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Reframing the Runaway Production Debate

The last few months of 2005 brought a plethora of articles in the Los Angeles and film industry press bemoaning the state of the Southern California film industry, including the excellent Hollyworld series in the Times. This is not surprising given the importance of the industry. According to an analysis of 2002 U.S. Economic Census data by the Los Angeles County Economic Development Corporation, the industry was worth $34 billion to the California economy, almost two-thirds of the national total that year, and accounted for 243,000 jobs in 2004, the bulk of which are in greater L.A.

What is surprising is the continuing preoccupation with runaway production and the focus on Canada as the villain of the piece. Perhaps this should not be surprising either, since a good Hollywood movie needs an easily identifiable villain, preferably foreign. But the reality, clearly revealed in these articles, is that the film industry is highly mobile and increasingly global. The other reality is that, despite the growing competition, when it comes to English-language production, Hollywood remains the entertainment production capital of the world.

Looking to the future, angst may be appropriate, because the Southern California industry needs to find new ways to stay competitive in this global environment if it wants to continue to be the world leader. But, if the industry does not shift its focus away from the fictional Canadian boogeyman, it may find itself losing an ever greater percentage of work to its perennial challenger, the United Kingdom and to the burgeoning industries in Australia, Romania, Poland, Hungary and elsewhere which have all introduced new financial incentives for off-shore producers in the last few months. It may lose out to new players like South Africa, with its increasingly professional infrastructure, its fabulous locations and substantially lower costs. It will also be completely unprepared for the challenges that will surely soon follow from India and China.

What did the Canadian industry learn from all of these recent articles and related developments?

1. Hollywood production remains very healthy. The total number of location production days to the end of October 2005 was up 4.94% from the year earlier, and 2004 had been a banner year for the industry, surpassing all previous records. While most analysts tie the increase primarily to new fictional television series being launched as we near the end of the reality-based programming era, even in the sensitive area of feature film production, total production days increased by 10.96% over 2004. From 2001 through the first half of 2005, there have been over $1.2 billion in major leases or construction projects in the film industry in Southern California; industry decision makers seem to be planning to stay put.

2. The film industry is increasingly global. Foreign box office revenues in 2004 were $15.7 billion, compared to only $9.5 billion in the U.S., and foreign distribution overall now accounts for roughly 40% of the total revenue of the majors. With the average movie production budget more than $60 million, it is easy to see why "the film industry has increasingly become a gypsy caravan with producers scouring the globe in search of countries with sufficient infrastructure to accommodate movie crews, yet underdeveloped enough to offer Third World wages," in the words of Times writer John Horn. And isn't it logical for some production to take place in other countries given how important foreign revenues are to the U.S. industry? The stories are also global and diverse, the current crop of major Hollywood releases includes two movies set in England, and one each in the Middle East, Germany/Israel (and other countries), Japan and fictional locations outside the United States. What's wrong with a movie titled *Munich* being shot in Romania, or a film set in wartime England being shot in New Zealand?

3. Production is mobile and producers will look to keep costs to a minimum. Incentives offered by governments both within the United States and elsewhere can and do make a difference. You need only look at the rapid growth of production in New York and Louisiana to prove this hypothesis. But exchange rates, weather, locations and key personnel can also make a difference. While Speilberg may have picked Budapest as the location for his latest effort, we learned from the Times that Joss Whedon could also decide to make *Serenity* in Los Angeles, providing he can get a little help from his friends.

4. The volume of U.S. production in Canada is basically level. While it rose from $1.11 billion in 2000 to $1.36 billion in 2004, roughly half of the increase relates to converting production budgets back into a falling U.S. dollar, which decreased in value by 11.87% relative to the Canadian dollar in this period.

5. Each year, the United States industry repatriates from the Canadian marketplace revenues that are far greater than the production spending. A significant analysis done by the Canadian industry showed that in the six-year period ending in 2003, the U.S. industry repatriated more than $6.5 billion in the form of cinema admissions, sales and rentals of DVDs and cassettes, broadcast license fees and others rights payments.

What should the U.S. industry learn from all this information?

1. It should get beyond the ongoing preoccupation with runaway production and the myths created by the 1999 Report prepared for the Screen Actors Guild and the Directors Guild of America. The inaccurate figures of that Report were quoted on at least three occasions in the recent articles. U.S. Commerce Department figures actually corroborate the accuracy of the Canadian industry calculation of the volume of U.S. production in Canada, at levels that are far lower than the 1999 Report would suggest.

2. Challenging the Canadian incentives under trade law will not succeed. No trade decision will affect the value of the Canadian dollar, the exciting and fresh production locations, the depth and diversity of the talent pool, and the overall competitiveness of the Canadian industry.

3. And there is an enormous potential downside risk to any trade challenge. The U.S. lawyers are arguing that a film is a "good" for purposes of international trade rules. If films are goods, then U.S. movies are being dumped into foreign markets (in trade parlance this means they are sold into foreign markets at a lower price than in the domestic market). Dumping goods in foreign markets is contrary to trade rules and opens the industry to retaliation. Maybe using the World Trade Organization's Banana Case as a precedent, another country might be authorized to retaliate by denying copyright protection to U.S. movies, television programs and music.

Many important players in the Southern California production community already understand the current global reality. Domestic audiences for movies are shrinking and the DVD boom is slowing, at the same time television viewing is up and alternate forms of distribution are coming on stream. As the profit squeeze on U.S. movies continues and the industry continues to be buffeted by technological change, the challenges to Southern California's hegemony in the film production field will escalate. These players understand that the only effective response to these challenges is not to lash out at some perceived villain or some perceived unfairness, but to look at what the industry is doing here and to make changes to improve its competitiveness. That's what we are working to do in Canada. And it's what the entire Southern California industry should be doing as well.

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