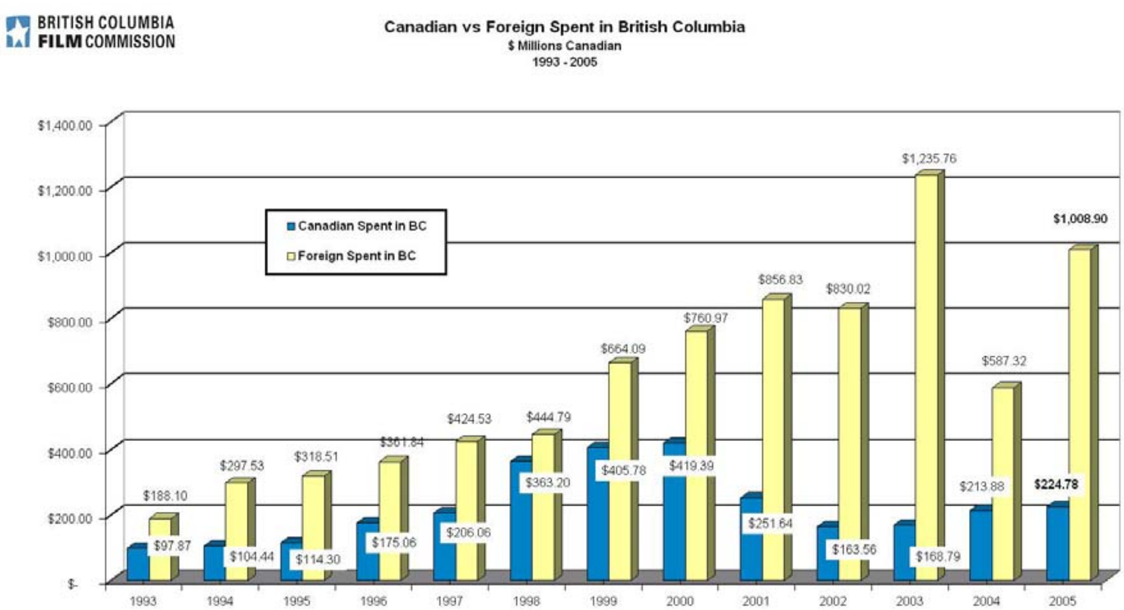
A strong industry dominated by foreign companies

In 2004, film and television industry spending was over $801 million in British Columbia[1]. This activity contributed approximately $1.15 billion to the BC GDP[1]. In 2005, spending reached $1.23[1], with increases attributable to BC's tax credit program staying competitive as well as competitive rates established by Labour and Industry to attract greater service work to BC.

The film and television industry in BC is heavily dependent on the servicing of foreign productions, which are generally owned by the large major US studios (e.g., Warner Brothers, Paramount, Sony); approximately 82% of production spending in 2005 was from foreign producers. Although the general trend of production volume has increased since 1983, economic pressures of current exchange rates and production costs/incentives have resulted in a sporadic pattern in the past three years.

Increasing global competition from new competitors with new production cost incentives has meant that BC has become vulnerable to seriously fluctuating production volumes. For example, U.S. states like New Mexico, Louisiana and New York have all adopted tax credit or other forms of government support schemes in the last two years. International competition for lucrative production services work from the major studios has become fierce. BC's position has become vulnerable to many factors outside of its control, including competing support, currency fluctuations and cost variances. So far BC has remained competitive and the current government has been supportive of keeping the production services sector competitive through the use of tax credits based on labour costs.

Canadian and Foreign Film and TV Production in BC
($CDN millions) (Source: BC Film Commission)



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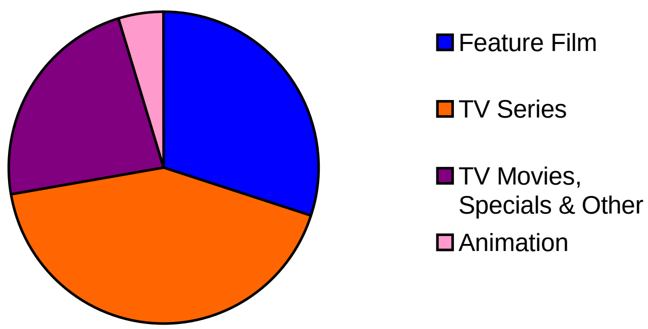
[1] BC Film Commission

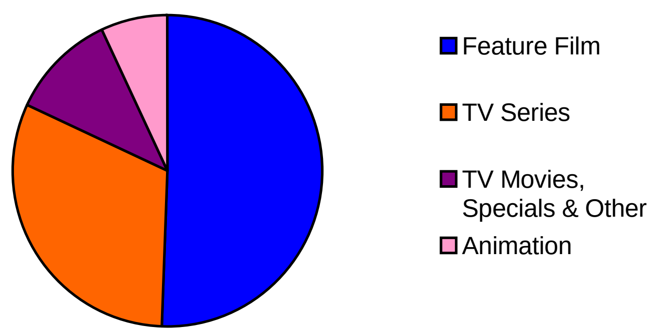
An unpredictable pattern of production

The BC film industry is made up of four main sectors: Feature Motion Pictures, Episodic TV series (reoccurring), as well as television movies, miniseries pilots and documentaries. In 2004 the television series sector was the largest, accounting for 42% of total production. The feature film and episodic TV production followed closely with 30% and 22% of total production respectively. In 2005, feature films were the largest sector with 51% of total production, followed by TV series and episodic TV production with 31% and 11% respectively.

Type of Film and TV Productions in BC
(source: BC Film Commission, 2004)



Type of Film and TV Productions in BC
(source: BC Film Commission, 2005)



Infrastructure

BC has world-class infrastructure to make film and television productions. BC can boast 30-40 full crews at any given time and all the equipment, stages and post-production facilities to support them.

A large, skilled workforce

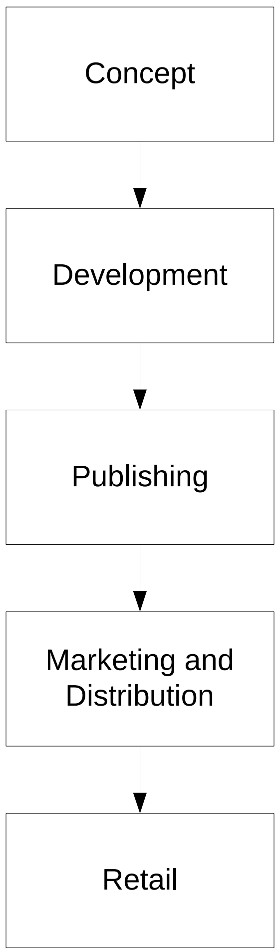
The BC film and television industry directly employs over 25,000 people with an additional 10,000-12,000 employed in support services The labour force is characterized by high unionization.

The weakness

Examples of productions in which the BC creator/producer has been able to retain some element of the underlying intellectual property rights are few and far between. Examples of those who have successfully built corporations based upon retention of these rights are almost non-existent.

How the Gaming Industry works

The life of a game



Like a film or television project, a game begins with a group of creative people who craft an idea for an exciting new game experience that they believe will resonate with an audience.

