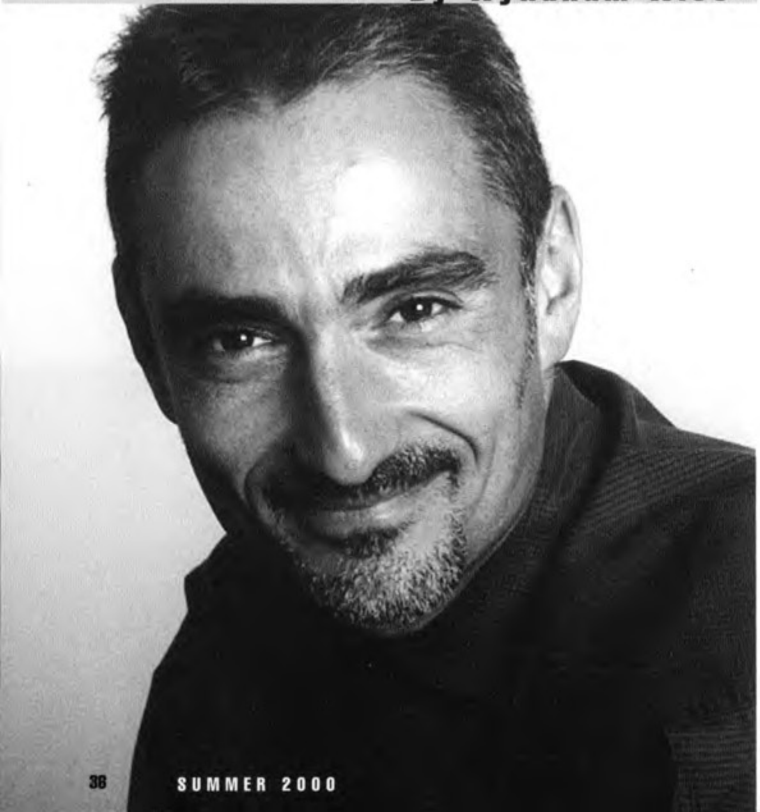
The Future of the Film, Television and Internet Industry in Ontario:

An Interview with Adam Ostry

CEO of the Ontario Film Development Corp.

By Wyndham Wise



A career public servant, Adam Ostry joined the federal public service in 1982 for, as he says, "one reason and one reason only I happen to believe in the utility of sound public policy." His most recent position was at the Privy Council Office in Ottawa where he worked in the intergovernmental affairs unit under minister Stéphane Dion. His responsibilities related to what is now being termed the Clarity legislation. The one area of public policy that has interested him the most over the years, and for which he has a considerable degree of passion, is cultural policy. He has been CEO of the OFDC for the past 12 months.

What is the state of the industry in the province today?

We have an industry that, on the surface, is growing by leaps and bounds. Between 1998 and 1999, it grew by about 25 per cent. When you think the GDP is only growing at about three to three-and-a-half per cent a year a 25-per-cent growth rate is phenomenal. We're now hitting the billion-dollar mark. This is compared to a situation of five years ago where production activity was barely at $500 million.

How does this break down in terms of offshore and indigenous productions?

This growth rate is fuelled almost entirely by foreign production. In 1998, domestic production, in both film and television, dropped by 4.4 per cent, compared to an overall growth rate of about 26 per cent for the entire sector. Domestic feature film, as measured in terms of the value of the dollars spent in the province, was down by a whopping 37 per cent.

One could ask, from a public policy standpoint, so what? This industry is creating jobs by leaps and bounds. These are high paying, highly skilled, technology dependent, non-polluting jobs. If the sector is growing by 25 per cent a year, who cares what happens to certain parts of it?

Well, I would argue that this is extremely important. The part that is not growing as quickly is the industry's indigenous Canadian component. This sector is made up primarily of small-to-medium-size firms. These constitute the industrial base of the sector. If our dollar were to rise to 75 cents or even 72 cents vis-à-vis the American dollar, as the economists are predicting it will in the next couple of years, foreign activity will fall here. Indeed, we have data that would allow us to track the likely drop in foreign activity for every cent rise in the value of the Canadian dollar.

That said, it's not true to suggest that if the dollar were to go back to 90 cents, the industry would be wiped out. Indeed, this point was made eloquently in the recent studio feasibility study. Toronto, as a North American production centre, has a a series of comparative advantages that are unrelated to the exchange rate. But it is also true that we are currently competing, lazily, on price point alone. Where we're competing, indeed nearing the saturation point, is in the low-end TV series and MOWs.

The fact is that the industry is not maximizing its comparative advantages in areas other than the exchange rate. Ontario has crews that are second to none in terms of their skills and technological prowess. Toronto is clean, with a plethora of amenities and a first-rate transportation infrastructure. We have world-class training institutions, for example Sheridan, Ryerson, Centennial, Humber, and Algonquin in Ottawa. These institutions are training kids who are being cherry-picked by American firms. It would be useful, over the long term, if these graduates had the opportunity to work here in greater numbers than they do now.

