

THE CANADIAN FEATURE FILM INDUSTRY--
AN ASSESSMENT OF ITS PRESENT STATE AND
A POLICY FOR ITS FUTURE

AN ADDRESS TO THE CANADIAN CLUB
BY
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MONDAY, OCTOBER 29, 1979
ROYAL YORK HOTEL
TORONTO.

The potential of the motion picture, as an art form, to enlarge human thought, emotion, and experience is almost without limit. But the making and marketing of a motion picture is almost unbelievably complex and involves a great many highly skilled people using highly complicated technology--and this can be expensive! Far more than any other art form, therefore, the creation of motion pictures is rooted in the realism of dollars and cents.

The first eighty years of the twentieth century have, through-out the world marked the development of motion picture production from modest and primitive beginnings into a major six-billion-dollar annual business, important both for its own sake and for the way it impinges upon all aspects of cultural and commercial life. Quite clearly, it is not just tinsel and trappings but a business to be taken seriously.

The film industry in Canada is enjoying a resurgence of production activity after a six-year period of turmoil in the early- to mid-seventies during which Revenue Canada and the courts grappled with these problems:

1. the problem of defining the capital cost of a film, that is to say, the amount for which a taxpayer has legally committed himself; that is, the amount for which he is at risk and on which, therefore, he can take capital cost allowance; and
2. the problem of defining the precise moment at which a depreciable asset exists--now taken by all concerned to be completion of a film's principal photography.

And while all this has been going on, the Secretary of State has been re-working the concept of a certified film, and this, while subject to change, has been distilled into reasonably definite published rules.

As a result, a new calm has settled over the former turbulence. This has improved the investor climate, thus permitting the industry to grow into one of the most dynamic in the country.

Let me give you some background information. In 1958, according to statistics supplied by the Secretary of State, a total of \$490,000 was spent on Canadian feature film production, with the average film budget running about \$150,000. In 1977, total production reached \$19 million. In 1978, the comparable figure is \$75 million. For 1979, the C.F.D.C. government agency proudly projects \$150 million for total production, with individual budgets approaching an average of \$2.6 million.

By way of comparison it is significant to note that in the United States, the market with which we are in most direct competition and on which we rely to recoup a substantial portion of any film's production cost, a \$2.6 million motion picture is considered to be low-budget. The average cost of a film produced by a U.S. major studio today is \$6 million.

In an ominous trend, the likes of which was last seen in the industry ten years ago, average U.S. budgets have soared to an all-time high. The next 12 months will witness the release of Paramount's "Star Trek" and United Artists' "Heaven's Gate," both at a cost of \$40 million; Dino Di Laurentis' "Flash Gordon," at a cost of \$35 million, and Universal's "1941" at a cost of \$32 million. Moreover, another dozen or so pictures are expected to cost between \$10 and \$15 million. But the really surprising thing is that the U.S., the country that was the birthplace of the film industry, with over eighty solid years of experience and ten

times our population, will produce only \$600 million worth of motion pictures this year for release in 1980 whereas, as I have said, we are projecting \$150 million.

In our new mood of optimism and renewed self-assurance, we should reflect on what is happening. Can we rationally justify \$150 million worth of production with the limited technical and creative resources that now exist in our country? Can the world markets really absorb this much Canadian film product? Can the Canadian securities market absorb this many investment units?

No one doubts that the stage is set for us to ascend to new heights in our efforts to have the world markets recognize our existence and capabilities as a major film-producing nation. But have we built our foundation firmly enough to allow us to achieve this much growth this quickly? What are the responsibilities of the various sectors of the business? What ought to be the legitimate contributions of all of them to the future growth? Let us consider together four significant areas of concern and let me give you my ideas of what should be done in each to encourage the orderly growth of our country's film industry.

1. The Broker-Dealers: A Suggested Role for Them

The premiere of Warner Brothers' "The Jazz Singer" on October 6, 1927, marked the beginning of sound in the movie industry. Once the public demand for sound became widespread, all of the other six major companies quickly followed Warner Brothers in adapting their studios and cinemas to sound, and by 1929 the changeover had been virtually

completed. This transition, however, required vast amounts of capital. Even the aristocracy, the large studios, couldn't supply it all from their own resources and had to seek it outside.