Once the game has been mapped out, development begins. This involves assembling a team of developers who each have a specific role in programming a component of the game. This diverse team may include developers with an array of skills in different platforms (mobile, personal computer, console, handheld, online) and software tool specialties (e.g., animation, audio rendering, modeling, artificial intelligence, programming modeling, and game design). Development is the lengthiest part of the game development process taking up to two years to develop a single title.

Games at all stages of development are pitched, by their owners, to publishers who must assess not only the sales potential of the game but also the competence of the developers and the viability of the project overall. Like book publishing, the role of the game publisher is to manufacture and market the product. Taking into account marketing and development funding, a publisher can spend several million dollars on a single title before it is even released, making project choice critical. Once the game is near completion, the publisher arranges for extensive play-testing which can take several months to complete. In addition to the internal approval process, publishers need to submit games to the console manufacturers at a number of stages during their development for external technical and quality-level approval.

In addition to overseeing development, the publisher must also decide on and pay for any licenses that the game may utilize (e.g., rights to use film or TV characters such as the Simpsons), arrange for localization of the game to different geographic markets, layout, printing and possibly writing of the user manual, and creating the box design. Creating hype for a product has become a crucial part of generating a hit and publishers have become increasingly sophisticated in their use of marketing. Marketing budgets can significantly exceed development budgets, particularly for the larger territories of the US and Japan.

Distributors traditionally handle the physical conveyance of games to the retail chains and independents. However, the respective roles of publisher and distributor aren't always so clear-cut. Some distributors handle some of the publishers' role and even marketing of products for their particular territories. Others undertake inventory risk by buying finished product from publishers and selling it on to retailers. On the other hand, many of the larger publishers have in-house distribution resources and deal with the larger retailers directly.

Finally, retailers sell the game products to consumers, through stores, online or mail order.

Intellectual Property Rights

The original creators of the game own all the intellectual property to the game initially. To the extent a publisher finances the development and marketing of a property, various rights will be given up, leaving the creator with relatively little valuable ownership at completion other than royalty participation. In addition, the original creators would have no guarantee of being the developer for subsequent sequels if the product is a hit.

Interactive games industry business models

Within this basic process for making a game, a company can chose from three main business models.

The proprietary model

Under the proprietary model, a developer maintains the IP rights and may also act as its own publisher, and possibly its own distributor. The proprietary model holds the most risk but also the greatest likelihood of maximizing revenue from a game title. By maintaining control of the IP rights, a developer receives revenue not only from sales or royalties, but also future revenue potential if the game is licensed for another purpose – such as sequel games or film production. This model is most advantageous to developers who are creating unique art forms (e.g., Halo) rather than animating existing content licenses (e.g., Star Wars), because of this licensing potential. However, the proprietary model also requires the largest capital investment and the greatest risk if a game is not a marketplace hit.

Funding for a game development can either come from internal resources, issuing shares, advances from publishers, and less commonly, advances from distributors of the game. A small number of developers have evolved into this proprietary model seeking higher returns on their products. More commonly, this model is used by very large publishers such as Electronic Arts that are vertically integrated with in-house development, publishing, marketing and distribution capabilities, maintaining maximum bargaining power and control of intellectual property. In many cases, large publishers - such as Vivendi – have purchased local developers – such as Radical Entertainment – to act as in-house development teams. This strategy lowers the risk for publishers when developer interests are closely aligned with those of the publisher.

Under this model, a developer can build an IP library of games titles that can generate revenue from expanded distribution whether it be over the internet or through retail sales.

The royalty model

The royalty model, similar to film's independent model, is typically employed by an emerging game developer that does not have the capital or infrastructure to self-publish a game. Royalty agreements can be negotiated with publishers if the developer is well known, with a good track record. Since the developer does not handle the manufacturing or distribution, it receives a percentage royalty on the "net" receipts to the publisher. This royalty rate can vary from around 10% to as high as 40% depending on a number of factors. Factors that influence the rate include but are not limited to the target platform for the game (PC versus console as cost structures for publisher are different), whether the property is original IP being brought forward by the developer or whether the publisher is looking for a developer to make a game for an IP the publisher owns or has license to, size of budget, services being provided by the publisher, marketing spend commitments etc. For example, a publisher will generally pay the developer a non-refundable advance on anticipated royalties to fund game development. Once the game is released, the developer receives no royalties until sales have exceeded the amount paid out in the advanced funding; the developer will only receive royalty revenue post-development if the game is a “hit”. The smaller the amount of funding required, the higher the royalty that can be commanded and the sooner the post-advance revenue can be derived.

A well-known development team with a track record of successful products can command considerably more favourable terms with publishers and distributors. In addition, the extent to which the publisher or distributor takes on risk and responsibilities such as the game’s marketing and promotion, localizations, etc. will, also affects the royalty rates.

Even under the royalty model, publishers will normally insist on controlling the intellectual property rights on titles that they are proposing to fund, irrespective of who devised the original game concept or who develops and makes the game. The revenue stream to the developer under this model is primarily from leveraging developer talent and reputation to negotiate strong royalties. Once a game has been taken on by a publisher, the developers must meet stringent milestones in order to get the next round of funding. Should the developers fail to reach the milestone then the publisher reserves the right to reject the product. Although there is risk in not meeting a milestone, the royalty model incurs relatively lower risk for the potential of high returns on very successful game titles.

The service model

This is similar to the film and television production services model but is less complicated. The service model is typically employed by a small game developer. The developer charges the publisher for costs based on the developer staffing and overhead, and then receives regular payments at the agreed upon rate as the work is performed. Compared to a small developer, the publisher will likely have a supporting business structure that can contribute to the success of the game such as funding, creative collaboration, project management support, technology, quality assurance, research, marketing, localizing and distribution.

This model carries the lowest risk and the lowest profit potential; developers are paid for the time they have worked and do not have to worry about potential losses or lack of payment if the game is not a success. The only risk is that the project will be cancelled before the intended completion. Under the service model, the developer does not own the intellectual property rights or royalties from the exploitation or sales of the game.

The BC New Media and Gaming Industry

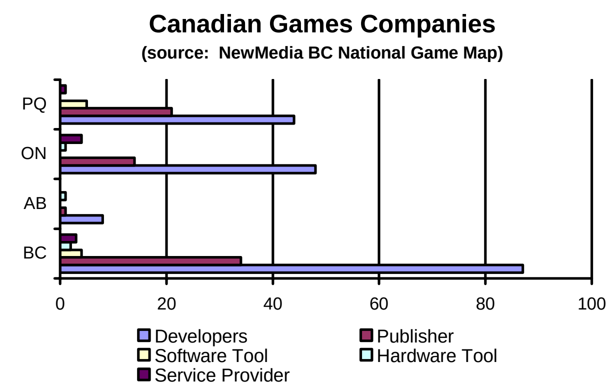
For the purpose of this discussion, the new media industry has been focused on the largest single sector – the interactive games industry. This sector represents the vast majority of current activity and probably represents the majority of future competitive potential in BC's New Media industry. It should be noted however, that there are other sectors, including mobile phone content development, web development and e-learning.