What about this recent focus on so-called "runaway productions" and the legislation initiated in California to correct this?

Mark Twain said that there are only lies, damned lies and statistics. Believe you me, they are all out there.

Who is screaming in L.A.? It's the heads of the union locals. You don't hear a peep out of the big companies. You don't hear a peep out of the producers. Why? Because it's a highly mobile, global industry. Producers will go and shoot were it is in their best economic interests to do so.

The fact is that American product made in Canada constitutes about two or three per cent of the entire American entertainment industry. Moreover, what occurs in Canada is principal photography, which constitutes only 25 to 40 per cent of any given production budget. The huge salaries paid to the American superstars are paid in U.S. dollars into U.S. bank accounts and stay in the United States. It's absurd for these people to single out Canada. They should be screaming at Sacramento or at Washington. Indeed, jurisdictions all over the United States are engaging in providing incentives to attract business. All you have to do is look at Texas, North and South Carolina, Washington State or Oregon. It's like having a virtual factory move into your town and paying your people good wages. So obviously, interjurisdictional competition is heating up to attract this industry. And since Ontario is a national economic actor, it would be folly for this jurisdiction not to compete to attract production since it has so many comparative advantages already.

What does Ontario have to do to maintain its position in this global industry?

The tax-credit regime, which the current Ontario government pioneered in this country, has done such a good job that it has been copied and improved upon everywhere else. As a result, we are in danger of becoming less and less competitive. We need to be more strategic in order to improve the tax regime here. For example, Newfoundland has a tax credit of 40 per cent, but 40 per cent of what? In Halifax where the credit is 30 per cent, there are only half-a-dozen production companies. They do have a critical mass, but Toronto will always have the the nurturing capacity and the infrastructure, from hotels to an efficient transportation system, restaurants and post-production facilities. You name it and Toronto has it. So, it's not a matter of bumping up Ontario's tax credit from its current 20 per cent to match Nova Scotia's at 30 per cent. What we do need to do, however, is fine-tune it. For instance clear up the administrative inefficiencies in the existing regime. And the government announced it would do just that in its May 2nd budget. This is a good thing. It will go a long way to make this province's industry more competitive.

Even if you discount the cultural policy argument—which is that we need to be able to have the capacity to tell our stories to each other and to the world otherwise we wither away as a society—and look at it in purely industrial policy terms, our "widgets" can't compete with our competitors' "widgets" any longer. And I'm not comparing ourselves to the United States. Canada will never be able to compete with the United States in terms of size of production budgets. But if we compare ourselves to the four or five other countries with which we can compete and have competed effectively in the past—that's the U.K., Ireland, Australia, New Zealand and France—we see that the average budget for independent features in those countries hovers between $5 and $10 million Canadian a production, beyond which they have 30 to 50 per cent more for marketing. Where's Ontario? Ontario is hovering between $1.5 million and $4 million in terms of the budgets for features, with nothing for marketing. Then there is the issue of development support. Ontario currently is the only jurisdiction in Canada which no longer provides support for script-development and pre-production costs. If PEI, with an industry valued at $19 million, can provided $1.5 million in development support. Surely, Ontario, with a billion-dollar industry, could do more in this area . After all, this is the industry's R&D.

Beyond this, there's a whole related but distinct set of arguments which address the state of the production infrastructure in and around Toronto. The studio feasibility study that we released last February pointed to several things related to the current state of the industry. First, it said the industry, despite its successes, is competing only on price point and should shift gears and compete on its non-price-related comparative advantages, which is what I laid out at the beginning: its highly trained crews, its technological prowess, its access to the Web through the harnessing of digital technology, its extremely flexible broadcasting framework, its good intellectual property laws (which nonetheless need updating), its training capacity and its geographical location (it's in the same time zone as New York City). It's got all sorts of comparative advantages. The one area it can't compete is in the area of the high-budget, effects-driven feature and television series. We can't compete there because we don't have the studio facilities for these pictures.

Can we now move on to the OFDC's Calling Card program, which has been running for three years now. How does this program work?

The Calling Card is a highly innovative program that was was developed by my predecessor, Alex Raffé, and Kathy Avrich Johnson, who until recently was the OFDC's director of skills development. It is designed to provide business-skills enhancement to emerging producer talent in order that this talent might compete more effectively within the mainstream of the industry. Access to the Calling Card program is controlled through a juried system and various teams compete. It's usually in the form of a producer/director team, sometimes the director doubles as a writer. They come and pitch to a jury. The jury is selected from within the industry. It's closed door and arms-length. Successful candidates get a combination of cash and in-kind services and they go out and make a short-form film. The purpose is that once they have made their film, they can use it as a calling card to market their talent to production companies, to demonstrate that they have honed their production skills to the point that they are now ready to make feature-length films.

What we're now intending to do, is to replicate this skills–enhancement program in other genres. We would like to replicate this success in the digital interactive content industry.