At the same time as the great depression was settling in, the studios were forced to turn for tremendous capital sums to one local, but very important, source of financing, A. H. Gianninni's Bank of America, and several eastern investment and merchant-banking firms. The J. P. Morgan Group, Dillon Reed & Company, Lehman Brothers, Standard Capital, and Chase Manhattan Bank all participated in either backing, or gaining direct financial control, over their clients, the studios. Since the late twenties, the banking and investment community has continued to play a vital role in the American industry's growth.

In Canada, the banking institutions have only involved themselves in the past couple of years, and then only as interim lenders. But during the same period the broker-dealers have entered the business in a significant way as the selling agencies for permanent financing by way of units of film ownership issued to the public. The advent of both of these financial groups has added credibility to the industry and broadened the availability of moneys from the private, as opposed to the government, sector as a source of film financing for the producer.

The fact that since the broker-dealers became involved most permanent financings have involved the filing of a prospectus has also encouraged private investors to participate in motion picture projects because the requirements of the various securities commissions at least insure that all material facts relating to the proposed film are disclosed.

However, the mere fact that a final receipt has been issued by a securities commission does not attest to the quality of the film. Furthermore, as interest in the marketing of tax-shelter motion picture issues continues to grow, one must examine the question whether all broker-dealers are conscientiously seeking to further educate themselves, so as to upgrade their present level of understanding of the business, and whether, assuming that they are doing this, they are using their newly acquired knowledge in scrutinizing adequately the projects they accept.

Even more worrisome than what the broker-dealers may be doing out of sheer ignorance is what they may be doing out of self-interest. It would certainly be wrong for instance for a broker-dealer to pressure a producer to have a film ready for the year-end tax shelter demands of his clients, using the threat of shifting his loyalty to another producer. Nor should a broker-dealer interfere with the make-up of a film's budget in order merely to enhance his ability to market the issue, but at the cost of jeopardizing the production values of various kinds that the producer ought to be the one to decide upon. Film making is a matter of finding the most appropriate balance of financial and artistic considerations, and if this balance is not achieved then the result will be an inferior production. Neither the financial nor the artistic should be unduly emphasized at the cost of the other. As someone said recently, film making is like making a chocolate souffle--take one element out, and your souffle is reduced to brownies.

The point of my discourse is that the broker-dealer must spend as much time and pains learning about the film business as he has had to spend learning about the oil and gas business or any other. He must then use this knowledge as a basis for the most meticulous assessment of the project if he is to satisfy the heavy onus on him to protect his clients. This assessment involves much more than merely glancing at who are the director and the leading actor and actress--what are called the above-the-line elements. Rather, the decision to support a project should be a function of a number of factors including:

(a) The reputation, experience, and track record of the producer.

(b) The worth of the screenplay and the competence of the writer. Major stars and money will not assure success if the essence of a project--the screenplay--is weak.

(c) The genre of the story (e.g. is it horror, suspense, disco, caper, sci-fi etc.) and will it be of topical interest eighteen to twenty-four months hence, this being the probable date of release. For example: as predictions of recession multiply, the soothsayers at the studios are predicting that audiences will be looking increasingly for escapist, upbeat, so-called pure entertainment, rather than problem films. Irreverant and anarchic comedy, and high-energy films, they say, will be in demand in 1980. Paramount is preparing to shoot a movie called *Airplane*, a roasting of airplane disaster movies in which the blind singer Jose Feliciano plays the pilot. Another group of new pictures will have a common theme arising from the crisis of middle-aged America and its effects on sexual behaviour and marriage. Male menopause and the appropriateness of monogamy, stimulated by the movies on the screen at that time will be subjects of fervent cocktail conversation. I can hardly wait.

(d) The worth of the so-called below-the-line creative elements committed to the project; for it is critical to understand that the production values that end up on the screen will be affected significantly by these.

What are the most important of these below-the-line elements?

The production designer contributes much to the ambience or atmosphere of the film through his conception of set and costume design.

So does the director of photography, who lights each scene and assists the director in his choice of shooting angles and camera setups.