The size of the BC games industry

Boasting an extensive network of established game companies, experienced game veterans, and a skilled entry-level workforce, Vancouver is one of the top gaming centres in the world, perhaps even the largest on a per capita basis. Of the 300 games companies identified in Canada, Vancouver is home to approximately 45%.2 – with excellent representation of both developers and publishers. For clarification, "publishers" in the games industry play a similar role to "distributors" in the Film/TV industry. Electronic Arts is the best-known publisher in BC.

Over 2,400 employees are estimated to be working in the game industry in BC, with a projection for this number to grow.

In British Columbia, the games industry is dominated by a small number of in-house development houses for large foreign owned publishers – namely Electronic Arts, Radical Entertainment and Relic Entertainment. There are a small number of companies that operate under the royalty model, but the vast majority have adopted a service model with no real prospect of IP retention or growth.

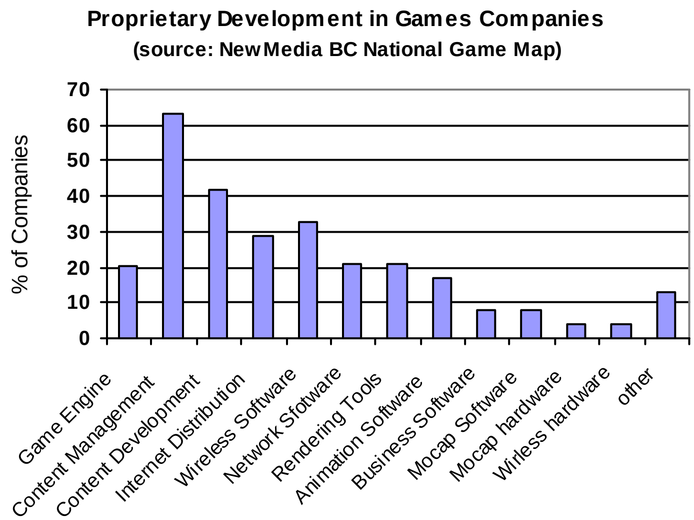


Most emerging game companies are privately held, though publicly held game companies, such as Electronic Arts Canada, Relic Entertainment (THQ Inc.), Radical (Vivendi), and Nokia Canada, account for the majority of revenues and jobs in the game industry in British Columbia.

More than 75% of BC new media companies export their goods and services. The market reach of local game companies is facilitated by the presence of multinational companies, such as Nintendo Canada, which has its Canadian headquarters in Richmond, BC.

More than half of Canada's game technology companies are developing proprietary technology to aid them in production. The most common type of priority development was game engine software.

[2] NewMedia BC, National Game Map. Prepared for the National Research Council, 2005



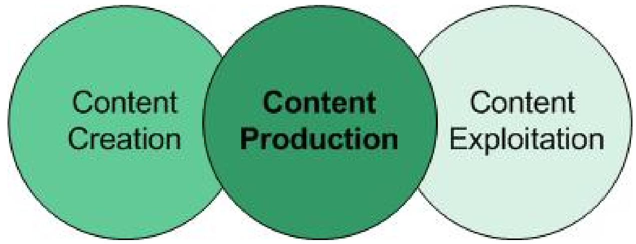
The games industry's weakness

The BC games industry is rapidly evolving into a services industry. Although the critical mass of skilled workers will ensure BC remains a favoured destination for such services, ultimately this is a cost-based highly competitive model, just like the film production services industry. Companies will win work only if they have the best package of skill, cost and track record. The reality is that lower cost centres exist, such as Korea and India. With competitive infrastructure, these countries will likely become a preferred alternative for foreign publishers and owners.

The existence and maintenance of a strong service sector is critical to the long-term survival of the New Media industry and it is likely that this service sector could grow if Vancouver continues to build its reputation as a world centre of excellence in digital media and particularly interactive entertainment. However, the lack of risk capital available to emerging companies and the lack of seasoned senior level talent will continue to mean that opportunities to create wealth and economic development in a sustainable way will be extremely limited. History has shown that successful BC based gaming companies have had no choice but to sell to foreign owners in order to capitalise on their strengths and the value of their organizations.

Where is BC Competitive and what are the Challenges?

Areas of strength



British Columbia is a world leader in entertainment and media content production. Quality creative content is the basis of the entertainment industry and is sought after by every international market. Currently, BC companies create only a modest amount of original content for film, television and new media. However, BC excels in the production of content in two primary areas: production services for the film and television industry and development services for the games industry. The majority of companies in BC operate under the service business model – and they do it very well. However, very little proprietary or independent/royalty production ownership resides in either the film or gaming sector in BC.

Film production services

BC's competitive position in film production services is among the best in the world. There are three main reasons for this: a strong infrastructure, competitive government policy and support, and an attractive physical location. The BC government and film and television industry have developed an excellent infrastructure to support the production of film and television: production crews, labour unions that have show flexibility in establishing wage rates on a project-by-project basis, talent agencies, sound stages, special effects studios, and post-production services that can compete with any other jurisdictions in the world. BC's tax credits are on par with other jurisdictions. Vancouver's natural beauty, North American culture, variety of shooting locations, favourable currency exchange and proximity to Los Angles are additional factors that place BC at a competitive advantage for providing production services and have enabled Vancouver to attract and retain production services business.

Within the services sector, particular areas of specialty are beginning to emerge. BC is particularly strong in feature film and TV production, animation (traditional and computer generated), and special effects for feature films. In all of these areas, BC has the creative talent and technical skills to provide excellent content services to US studio owners. BC studios are creating product that has an excellent reputation and is being seen all over the world.

However, competition for film production services is intensive. In North America, 42 jurisdictions currently offer cost reduction incentives for film and television production. BC is currently competitive with all of them. Although we have excellent locations, services and infrastructure to support film production, US studios are very sensitive to pricing differentials between jurisdictions. The service business is mobile and always vulnerable to immediate change. Without tax credits or other forms of cost reduction incentives, BC will not be competitive in the production services world.

Moving forward, it is generally believed that maintenance of the existing critical mass of production infrastructure is essential as the industry matures towards a proprietary model, but there is limited potential to grow the film services sector. Maintenance of the current position is considered the goal and it is widely believed that ongoing competitive tax credits or alternative forms of government support are vital. Without them, the service industry would not submit winning bids for production projects.

Game development

BC is already a global player in game creation and development with a critical mass of large and small companies and a track record of success. Where the BC games industry excels is in the technical and creative talent required for game development and production. For this reason, many large US publishers, such as Electronic Arts, Vivendi, Nokia, and THC, have either established a development branch in Vancouver, or acquired a local company to act as an in-house development or production facility. These large publishers are happy to base their development work in Vancouver where their programmers enjoy quality of life, there is a high quality pool of talent, and local schools are providing a replenishing stream of creative and technical talent. However, as usual, the wealth-creating IP rights to the game resides outside of Canada.

Like the film and television industry, BC provides production services development services to US or foreign based publishers. Primary competitors to the BC game industry are Ontario and Quebec. However, global competition from countries such as the UK, Australia, Korea and India is also increasing. It should also be noted that there are currently no tax credit or other government support programs available to the games production industry.

Moving forward, there is clear potential to grow this industry and become the recognized world centre of excellence. The challenge will be for individual companies within the industry to remain cost competitive on the service side, but most importantly, move up the value chain by retaining IP in their projects. Current profit margins for game development service providers are 7-10%, most of which can be attributed to Scientific Research and Experimental Development (SR&ED) tax credits, while wage rates are escalating by as much as 10% annually.

