

# Movie starved

Canada has paid millions to lure movie business. It's not working out.

By Calvin Leung and Matthew McClearn

In Toronto's east end, behind flowerbed-adorned gates, rises Pinewood Toronto Studios. Home to seven sound stages, it's air-conditioned and insulated with floor-to-ceiling noise-absorbing blankets. There's a lounge for entertaining A-list talent, and an espresso bar in the lobby. Production offices boasts ergonomic Herman Miller furniture and natural light from wall-to-wall windows. The executive suites on the fourth floor have balconies. And then there's the pièce de résistance: the 46,000-square-foot jumbo stage, the biggest of its kind in North America.

Indeed, the facility — originally dubbed Filmport — offers nearly everything the city's converted warehouses and factories cannot. Foreign filmmakers, principally American, have shot in them for decades, putting up with leaky roofs and stifling temperatures during summers largely because it was cheap. But Pinewood Toronto aimed to compete on quality instead. Its target: big-budget Hollywood extravaganzas laden with special effects, with budgets often surpassing US\$100 million. *Transformers. G.I. Joe. Spider-Man.*

But if visitors are not overwhelmed by the studio's opulence, they're certain to notice its other remarkable feature: silence. It's not just the glass-wool insulation. A year after opening, Pinewood Toronto has yet to attract a single mega-production. Although five sound stages were occupied in late August, three were being used for TV commercials, which typically take a week or less to shoot. An entire wing of production offices sat empty, except, that is, for a dark meeting room, where a man was lying in the corner snoozing, with a baseball cap covering his face. Starved for business, the studio nearly ran out of cash earlier this year. City council recently voted to rescue it from the gaping jaws of insolvency. "I've never been involved in anything this bad, ever," says Paul Bronfman, the only remaining original shareholder. "It has been a financial bloodbath, disaster, fiasco, whatever you want to call it. It has been horrific."

Here's the problem: Toronto isn't the only city lusting after major motion pictures. With Vancouver, Montreal, New York and a host of other competitors jockeying to become low-cost production destinations, Toronto is learning just how hard it can be to stand apart. And this harsh lesson raises a pertinent question: Can Hollywood North ever be anything more than the real Hollywood's bargain basement?

Canada has provided the backdrop for many blockbuster films over the years, including Oscar-winners like *Titanic*, *Brokeback Mountain* and *Good Will Hunting*. But for those in the industry, the ones that got away are almost as memorable. Take *The Interpreter*, a 2005 thriller starring Nicole Kidman as a United Nations translator who overhears an assassination plot against an African head of state. Industrial space in Toronto had been secured, and pre-production planning already begun, when New York swooped in and stole the show. "The State of New York, its two senators, the Mayor's office all interceded with [U.N.] Secretary General Kofi Annan to allow for an unprecedented use of the General Assembly building for filming," sniffed a report produced for the City of Toronto. "This kind of lobbying, which was essentially unheard of [before], was instrumental in moving that production out of Ontario to the U.S."

Hollywood's a fickle customer. A host of factors influence foreign producers when selecting sites, a process that can begin six months or more before filming begins. There are plenty of practical

considerations, including the availability of qualified crews, adequate facilities, and appropriate sites for on-location shooting. And, of course, there's cost. "In the end, a favourable combination of factors often tips the balance," noted one Statistics Canada report.

For years, Canada played this game well. In the early 1990s, producers of foreign film and TV shows spent about \$200 million in Canada on film crews, actors, equipment rentals, caterers and other costs. Hollywood execs liked the diverse shooting locations, such as British Columbia's ski hills; Toronto can plausibly mimic New York, Chicago and other large American cities. Vancouver is in the same time zone as Los Angeles, and about three hours by plane. And nearly everybody speaks English.

The country's greatest advantage, though, was cost. The loonie depreciated against the U.S. dollar during the mid-'90s. As with any other export, a weak currency proved a boon. For example, skilled Canadian film workers could be hired at wages markedly below those demanded by their American counterparts. Promoters of Canada's film industry loudly trumpeted this exogenous benefit, aggressively courting foreign producers with primers on the descent of the Canadian buck.

But our national lust for film business didn't stop there. In 1997, as annual foreign film revenues approached \$1 billion, the federal government launched a tax credit designed to draw substantially more Hollywood money north. It refunded foreign producers a portion of their labour costs spent on Canadian residents. Ontario, B.C. and Quebec soon piled on their own tax incentives. This would prove to be the opening sequence in an epic game of one-upmanship.

For a time, these subsidies were highly successful. In 2003 and 2004, Canada brought in nearly \$2 billion annually in foreign production revenue. The credits helped win blockbusters such as *X-Men*, *The Day After Tomorrow* and *I, Robot*. Eventually, even provinces not generally associated with the film business — Manitoba and Nova Scotia for example — began to attract substantial business.

But Canada's good fortune did not go unnoticed. In the United States, "runaway pictures" (as Hollywood films shot abroad are known) had long been a touchy subject. As early as the late 1950s, one enterprising American film council demanded that Congress commence an investigation, claiming that "in most instances 'runaway' pictures made by American producers in foreign countries give employment to known Communists and thus give aid and comfort to the Communist conspiracy against the free world." American unions were only slightly less bellicose in the late 1990s, when they lobbied for new legislations to stop productions from moving offshore.

Canada's tax-credit regime came under fire throughout this decade as other jurisdictions copied it. Most U.S. states began with small incentives, but during the early 2000s some became more aggressive, notably Michigan and New York. So did offshore competitors like Australia, New Zealand and the United Kingdom. (Many jurisdictions adopted what they called "Canadian-style" tax credits.) The race to become the lowest-cost production centre had gone global. Meanwhile, in 2003, the Canadian dollar began strengthening on the back of the global commodity boom. According to one consultant's report, once the loonie crossed 80¢US it had an "important psychological effect" on certain U.S. producers who focused almost exclusively on the exchange rate. Canada's competitive advantage dwindled, and with it revenues from foreign films.

Hollywood North struggled to keep pace. The federal government boosted its tax credit in 2003, and after Ontario bumped its incentives the following year, other provinces followed. Yet the Canadian dollar continued rising. The incentives never quite seemed to bridge the gap, but that didn't stop further escalation. B.C. boosted its film tax credit to

25% from 18% last year. Earlier this year, Quebec's film commission called on the provincial government to sweeten the province's film tax credit, using a 100-page document detailing financial incentives offered around the world. In June, Quebec announced its 25% cash-back incentive, which was previously applicable only to labour costs, would now extend to all expenditures paid to the province's residents or companies. On its website, the Quebec Film and Television Council highlighted in capital letters that, combined with the federal film tax credit and an additional rebate on computer-generated imagery costs, "YOUR TOTAL EFFECTIVE TAX CREDIT COULD REACH 41.2%."