The music composer writes the score and it must form an integral part of the dramatic structure of the film. A good one, properly arranged and directed, will add another dimension to the film. Remember how effective John Williams' two scores were for "Star Wars" and "Close Encounters of the Third Kind."

The sound-effects supervisor, speaking generally, is responsible for all of the sounds necessary to the film other than the music. The higher the quality of the sound effects, the more intense the mental images induced in response to them--especially during moments of dramatic tension.

The film editor is responsible for selecting, arranging, and re-arranging, in a rhythmic pattern, the pictured pieces of life that, together with the sound and music, give rise to both emotional and aesthetic satisfaction in the audience. The editor must achieve a delicate balance among all the many elements of thought, character, and ideas and, from the endless feet of footage the director has shot, choose those that he believes are most effective.

Of course, studying the amounts of money that comprise the budget allocations for each of these individuals and their respective departments

will assist the broker-dealer in assessing the intentions of the producer as to the overall look of the picture--if, of course, the broker-dealer knows how to interpret the figures.

Quite apart from production and creative considerations, the broker-dealer must address himself to the film's market possibilities: not only the main revenue sources, theatrical distribution in Canada, the U.S., and foreign countries, but the willingness of television networks and foreign distributors to commit to license arrangements; and the potential value of ancillary revenue from worldwide syndication (as compared to network) television, pay-television, video cassettes, and so on. The prices at which these rights are likely to be licensed prior to, during, or subsequent to completion of production, will assist in the making of projections as to what the chances are that the picture will recoup its production cost in whole or in part, or, a consummation devoutly to be wished, make a profit.

Take, for example, the decision to be made by the producer as to whether to license the film to network television prior to completion of production. A pre-release license of network television rights does not generate immediate funds to the owner because, although completely binding, it calls for payment to be made much later--usually one-half two years after the film is released in the theatres, and the other half a year later still. But, because the network is firmly committed to pay, it does reduce the downside risk if the response to theatrical release at the box office proves to be less than enthusiastic. The major disadvantage of a pre-release television licensing agreement is that if the film later becomes

a box office success it will then command substantially larger license fees than those the producer accepts earlier in exchange for a firm commitment. One year before its release, "The Amityville Horror" was licensed to CBS for \$1.8 million. If that deal were made today, the picture would, based on its box-office success, command three to four times that sum.

The network's willingness to enter into these arrangements will, in turn, be predicated largely upon the property (especially if it is an adaptation from a best selling novel) and the capability of the leading actor or actress to attract a large share of the television audience. In this regard, certain feature actors and actresses like Robert Redford or Barbra Streisand have enormous public appeal, as does a television personality like Robin Williams. Participation of people like these in a film does much to assure the network a large share of the television audience and this is what the network is prepared to pay for.

Simply stated, the broker-dealer must learn to properly dissect, investigate, and judge the economic viability of the whole project, based upon his study of its below-the-line constituents as well as its better known above-the-line elements. Certainly, no American studio would advance the large sums required to finance a production without having made a most comprehensive review of the project in order to satisfy itself that the best available creative team had been assembled. If, in contrast, the broker-dealer lends himself to promoting productions that are ill-prepared, ill-cast and ill-crewed, either above- or below-the-line, or both, whether out of a desperate wish to find his clients a tax shelter, or

out of ignorance, or whatever, he will be neglecting his responsibility, which, I submit, is to force Canadian production standards to higher and higher levels. Clearly, the broker-dealer must not tolerate artistic inadequacies that ought properly to signal a halt to some productions, at least until they have been remedied, or, in some cases, for ever.

2. The Level of our Technical Expertise

Before stating the current level of technical expertise in Canada, it is necessary to chart briefly the origins of the technology.

Motion pictures emerged from the unique marriage of science and industry that swept the nineteenth century. After fits and starts, and some delightfully ingenious experiments, the technique of projecting visual representations of motion was developed by 1895, particularly in the United States, where two of the important names were George Eastman and Thomas Alva Edison. By 1910, film production companies had come into existence in Scandinavia, Italy, France, and England, as well as the United States.

What Canadians must remember is that film makers in these countries began to experiment with every aspect of production--script writing, set design, directing, editing, and lighting--all those many years ago. The personnel in those countries grew up with the technology.