The key competitive challenge in a global marketplace

Currently, the BC film and new media industries, while strong in their own right, occupy a low position on the value chain and are constantly fighting to remain cost competitive. The industry has the creative talent and technical skill to develop original content and develop strong technology, but long-term growth will only come when the industries can move up the value chain. BC’s current position has become vulnerable to many factors outside of its control, including competing cost reduction incentives, currency fluctuations and cost variances. In the long term, growth in the film and new media industries will only come through the ability to create and retain ownership of quality IP that has international sales appeal. International sales will create wealth, jobs and sustainability not exclusively based on striving to be a low cost production centre.

The essential tragedy of these industries is that all of the talents of BC-born-and-raised skills are put to work to create wealth and sustainability for foreign owned corporations. With some attention to the key missing private and public policy ingredients, some of that wealth and sustainability can realistically be retained in British Columbia.

Key Factors that Shape Success in the Film, Television and Interactive Games Industries

The Value Chain – Who Bears the Risk and Reaps the Reward

As with all industries there is a risk/reward dynamic – those that have the greatest financial risk stand to reap the most benefit. However, in most industries, creators and inventors can raise risk capital to avoid premature divestiture or dilution of valuable IP assets, i.e., risk capital is designed to protect valuable IP, so even after the distribution and sale of end products, the largest proportion of value profits go to the value creator. In BC that is not true of the film/tv or gaming communities.

Emerging creators/inventors, i.e., writers, producers, animation studios, game developers, don't have risk capital and therefore must seek capital financing from those whose job it is to distribute and sell the product (distributors and publishers). In an open market the financial risk takers (distributors and publishers) will naturally want to own all or most of the valuable IP, thereby leaving the original creator with the money to produce the content but with very little residual valuable IP therein.

The Value Chain / Risk / Reward Profile in the typical independent model would look something like this:

Stage	% of Capital at Risk	Risk profile	Typical Revenue percentage share of total
Concept	2 – 5%	Very high	0 – 5%
Development	5 – 15%	Moderate	5 – 10%
Production	50 – 75%	High	10 – 25%
Marketing and Distribution	10 – 30%	Moderate	50 – 75%
Exhibition / Retail	0 – 5%	Low	15 – 25%

This table is illustrative only, but the essential point is that without risk capital availability to the creator, it is inevitably the distributor – who arguably takes on the least amount of risk – that will typically end up with the vast majority of the wealth creating potential.

Without the leverage or ability to retain IP, the independent creator is reduced to working for a fee or only a distant interest in the final sales proceeds of a product.

Location matters

Production location matters for two principal reasons: cost and appropriateness. Competition among jurisdictions for production has intensified in recent years. For example, 45 US states and Canadian provincial jurisdictions now offer some type of financial incentive for film production. Large film and game companies are very sensitive to cost increases or decreases and have shown that they will move location to seek low cost jurisdictions in which to make their content. The cost of production is primarily driven by labour costs, production incentives and support, ease of permitting and securing city services, and currency exchange rates.

Percentage film production cost savings among cities

	Vancouver	Toronto	New Orleans
% Savings relative to Los Angeles	10.1%	11.9%	9.0%

Source: Cost Competitiveness of the British Columbia Film Industry, Vancouver Economic Development Commission

Although cost is a primary driver, there are only a limited number of global locations that possess the infrastructure to support production in significant volume in film and TV production. In addition, certain creative components of a production will require certain characteristics. For example, producers may need to find shooting locations that look like the US, have a pool of actors that look and sound like Americans, offer key creative talent, and have a mix of urban and rural settings. British Columbia is fortunate to be one of those locations.

Conversely, physical location characteristics are not a determinant in locating a games company. This industry seeks a large pool of talented creative people to develop their product, wherever they are situated globally.

Ownership of rights or intellectual property to productions is key to economic development and wealth creation

This critical success factor is common to both industries.

Every entertainment production asset, whether it be a film, cartoon or a game, can be thought of as a basket of “rights” or IP to be exploited and protected. This industry dynamic is at the root of every business arrangement in the industry. Under the proprietary model, the producer owns all of the rights until distribution or sale of some element of those rights. Under the independent producer model, a portion or all of the IP rights are sold to raise financing for development and production. Under the service model, the service provider does not originally own nor retain any rights to the end product.

The classic unsolved and sad trade-off exists between raising funds to develop original content through the sale of IP versus the retention of rights for long term earning potential. The vast majority of BC-based companies must pre-sell the most valuable aspects of their IP in order to raise the finance needed to create their projects. Without retention of valuable rights, significant wealth accumulation is not possible.

Senior talent must exist to grow into a mature industry

Senior level creative and business talent is required to continually grow original content opportunities. The games sector in BC needs producers, directors, professors and other high-end creative talent to grow companies with enough clout and resources to retain IP rights.

The film industry needs seasoned production executives with strong international networks to create and retain internationally appealing production.

Government support aimed at growth and marketability of independent Canadian film or television in the international marketplace

Canadian broadcasters have specific CRTC requirements, measured in hours and dollars related to licensing and/or investing in “Canadian” productions. Canadian content status is based on a points system; productions that involve high creative talent in Canadian locations, production and post-production expenses paid to Canadians, and Canadian subject matter score a higher number of “points”. The points system is critical for eligibility for not only broadcast in the domestic market, but also for eligibility for extensive government funding programs. A high Canadian content production can acquire public financing that may cover up to 50% of production costs. However, therein lies a critical dilemma for the independent producer. It is virtually impossible to satisfy such content criteria and also produce internationally appealing and marketable product. As an example, content criteria requires that a film or cartoon take place in Canada. This can negatively impact worldwide marketability and can be creatively impractical, as is the case with science fiction subject matter, which can never really be recognisably Canadian.

If a project is intended primarily for the US and/or international marketplace, the reality is that, under the existing system, government funding will not be available to assist in the retention of all important rights and the bulk of production financing will have to come from the pre-sale of some or all of such rights, invariably to a foreign buyer.

Government needs to fully understand business models, set clear policy goals and independently set programs to achieve those goals. BC has tended to copy other provincial programs which are only partially aligned to the BC industries’ needs.

Undefined Canadian culture with little international audience appeal

Canada is a young and diverse country. Regions like the United Kingdom have a long history and identifiable national identity. In such distinct regions, a production is clearly “recognizably British”. Other than Quebec, this is not the case in Canada. We are a melding of histories, cultures, faces, accents, languages, and geography. In the absence of this, it is difficult for a producer to commit to a production that is “recognizably Canadian” for the purposes of funding criteria and also maintain international audience appeal. This presents a considerable funding challenge to producers who must be competitive in the international marketplace in order to grow their businesses. A Canadian producer looking to maximize the appeal of creative content in the international marketplace may be forced to modify content or find funding from international or private sources.

Wealth creation power resides with the distributor and publisher

Without equity to invest by the creator, film and television distributors and game publishers hold the powerful and valuable role in the value chain of these industries. They have international marketplace access as their asset, they have the capital to promote projects to a mass market, and they have the branding to capture market attention. For this reason, they are often in a position to negotiate a high portion of IP ownership from capital-starved producers. Some developers and production companies may willingly hand over IP for the opportunity to have a project produced, to gain critical recognition, or to develop company exposure in the marketplace. However, most must sell their most valuable asset – their rights – in order to get the production made.