When you say "digital interactive content industry," what do you mean by this?

Rapid technological change is transforming the way in which cultural industries finance, develop, market and distribute their products. It is also fundamentally altering the very nature of these products. It took radio 40 years to reach 50 million people; television was in 50 million households within 13 years; access to the Internet has reached more than 50 million people in half that time. Canada's film, television, sound recording and publishing industries are part of this technological revolution. Books become audiovisual products on DVDs and downloadable onto your computer. For example, the acquisition of Kids Can Press and Klutz by Nelvana means that such story–book characters as Franklin the turtle can now leap from the pages of a children's book onto your television or computer screen in animated form. Interactive television and music, marrying digital technologies with modified existing content, constitute completely new cultural products delivered on–line to the world.

The CRTC, which regulates access to content on the airwaves, has ruled it will not regulate the Internet. Probably wise in the short term, given the technological limitations of any national regulator vis–à–vis this beast. Consequently, AOL Canada is free to disseminate content from the Time/Warner library to its Canadian customers free of Canadian–content requirements.

But whither our own content in this brave new world? As you may know, the OFDC was given, some 20 months ago, the responsibility for administrating a new tax credit called the Ontario Interactive Digital Media Tax Credit. It's not up and running yet but should be up when this interview appears in June. It's modelled on the existing tax credits and its primary purpose is to support the development of local digital interactive content. Its secondary purpose is to make sure the established firms out there that are making content on traditional media, whether its film or video, engage in transforming their works into digital interactive product and engage in strategic partnering with these new content producers. Why? Because at the end of the day, at issue is securing "cyber shelf space" on the Internet for our own content so that the next generation of Canadians can tell its own stories and know that these stories are there to be seen and heard.

So, you see the OFDC expanding its base into other areas of cultural policy, given this technological and industrial convergence as important?

While this is a personal objective of mine, it's not my idea. The industry itself—the cultural industries—made the recommendation to the Ontario government in 1994. The Quebec government acted on it around that time and created the SODEC. What I wanted to do was obtain the responsibility for the OFDC to manage the programs related to sound recording and book and magazine publishing in the province because of the enhanced opportunities for partnerships and as a means to hasten this technological and industrial convergence. We have sound–recording companies and film–production companies and publishing companies that are merging and putting all their content on the Internet. And it is a testament to the vision of this government that they accorded the OFDC this mandate in its recent budget. The sound recording and publishing tax credits currently administered elsewhere in the provincial government, will now be housed under one roof at the OFDC. This way, the government can maximize its capacity to enhance these partnerships and provide economies of scale and scope in the provision of these programs and services. It's happening out there in the real world, and this will now be mirrored in the way the government structures itself to support growth and job creation in these industries. Convergence, whether you like it or not, is key to Ontario's future competiveness. It's also the key to ensuring that our content is available. And I am elated by the fact that this government understands this and has acted upon it.

Given convergence, and given the liberalization of trade rules, will governments still be able to support these industries in the future?

The treatment of culture within the existing regional and global trading arrangements is woefully inadequate. The NAFTA cultural exemption is not only a non–factor because of its provision for retaliatory measures of equivalent commercial effect, but because countries can cherry–pick—as did the U.S. with the *Sports Illustrated* issue—by taking their case to the World Trade Organization. Indeed, at the end of the Uruguay Round, we had a right to refuse, and ultimately did refuse, to commit to national treatment in the cultural sector under the General Agreement on Trade in Services. A fat lot of good that did for our magazine industry.

I subscribe to the view that a new multilateral tool is required to address the fundamental issue of how jurisdictions can ensure access to the full diversity of global cultural expression within the context of international trade rules. In Canada, the Cultural Industries' Sectoral Advisory Group on International Trade called for a new international instrument on cultural diversity. Indeed, as Heritage Minister Sheila Copps recently explained to a New York University audience, the first meeting of the International Network on Cultural Policy stands as a testament to the need for international cooperation on culture. This ministerial network now has 38 member countries, with many more interested in joining. And frankly, it is also in America's long–term best interests to be at that table, notwithstanding Jack Valenti's regular fulminations. First, because the Motion Picture Association of America is far from representing the entire spectrum of interests in the American industry. The American independent filmmakers were consistently supportive of our efforts in the 1980s to establish Canada as a distinct market for the purposes of film distribution, because they were equally frozen out of their own distribution networks by the Hollywood leviathan. Pressure within the U.S. for cyber–shelf-space for their own diversity of expression will likely grow.

Secondly, because a rules–based system governing cultural expression will ultimately offer better protection for American economic interests than would constant sniping by disgruntled players or, say, the lackadaisical application of anti–piracy rules by less–than–enthusiastic governments. In any event, this is not only a Canadian issue. The share of European films shown in Europe dropped from 20 per cent to 12 per cent in a decade. One can just imagine what would happen if 90 per cent of the cultural products in the U.S. were made in Japan and told Japanese stories....