Meanwhile, in Canada, in the early years, there were movie houses opening across the country, but there was nothing really in the way of

production, nor any such experimentation, nor, unfortunately, any personnel acquiring skills. The reason, so far as English Canada was concerned, was simply that we fell between two other countries, the United Kingdom and the United States, having the same language but much higher concentrations of population, which inevitably led them to a more highly-developed technology. There was no incentive for a production industry to develop in English Canada, not even the indigenous requirement of language that ultimately assisted the film production industry in French Canada. The United States became not only our principal supplier of automobiles and typewriters but also of our motion pictures; and it stayed in that position in the case of motion pictures for a much longer time. In fact, it wasn't until 1939 that the National Film Board was formed.

With the formation of the Canadian Film Development Corporation in 1964, a Canadian feature film industry came to the verge of reality. But until 1975 there were too many uncertainties as to various important aspects of the business to permit it to flourish to any great degree. Although the regulations under the Income Tax Act permitted a 60 percent capital cost allowance for an investment in a motion picture, nobody knew the answers to the questions I referred to at the outset--what is the allowable capital cost of a film? And when does a depreciable asset come into existence?

As a result of the efforts of various lobby groups putting pressure on the Secretary of State, the allowable capital cost was increased to 100 percent, but only (and this was a brand new concept) in the case of films

that were certified as Canadian. This new policy reflected the legitimate demands of the interest groups promoting it for their own immediate protection; but to some extent these demands were not consistent with long term considerations that would ultimately strengthen the industry. The criteria for certification were established, in part, to compel the employment of Canadian actors, writers, directors, and certain below-the-line department heads, on the theory that the more work provided immediately for these people, the quicker would be the development of the crafts.

Now, this policy would be appropriate if it were to be adopted at a time when there are Canadian leaders in each craft that have truly become "masters" of their craft in the classical sense, thus enabling them to take charge of true apprenticeship training situations. However, with a few significant exceptions the state of the technical arts has not yet reached the level that would warrant such a policy. I say it would be more beneficial right now to devise a tax concession that would entice a limited number of internationally-renowned cinematographers, editors, production designers, and film composers to relocate in Canada for a few years to act as these "masters" whom we need to take charge of on-the-job training--to work with our own capable and willing, but in many cases inexperienced, domestic personnel. This would tend to raise the quality of the Canadian industry's output immediately.

In Ireland an individual who has written, composed, or created a work generally recognized as having cultural or artistic merit, and is resident in Ireland, is exempted from tax on any profits or gains accruing

to him from the publication or sale of the work. A prime example is the suspense novelist, Frederick Forsyth. In Canada we have compelling reasons in respect of the development of our film industry to adopt a similar policy.

It is interesting to note that the British film industry, although it shared early prominence with that of the U.S. up until the end of World War I, was then outstripped and did not again generate productions of quality until outside film makers came in. Alexander Korda, a Hungarian by birth, who had directed numerous films for Paramount in Hollywood, arrived in London in 1931 and was the single person most responsible for the rebirth of the British film industry. He, in turn, induced many other great foreign directors like Ernst Lubitsch and Joseph Von Sternberg to come to England. Later on, because of cheaper studio costs, and various government incentives, American companies such as Warner Brothers, M.G.M., 20th Century Fox, and Paramount all set up production subsidiaries in the U.K. Anglo-American films became common. The capital and production expertise of the Americans, when coupled with the high quality and meticulous attention to detail of British craftsmanship, had a stimulating effect on British film production. Surely, Canada would benefit equally from the same sort of cross-fertilization.