Hit motivated industry brings inherent risk – “slates” manage risk

Both the film and television industry and the games industry are very “hit” driven. The reality is that a small number of projects become hits but it is the hits that drive the primary wealth generation in the industry. Despite this reality, all projects require extensive capital before the hit status is determined or not. This makes the industry inherently risky for both developers and creators in the industry. In both industries, it is generally believed that several productions must be developed at one time to manage and diversify the risk. These are known as a “slate” of projects.

In an effort to increase the likelihood of a hit, games publishers are turning to licensed material (such as film or television characters) with the perception that these characters will have some degree of market acceptance. For example, Electronic Arts has licensed the content for game titles such as Lord of the Rings, National Basketball Association and Harry Potter. Although this strategy decreases marketing costs and increases the likely acceptance of a game, it limits potential revenue that can be generated for original created content as revenues must be shared with licence holders. For example, original content created through the Tomb Raider game, has not only generated "hit" revenues from sales of the games but has also been licensed very successfully for movie rights.

A small Canadian domestic market which limits local sales potential

Given the size of domestic markets in Canada, the cost of making a production cannot be recovered from domestic sales alone. For example, total license fees received from Canadian English-language broadcasters can only cover a portion of a total production budget (8-27%) of Canadian productions.[3] The United States has the largest domestic entertainment market for film and television and Asia is the largest market for games. Hence, because the domestic Canadian marketplace alone cannot financially support the development of proprietary product, BC content creators must focus on creating attractive content for the worldwide marketplace.

To a greater and greater extent, productions rely on the foreign sales not only to recover development and production costs but to create wealth to sustain reinvestment in additional productions. The international market is highly competitive, and requires enormous expertise and capital to navigate with success. Generally, a Canadian producer will have to relinquish the international or US rights to a production in order to raise the financing and produce the project. The rights are then held by a distributor who then sells to foreign territories and reaps the majority of the rewards.

The following table illustrates the size of the Canadian market relative to our international competitor markets.

Domestic Entertainment Markets (US$ millions) (2004)

	Films	TV (from Advertisers)	TV (From Viewers)	Video Games
United States	34,971	53,732	86,658	8,189
EMEA	27,424	54,793	35,028	5,980
Asia/Pacific	15,378	35,296	15,988	10,086
Latin America	1,6706	4,929	5,940	531
Canada	4,816	3,314	2,709	611
Total	84,195	152,064	146,323	25,406

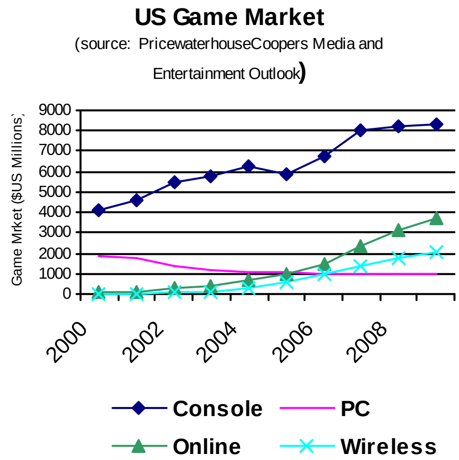
EMEA: Europe, Middle East and Africa
Source: Global Entertainment and Media Outlook: 2005 – 2009 PricewaterhouseCoopers

[3] Assessment of the Economic Impact of the Canadian Television Fund

Upward pressure on research, development and production costs

Films and games have traditionally been delivered through theatres, televisions, personal computers and consoles (e.g., PlayStation). However, in recent years, new delivery platforms (such as the Internet and mobile phones) have expanded the potential distribution channels. With this trend comes new market opportunities and new technology requirements.

With each generation of platform, development costs increase. New consoles in the gaming industry have more sophisticated graphics capabilities, transmission infrastructure (such as broadband) can handle large data transmission, and gamers as well as film-goers are looking to more and more realistic graphics. These trends have significant implications for the development of new technologies at higher costs.



What has Industry Done to Help Itself?

The film and new media industries have done a great deal, with their limited resources, to help grow their industries.

Film and TV industry

This industry presents a rare success story of business and labour walking in virtual lock step. In the live action production services sector (some 80-90% of the industry) producers, vendors and unions constantly sit together to review competitiveness issues and look for ways to reduce costs, go to market together and provide a film-friendly harmonious location for filming. A great deal of effort is put into community relations and public policy to ensure growth is achieved with minimal disruption to communities and support from the various government levels.

This sector has re-invested hundreds of millions of dollars into infrastructure without any direct government support. It should be noted that the benefit of tax credits flows to the foreign owner not the local service provider.

This sector regularly, at its own cost and without assistance, embarks upon trade missions to the US and Europe to market BC and entice new customers. It also works closely with the government's BC Film Commission to actively market BC to the world.

This sector is a substantial in-kind contributor to educational institutions, which run programs to build skills in this area and provide production equipment and resources to students. Without such support these programs would not have the funding to be effective in teaching leading edge skills and capabilities.

This sector has a truly representative multidisciplinary trade association, namely Motion Picture Productions Industry Association (MPPIA) whose mandate is to grow, diversify and maintain a globally competitive film industry in British Columbia. Their strategic goals are to build the domestic film and television industry, expand infrastructure, ensure adequate supply of skilled workforce and take a leadership role in making that happen.

Visual effects and animation sector

The sector is primarily populated by digital media content producers and creators. This community has successfully supported and aligned itself both to the film and emerging new media sector.

This sector is emerging and at an earlier stage of its growth. However, it has endeavoured to be heard through representation at all levels of industry growth:

a. Educational program curriculum setting
b. Internships and scholarships
c. Government education
d. Strong representation in the key trade association, New Media BC
e. Strong selling and marketing of BC incentives to US and foreign based buyers of digital media services (e.g., VIDFEST International Partnering Forum)

Interactive gaming sector

This young and diverse industry is the driving force behind many developments. It has been the primary strength behind the establishment and ongoing influence of the trade association New Media BC.

This sector has helped shape many educational programs that now generate the large numbers of technical talent which have made BC a contender as a global centre of excellence for game development.

At VIDFEST, an annual conference put on by New Media BC, executives, creators and producers come from all over the world to debate trends, exhibit product, and highlight industry developments in a public series of seminars.

This sector has been at the leading edge of research and technology development in BC. It has given financial and technology support to research programs and initiatives in tandem with government and academia.

What has Industry not done well?

The obvious progression towards the cost-based low value-added production services model and the sale of emerging successful companies to foreign buyers is evidence that attention to strategic direction setting has been lacking.

Industry has not:

a. Convinced the private capital markets of why it should invest in this industry
b. Adequately explained its business model and wealth/economic/value drivers to Government
c. Allowed itself to think big and stay at the top of the value chain
d. Successfully attracted senior experienced talent to come to BC
e. Been able to build the IP model on the strong foundation of the current production services model

This Committee however, together with the many interviews it has performed, has concluded that industry is committed to resolve these deficiencies in the journey towards creating a long-term sustainable industry in British Columbia.

Recommendations for Long Term Sustainable Competitive Success

Each of the following recommendations is necessarily interdependent and should not be viewed as an isolated initiative.

Maintain strong base in production services

The service sector has a critical role in the development of BC's film and new media industries and must be maintained. Not only is it the bulk of a strong industry, it is one of the foundations on which higher level talent emerges and higher value chain activities are supported. It is from BC's service sector that creative and business leaders can be mentored and the creative visions of these leaders executed.

We have all the ingredients of a strong film/television service sector: talented crafts people, training facilities, an industry coordinator (BC Film Commission), physical infrastructure and a strong industry association. If this competitive position is eroded, then the foundation for growth towards the proprietary model will be damaged. Tax credits on a level playing field with other jurisdictions are essential to protect this flow of production to BC from outside Canada. The general belief is that the elimination of competitive tax credits would have a dramatic impact on production volumes, especially in light of competitive incentives both within Canada and internationally.

In the games industry, tax credits are provided for work that qualifies as technological advancement – and there are many. Currently, computer generated entertainment for broadcast qualifies for tax credits. However, although the next generation of games will compete with television and film for audiences, the games industry is not provided the same incentives to support creative aspects of animation, modeling, and special effects that the film and television industry receives. Currently there are no tax credits for the interactive games industry and their belief is that production volumes will decline without it.

To maintain the strength of BC's service sectors and effectively market BC as a location for international customers, a three to five year commitment to government support is required, both for the nature of the industry (projects take many years to complete) and the transition from primarily services to greater IP right retention.

Some suggested recommendations to the Tax Credit Program include:

- A long term commitment to existing film, television tax credits
- Extend tax credit eligibility to reality TV programming
- Extension of such support to the new media sector
- Extend BC Digital Animation and Visual Effects program eligibility to include activities performed in the games industry which are not eligible for SR&ED tax credits
- Extend BC Digital Animation and Visual Effects program eligibility to include post-production work

In addition, streamlining permitting and the securing of city services such as police and fire for productions can help maintain cost competitiveness.

However, a strong cautionary note is not to focus on IP retention models to the exclusion of the services sector; as the saying goes, we must not throw the baby out with the bathwater!

The future of the industry is neither IP based or services based… it is both

For any cluster to grow, it needs all the links in the value chain and critical mass in critical areas. While it is true that BC based creators/producers can go most anywhere to make their projects, it must make sense to “stay at home” where the infrastructure already exists. Wealth creation through distribution is only of limited benefit to BC without the associated job creation – both are needed to optimize the growth model.

Leverage the service industry base to move up the value chain

BC’s strength in quality content production sets the stage for becoming a world leader in wealth creation from both the film and television and new media industries if, and only if, IP can be retained in our creators’ works. Today, we have a great infrastructure for services. To move up the value chain further, we need to develop an infrastructure for distribution and marketing and increase our international profile, transition from an exclusively services-based market, to one that capitalizes on the base of knowledge assets already here.

The key to moving up the value chain is the transition to creation of original and compelling content and the retention of the underlying IP rights. Over time, BC companies will build a library of IP rights that can create a revenue stream to self-finance future production and distribution. This is the only long-term sustainable model that does not depend primarily on government support.

Even maintaining a small portion of rights can make a significant difference in the economic viability of a company and an industry. BC companies must be able to negotiate meaningfully on the sale of rights, hold back valuable rights to a particular region, negotiate better time periods for rights, or reduce rights pre-sold at under value at the early risk stages in the process.

IP retention is starting to be seen in the Province. BC already has a little-used IFC legislation incentive which is specific to the film and television industry. This should be extended to the games publishing industry. A small number of companies have begun to achieve success in retaining some of their own IP. Small film producers have established an office in Los Angeles, developed relationships with key industry members, and sold multiple properties to US distributors while maintaining some IP rights for their own exploitation. The funds from these sales are available to the company to re-invest in developing market-oriented productions for the international marketplace. These producers have used BC tax credits as equity when negotiating with US distributors. This is an excellent example of how current government support can be leveraged to create an IP retention strategy rather than exclusively supporting a job creation, cost reduction services based strategy.

Suggestions to move up the value chain:

- ***Increase local distribution/publishing infrastructure and capability –*** BC companies require a local and accessible distribution and publishing infrastructure to gain effective access to international markets. This will grow from the increase in risk capital availability as well as the other recommendations. There is no such infrastructure in BC at this time. There are no distributors, broadcasters or publishers headquartered in Vancouver. Thought should be given to re-directing some government support to the distribution sector rather than exclusively to the production sector.

- ***Increase marketing capabilities and showcasing of BC talent and content –*** Additional marketing is needed both in the service sector and IP retention sectors. Thought should be given to joint industry/government projects designed to sell BC originated content, either by trips overseas or through a local market.

- ***Utilize the IFC legislation –*** Active industry and tax government engagement in marketing the lucrative tax benefits of the IFC legislation to foreign distribution companies and extension of the legislation to include the interactive gaming sector.

- ***Increase in risk capital availability*** (see next section)

- ***Continue to support Vidfest*** (see earlier section)

- ***Foster, attract and retain senior level entrepreneurial and creative talent*** (see later section)

- ***Redirect support for more marketable projects*** (see later section)

Stimulate risk capital flow to invest equity in locally owned and developed content

For the industries to make the transition to a proprietary model, more capital is required for producers and developers to fund the development of their product without the wealth-eroding presales of IP rights to publishers and distributors outside of BC. The establishment and promotion of these capital pools will enable producers and developers to fund slates of projects, not just one-off productions, thereby diversifying the risk associated with single-project productions outlined above.

To put IP in the hands of proprietary developers and producers, a funding mechanism independent of publishers and distributors needs to be developed. Two potential sources of funding are market-oriented public funding and incentive-driven private investment.

The nature of the film and new media industries can be complex for investors and banks not familiar with the industry. Also, the inherent risk in these industries presents a barrier to most investors or lenders. However, this risk is not unique to film and new media industries. In fact, the technology industries, mineral, oil and gas exploration are also essentially "hit" oriented, requiring multiple large investments of capital before a profit-generating venture is realized and yet those industries are well served by the capital markets. Various mechanisms, such as flow-through shares, investor targeted tax incentives or an industry specific equity capital fund, have been used to provide incentives for investors to fund higher risk industries. These vehicles provide risk management for the investor.

Suggested recommendations to stimulate the flow of risk capital include:

- ***Investigate reasons for current low levels of equity investment –*** Although film, television and new media are inherently high-risk industries, the industries are no less risky than some others. The industries must determine if the inherent risk is the only barrier, or if it is a perception/education issue. If so, a concerted education campaign by the industry and for investors, banks and venture capitalists may help stimulate a flow of capital into the industries.

- ***Acknowledge "slates" are the way to manage risk –*** Consumer / audience behaviour is somewhat predictable but not entirely. As with most high risk industries, risk is managed through diversification. Given the lack of "venture capital" in this sector, creators are forced to make one production at a time, which is the basis upon which the funding program works. This model maximizes rather than minimizes risk.