There is another side to this matter of education. It is important for the development of any industry that formal educational programs be available to aspiring talent. Whereas Canadian actors and directors have always had fairly ready access to employment opportunities in the key centres of production--Los Angeles, New York, and London--and hence

the chance to gain not only exposure but experience, the opposite has been true for our craft technicians. This lack of opportunity for them is made even more serious by the fact that, at the present time, there are no first-class educational programs conducted in Canada - nothing, at least, on the level of what goes on at Columbia, U.C.L.A., U.S.C., and the American Film Insitute. If our high school graduates want to be trained in the craft of film making, they must look south of the border and this puts the training out of their reach in a great many cases. As the private sector takes over more and more from the C.F.D.C. the responsibility for financing feature films, I submit that the Secretary of State should direct that funds allocated to the C.F.D.C. be spent to support the academic training of our talent through student-aid--not on an ad hoc basis, but by way of properly thought out and well-integrated programs involving the U.S. studios and film schools, (at least until we have Canadian schools of comparable quality). After completing his academic training in the U.S., the students should be obliged to return to Canada to apprentice with those Canadians already at the top of their field and those "masters" enticed to Canada by the tax concessions we talked about before. The students would no doubt have to be subsidized during this apprenticeship stage, so that the "masters" would enjoy their cheap labour as an inducement for teaching them.

In return for the assistance the students would receive in both the academic and practical phases of their training, they might well be obliged to work in Canada for a number of years after completing it, under pain of having to repay the assistance in full if they were to leave the country too soon.

Such a program would have to be constantly studied and revised so as not to jeopardize the livelihood of those craftsmen already in the field. But if the expansion occurs in the industry that everyone is confidently predicting there will be enough work to accommodate not only the technicians already working but also the number of newly-trained technicians the program will generate.

3. The Manufacturing Syndrome Producers Must Guard Against

Primary responsibility for the overall planning, financing, production, and marketing of a feature film rests with the producer, whereas the day-to-day responsibility for script consultation, casting, direction of photography, and editing rests, at least in the first instance, with the film's director. The producer customarily retains the final decision-making responsibility on business matters, and the time-honoured right to have the "last cut" of the film--i.e. to control what finally appears on the screen.

Let me describe, briefly, the steps and phases a film progresses through from conception to completion, so that you may, perhaps, come to agree with me that it is time-consuming and difficult to make a movie.

The first phase commences when the producer acquires the rights to some literary work, for example, a book, play, outline, or whatever. Then, during a phase known as development, the producer, using his own funds if he must, but preferably (from his standpoint) funds obtained from others, finances the first draft of the screenplay and, if

necessary (and it usually is!) any additions and revisions. Prudence dictates that the producer have the final script in his hands before he makes an irrevocable commitment to production. Now the project enters the "pre-production" phase. During pre-production, a director will be engaged, (unless, of course, as often happens, he has been on the job earlier to assist with the script writing) the principal cast and crew will be committed, the budget developed, special risk insurance placed, completion guarantees acquired, "shooting schedules" planned, and "shooting locations" tied up. Next comes the principal photography of the film, during which about ninety percent of the budget is spent. Finally comes "post-production," during which the film is edited, the score is composed, the director's and the producer's cuts are made, and the pictures, dialogue, soundtrack, special effects, and music, are synchronized. Out of all this finally comes the negative from which releasable prints are made.

The course of any production is fraught with hazards. All of them have happened to me at some time or other. For example, putting together a work-schedule that conforms to the availability of the principal actors and key department heads can be very trying, and often you just have to give up on the most desirable person in some slots; or a major piece of financing may drop out and must somehow be replaced; or the director may fall behind in the agreed shooting schedule, causing a confrontation between the producer and the completion guarantor, who may threaten to exercise his takeover rights; or the director and the producer may quarrel over the final cut, causing a less-than-harmonious atmosphere during post-production.

But even after this exhausting schedule ends and the picture is in the can, the producer's work is by no means over. He still bears the full responsibility for getting all the money back to those who have invested in his film, together, it is to be hoped, with a profit. Assuming that no pre-licensing arrangements have been entered into prior to production, the producer must now arrange distribution agreements with respect to the various areas of exploitation I referred to earlier.

Thus, the gestation period of a motion picture, from conception to theatrical release, may reach two years. It is my conviction that there are few producers, except those supported by substantial studio infrastructures and significant production organizations, who are capable of completing more than one picture in any twelve-month period, although they be squiring several projects through the various stages.