- ***Consider a sponsored equity fund –*** e.g., labour sponsored fund or VCC to plug the gaps which need filling in order to grow IP retention

- ***Provide incentives for private equity financing*** –Funding mechanisms valuable to other industries, e.g., technology and mining, such a flow-through shares, investor targeted incentives should be available to film and new media industries. Thought should be given to supporting the development and distribution elements of the value chain, not exclusively the production phase.

- ***Consider EDC style support –*** Many content creators can obtain bank lending to produce their projects if they have insured revenues to offer as collateral. Thought should be given to this type of support which requires no physical funding but allows the creator to retain valuable IP during the creative process.

Foster, attract and retain senior level entrepreneurial and creative talent

Film and new media are creative industries and success relies on talent. BC has a great deal of talent and the technical skill to compete on any level. But we are missing the senior creative people who can generate marketable ideas (writers, producers, directors and designers) and make them a reality. Mostly, we need senior business talent, people who are experienced in the "business of art", who have strong networks, can get projects financed, and exploit lucrative copyright and licensing opportunities and senior digital media creators and designers.

Unfortunately, limits and frustrations in the marketplace cause talent to leave to pursue their careers and get their projects made elsewhere. Both business and creative decision-making in our current service industry is made outside of BC, at the source of project financing. We need to nurture the risk takers and leading creative talent residing in British Columbia but attract key people where gaps exist. The BC lifestyle should be leveraged to attract foreign leaders to make British Columbia their home – they need to be compensated, they need to work in a success-oriented environment, and they need staff that can get the job done. Once we have grown or imported key talent, we need to help them stay; world class infrastructure and an advantageous tax policy are two of the most effective ways.

Senior executives and leaders are not only valuable in that they generate revenue streams for a company, but they foster growth in an industry and spawn other talent and new economic development. With programs like Capilano College's Motion Picture Production advanced diploma, young creative talent has been nurtured and developed. But the best training for young talent is to work with other experienced and successful people in the industry.

In many large film and new media centres, key industry leaders are integrated into educational facilities. This may include teaching positions or assistance with curriculum development, where they are helping mould curriculum to ensure academia is aligned with industry needs. Currently, BC does not have a post-graduate education facility in film or new media. In other jurisdictions, these schools teach students advanced technology, creative and business aspects of film and new media

Suggested improvements to foster, attract and retain senior talent include:

- ***Establish world-class postgraduate education facilities and support training in undergraduate entrepreneurial film-making –*** BC currently does not have a graduate education facility for either film or new media. The World Centre for New Media is a graduate program under development in Vancouver and should be supported by industry and the provincial and federal governments. If successful, this facility will be one of a small number of specialized graduate programs in North America that teaches advanced topics in the business and creative management of digital media. Ideally, this Centre will attract top talent to teach and work collaboratively with industry to develop curriculum. As a complement to BC's strong undergraduate infrastructure, a similar postgraduate program for the film industry (similar to the University of Southern California's Film Program) would help attract key creative and business talent to support a growing industry.

- ***Tax incentives for foreign individuals –*** A key factor in attracting and retaining senior talent is compensation. Providing a tax exemption on stock option gains for foreigners is a low-risk way for the provincial government to compensate entrepreneurial individuals who are seeking to create successful companies, make BC their home and contribute to industry growth in the Province. Other tax benefits/holidays should be considered for foreign talent wishing to migrate to BC to grow a business.

- ***Streamline cross border movement –*** In many cases, British Columbia will have to import senior talent to bolster the new media and film industries and its related academia. Currently it can be a complex process for a foreigner, and his/her partner, to gain access to Canada through immigration. Streamlining this process would remove a potential barrier to attracting talented new immigrants.

- ***Support internships –*** BC Film Internship programs have been an excellent training service to the film and television industries, but within the gaming industry, companies can often not qualify for wage subsidies like the federal First Job in Science and Technology program. The federal Youth Hires Program, which ended in 2000, was an initiative designed to help young people enter the workforce by providing Employment Insurance relief for hiring youths. Similar internships are needed for the gaming industry today, with support from both the public and private sector.

Solve the inherent conflict between "cultural" and "economic" growth

With a small Canadian market, creators must produce internationally appealing productions in order to create sustainable business models. Most BC resident and reared creators/producers could not possibly finance their creations without qualifying for government funding programs and incentives. The criteria for such incentives are based on "recognizably Canadian" ideologies. This may be desirable from a cultural standpoint, but fundamentally eliminates the ability of the creator/producer to make something with international appeal.

Industry and government should re-think their approach to the intersection between cultural and economic growth. The industry believes both are critical but cannot be addressed by either one set of policies or simply following dated federal principles. BC should have its own approach to growing what <u>it</u> believes are the right goals.

Furthermore, the governments' reach into these industries is too ad hoc. We have BC Film Commission, essentially an expert marketing organisation, BC Film which has more of a domestic "nurturing" mandate, a local branch of Telefilm Canada and no real representation of either the music or gaming sector. Whilst these organizations do, for the most part, laudable and good work, thought should be given to a more holistic approach to the “media” industries. Several other provinces have such an approach.

Podcast/webisodes/mobisodes/vodcasts – all threaten traditional models. Audiences with no brand loyalty will graduate to new forms of media. These areas present huge opportunities for BC but cannot grow if “Canadian Content” criteria restrict their commercial appeal.

Improve support for the market orientation of BC created content

As much as we think about film and new media as a creative endeavour, requiring the talented input of producers, writers, actors, designers, and other key creative individuals, we should also think of it as the making of “product” for a marketplace and audience. With no audience there is no sustainable industry business model. This is a business where buyers need a regular supply of programming suitable to their audiences. It is only by satisfying market demand that the industries can be sustainable in the long term.

In British Columbia, there are three areas where the film and new media industries could improve their market-orientation: an entrepreneurial attitude, the separation of the cultural and market-oriented industries, and a re-orientation of support based on proven performance.

BC has the foundation to be a global player in new media and film. To realize this potential, business leaders and government need to engage with the marketplace on commercial terms. We need to use our skills as good service providers to move towards a high performance entrepreneurial culture that is accountable and results-oriented. This should not be confused with the need to preserve BC culture and nurture up and coming creative talent.

Film and new media are excellent vehicles for the promotion and celebration of Canadian culture. Industry executives recognize and maintain the position that government support is required to ensure culturally oriented content is preserved. However, “Canadian” products are rarely marketable in the international marketplace. For producers who are interested in pursuing a market-oriented strategy focused on exports to the US and international markets, current Canadian content rules place them in a difficult position. Clearly, two equally valuable (in different senses) streams of film and new media activity are occurring in BC: cultural and market focused. The industry supports both streams but believes that they must be supported differently, with different training, different funding criteria, and different financing models.

In Canada, we do not have a system of government support aimed towards those who have a proven commercial track record. A market–orientation to support could create stronger companies and industry growth. By providing merit-based support for new talent and accelerated support to producers and developers that have performed well, BC can increase the pace of industry growth.

Broadcasters provide the showcase for BC talent… but there is no BC based broadcaster other than Channel M (multicultural) and The Knowledge Network (BC Government owned).

The television programming BC audiences watch is commissioned, acquired and decided upon by non BC based broadcasters. Without a showcase broadcaster, local audiences cannot build, which can in turn support local talent and the growth of local companies.

Recommendations to improve the market orientation of the industry include:

- ***Retain talent-nurturing processes and the production of visibly Canadian content within the cultural portfolio of the government –*** New and emerging talent should be supported and nurtured through BC Film, and a showcase should be created through, for example, the government owned Knowledge Network broadcast television station.

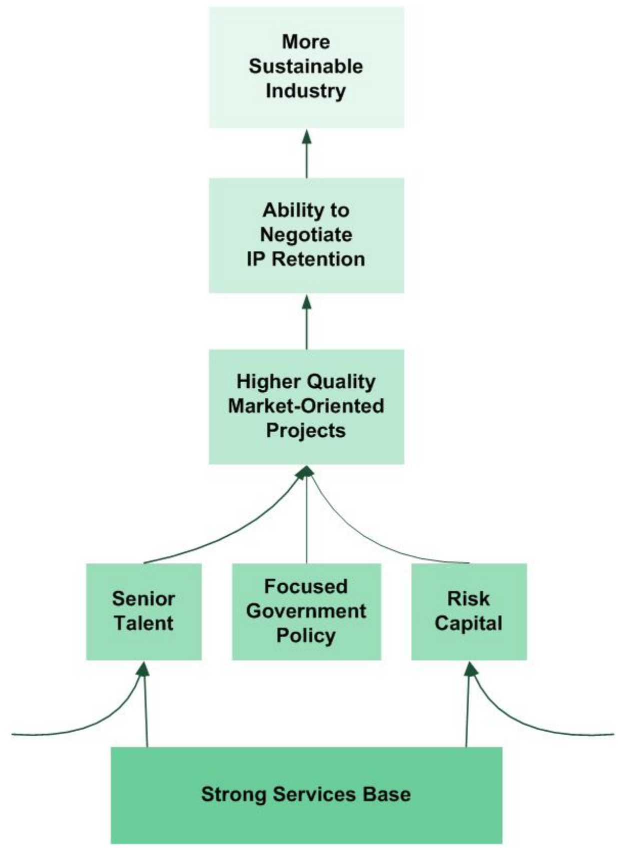
Producers wishing to produce visibly Canadian content should have access to programs specifically designed to take into account their local and not international appeal.

- ***Move the market focused film and new media sectors from a culture to an industry/economic portfolio within government –*** While those Producers following Canada's cultural mandate should continue under the cultural umbrella, market-oriented film and new media projects should have policy to support economic development objectives. Pressure should be brought to bear on the federal government to do the same. There is no objection to both "files" residing in one government department as long as the policy goals are distinctively different. Culture and commercial mandates must co-exist, but be recognized as distinct areas of support.

- ***Separate market-oriented stream of merit-based support –*** A merit based funding program would help accelerate growth of strong companies and the industry. There is a generally held belief that too much support repeatedly is given to content creators with no track record of success. With a reallocation of the current BC content qualified support, the BC government can incentivize the industry towards a merit-based government support program on a "sliding-scale" basis, i.e., those that are creating slates of proprietary IP film and animation projects in BC for the commercial marketplace should be rewarded with higher levels of support.

Next Steps for Industry and Government

British Columbia has the core attributes and building blocks to develop and grow sustainable film and new media industries. The key for this industry is to move from being a “services for hire” industry for foreign owners to being an owner of rights to original content. If BC was to add even a small amount of proven senior talent and risk capital to this strong base, the industry could create higher quality, market-oriented products for the international marketplace. As the profile, talent and quality of products increase, BC companies will be in a better position to retain rights to their products and directly benefit from their ultimate distribution. As a library of IP rights is built, companies begin to generate a revenue stream that can help self-finance ongoing creation of original content.



These recommendations are interdependent

Like many industries, the success factors in the film, television and new media industries are interdependent. To accomplish the overall goal of a long term sustainable industry, the industry needs senior talent that can generate high quality creative content, broker financing and sell the product in the international marketplace. However, the developer / producer cannot achieve success if he/she is operating in a restrictive business and policy environment with no access to capital. The more money the producer can bring to the table, and the more creative freedom the producer has to meet market demand, the greater his/her ability to build a sustainable business model.

Recommendation #1: Industry and government continue their support of the World Centre for New Media and a similar post-graduate program in film studies.

Recommendation #2: Industry and government work to establish and market risk capital pools or investment incentives for the film, television and new media Industries based on intellectual property ownership models.

Recommendation #3: Government to provide an exemption on stock options and tax holidays for foreign talent choosing to make BC their home.

Recommendation #4: Government to provide a long-term commitment of current Tax Credit Program and extend tax credits to emerging game development companies to maintain the service sector as it matures towards wealth creation.

Recommendation #5: Separate market-oriented content from culturally oriented content at the provincial policy level.

To our knowledge, this has been the first time this diverse group of industry leaders have been brought together from both the traditional and new media industries. The Premier is commended for his foresight.

It is clear to the Co-Chairs and all those involved in the exercise that there is a very realistic opportunity to grow these industries, based on some very impressive and enviable fundamentals. However, the challenge is stiff. The lack of senior level experienced talent, risk capital and distribution capability will severely restrict this Province's ability to grow these industries. Without these growth drivers, we simply cannot compete up the value chain.

It is also clear that both industry leaders and policy makers have much to discuss. The recommendations contained in this report are intended to be practical and workable in theory. The practice will be different and will take commitment to common goals from the outset.

We look forward to working with the Premier to crystallize the potential of the Province in the film and new media sectors.

Appendix A
Industry Interviews

The foregoing report has been written by the Co-Chairs with the assistance of the Advisory Committee members. The following individuals provided valuable input only, and the report is not intended to reflect their personal views on any of the topics covered or recommendations made.

1. Rob Barrett (Bluecastle Games)
2. Chris Bartleman (Studio B Productions)
3. Carl Bessai (Canadian Film and Television Producers Association)
4. Rob Davies (Atomic Cartoons)
5. Lance Davis (Slant Six Games)
6. Trish Dohlman (Screen Siren Productions)
7. Glen Entis (Electronic Arts)
8. Michael Francis (BC Film)
9. Christine Haebler (Crescent Entertainment)
10. Dan Irish (Three Wave Games)
11. Paul Lee (Electronic Arts)
12. Peter Leitch (Lions Gate Entertainment)
13. Laura Lightbown (Haddock Entertainment)
14. Gordon Mark (Crescent Entertainment)
15. Don Mattrick
16. Rob Merilees (Infinity)
17. Rick Mischel (Mainframe Entertainment)
18. Derik Murray (Network Entertainment)
19. Matthew O'Connor (Reunion Pictures)
20. Mark Prior (Rainmaker)
21. Don Ramsden
22. Tom Rowe (Canadian Film and Television Producers Association)
23. Tim Roy (Bluecastle Games)
24. Kirk Shaw (Insight Studios)
25. Curtis Terry (THQ Canada – Relic Entertainment)
26. Brian Thalken (Slant Six Games)
27. Nathan Tichenor (Crescent Entertainment)
28. Doug Tronsgard (Next Level Games)
29. Tarrnie Williams (THQ Canada – Relic Entertainment)
30. Ian Wilkinson (Radical Entertainment)
31. Barry Ward (Bardel Entertainment)
32. Image Engine
33. Post Modern Sound
34. Michael Shepard (Thunderbird)