There are too many demands on the producer's time and energy to permit him to divide his attention among several projects scheduled for completion in the same year. The producer must recognize the fiduciary responsibility he has to his investors and limit his work load to what he can handle conscientiously. If he fails to do so, they will suffer and he won't last long, because his reputation depends entirely upon the critical and commercial success of his finished films, not on the number of productions he initiates. The highest standards of integrity and competence among producers must be the pillars upon which the Canadian film industry will perpetuate its existence.

4. Lack of Centralization of Resources

Canada's \$150 million in production is spread, at the present time, over the cities of Montreal, Toronto, and Vancouver; shortly Calgary will be added to the list. By contrast, in the United States, although location shooting is carried out across the country, the main human, manufacturing, and economic resources are concentrated in Hollywood. In the United Kingdom, the major studios are all located within a thirty-mile radius of London. Similarly, in Italy, all production facilities are centralized in Rome. In Canada, we probably cannot do with fewer than two centres because of the language difference that plagues the very existence of the country. But every extra centre increases the difficulties caused by this dilution. It is impossible to support studios, labs, and other post-production facilities in four different centres. No one centre can count on enough income to justify the capital-investment programs we must institute if we are to upgrade our technical capabilities to international levels.

For example, we cannot, at this time in Canada, with our presently existing facilities and skills, make the colour reversal internegative from which all the release prints are struck. The result is that once the film has been edited, a multimillion dollar asset--the negative in final-cut form--must be shipped to Hollywood or New York, at great cost, much time delay, and with a substantial risk of damage or even loss.

The mixing phase of a picture, the intricate process of combining a number of separate soundtracks into a single track, must be carried out

in Canada in mixing theatres equivalent in size to a theatre seating 50 to 60 people, compared to the mixing theatres used in Hollywood, which are equivalent in size to a theatre seating 400 to 500 people. This, means that the U.S. post-production team has, as a working tool, a much truer representation of the final music, dialogue, and sound effects of the picture as it will be seen and heard in theatres around the world.

In Canada, there are no sound studios for recording musical scores that approach the liveliness and correctness of the London or Hollywood facilities, at least in the case of those calling for large orchestras and not just fairly small groups. This costs our musicians the loss of employment opportunities, which is unfortunate because they are as capable as those anywhere.

I suggest that the Secretary of State consider devising some tax incentives that will encourage the construction and assembly of the technical facilities needed for film production in this country. Currently, although an interpretation by Revenue Canada to this effect may be necessary, under Class 29 of the Income Tax Act regulations, property such as sound-recording and film-processing establishments are accorded a 50 percent capital cost allowance in the taxation year in which the property is first acquired. It would seem appropriate to increase the capital cost allowance to 100 percent, thus bringing the write-off in line with the write-off available to the purchaser of an interest in a certified Canadian feature film.

I also suggest that Ontario revise the act respecting small business development corporations-those that purchase equity shares in eligible small businesses. Companies involved in the production or recording of pictures or sound on film or video tape are not now within the eligible class. An amendment allowing eligible small businesses to include value-added work performed by film processors, optical effects designers, and even motion picture hardware manufacturers, would add tremendous impetus to the new capital investment programs that are required to upgrade our technology. If this doesn't completely serve to make Toronto the place where the technical facilities come to be concentrated, at least it will help to see that Ontario is not by-passed entirely and the ultimate concentration located for sure in another province.

These, then, as I see the feature film industry in Canada, are the four main areas of concern, and the directions in which we should move in respect of each of these areas.

1. Our broker-dealers must become more knowledgeable about film production and then use their new-found knowledge to help bring about feature films of ever-higher quality.
2. Our Secretary of State, through well-thought-out student-aid programs, and tax incentives for foreign "master" craftsmen, should work towards improving the skills of the industry's technicians.
3. Our producers must resist the temptation to spread themselves too thinly over too many productions at once; and

4. Both our federal and our provincial authorities should devise tax policies that will encourage the upgrading; and if possible the centralization, of the industry's plant and equipment.

It is my unalterable conviction that if everyone in the industry strives with unremitting zeal for improvement in these four vital areas, Canada will continue to cut down the lead of other countries in film production and, before very long, come to revel in the respect and admiration of the rest of the world for producing films that are entertaining and aesthetically satisfying and, at the same time, capable of competing successfully in both the domestic and foreign markets.