International Film and Television Production Outsourcing and the Development of Indigenous Capabilities: The Case of Canada[1]

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Introduction

Most of the debate about outsourcing[1] film and television production focuses on the short-term economic or employment gains or losses in originating and host jurisdictions. In the present chapter we are interested instead in the longer-term implications and development consequences of a host country's participating as a service provider to "runaway" film and television production. In what ways might involvement in foreign location production foster the development of competitive indigenous film and television capabilities? What is the evidence that involvement in it has development-inducing spillover effects? We focus on Canada, which has had more and longer experience with international film and television service production than any other country.

In the Canadian context, international film or television production outsourcing is defined as "production taking place in Canada, but financed by a non-Canadian owned and controlled company" that retains copyright and creative control (Department of Canadian Heritage 2005). Over the past fifteen years, service production has become a key component of the Canadian film and television industry. Canada developed a role for itself as a film and television production offshoring destination in the 1980s, and by the late 1990s had attracted more than 80 percent of Hollywood runaways (Monitor Co. 1999). Foreign location production has come to represent a key source of income for the Canadian independent production and production services industries. Furthermore, foreign location production accounts for more than 85 percent of the Canadian film and television production industry's export earnings.

The implications of production outsourcing for the development of indigenous audiovisual industrial capabilities in Canada and in other countries are assessed in a small scholarly literature (e.g., Christopherson and Rightor 2010; Coe 2001; Coe and Johns 2004; Gasher 2002 and 1995; Herd 2004; Magder and Burston 2001; Scott and Pope 2007; Tinic 2005 and 2004; Vang and Chaminade 2007; Ward and O'Regan 2007). Our discussion draws on this literature, on policy and trade association publications and on qualitative insights from an ongoing interview-based research project on the evolutionary dynamics of the Toronto screen-based industry agglomeration. We begin our analysis by briefly locating production outsourcing and offshoring within transnational Hollywood's business model. We then describe the present contours of foreign location production in Canada, and assess Canadian involvement as a production services provider against the three principal groups of risks to the host country of using outsourcing to drive the development of indigenous capabilities—opportunity costs, integration with Hollywood and the race to the bottom.

When assessing the possible opportunities afforded by production outsourcing, it is important to distinguish between indigenous film and television *production* capabilities and higher-order indigenous film and television *business and creative* capabilities. A competitive indigenous industry requires the development of both. Our argument is that indigenous production capabilities benefit directly from providing services to Hollywood, while indigenous business and creative capabilities are much less likely to benefit. Development of indigenous business and creative capabilities requires incentives, policies and opportunities affecting the accumulation of capabilities at the level of the production *firm*, not just the production *crew*.

Production Outsourcing and the Globalization of Hollywood

Outsourcing from Hollywood has contributed to the emergence of a variety of "satellite" production centers in the United States, Canada and elsewhere (Lukinbeal 2004; Scott 2005). Satellites are the lowest levels of an interna-

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tional hierarchy of media cities ranked according to the geographical location of decision-making capabilities in film, television, digital media, advertising and corporate media (Krätke 2003; Krätke and Taylor 2004). Some of these centers also perform indigenous film and television production activities and so may be considered hybrids or secondary centers (Coe 2001).

International production outsourcing in manufacturing, and more recently in software and services, has helped latecomer industrializing countries, particularly in Asia, to catch up to international practices, enter export markets and eventually establish themselves as leaders in selected industries, segments of the value chain or product groups (Ernst and Kim 2002; Mathews 2006). Offshoring in the motion picture and television industry provides analogous opportunities to a host jurisdiction to improve capabilities and learn to produce according to prevailing industry standards and aesthetic conventions.

Hollywood production outsourcing was greatly accelerated by disruptions in the film industry in the years following the Second World War. In the United States, the 1948 Paramount antitrust ruling required the studios to divest themselves of their exhibition business. The advent of television in the 1950s undercut demand for theatrical entertainment, leading to the closure of thousands of theaters in the US; at the same time, European countries imposed screen quotas and constraints on the repatriation of profits from film exhibition, inducing US studios to shoot in Europe. The Hollywood studios responded to these disruptions by structuring themselves as system houses, contracting out many of their production activities to independent producers. It was in this period that the term *runaway production* first appeared (Dawson 2006).

The American film industry became the paradigmatic case of vertical disintegration and restructuring into a post-Fordist "flexible specialization" mode of production, in which networks of small firms come together on a project-by-project basis to produce complex products (Christopherson and Storper 1986; Storper and Christopherson 1987). Project-based practices remain a key feature of the film and television industry in the United States and many other countries, and have been adopted in many creative and professional service industries fulfilling idiosyncratic customer needs, as well as in industries producing complex product systems (Ferriani, Corrado and Boschetti 2005; Manning and Sydow 2007; Mossig 2004; Sydow, Lindkvist and DeFillippi 2004; Sydow and Staber 2002). In the 1980s and 1990s, as antitrust legislation was relaxed or ignored in the United States, the Hollywood-based filmed entertainment industry underwent reintegration, and studios regained control over exhibition. Acquisition of the Hollywood studios by transnational media conglomerates increased the significance of a business model relying on theatrical blockbusters supported by important ancillary revenue streams from non-theatrical media channels and merchandizing (Schatz 2008).

Outsourcing, which has become an important structural feature of the Hollywood-based transnational media industry, is driven by a relentless search for lower production costs. The introduction of labor tax incentives in Canada in 1997 led to rapid growth in service production there, especially in Vancouver. The growing trend of production offshoring in Canada has triggered a bitter debate between representatives of Hollywood labor and Southern California economic development interests on one hand and Canadian interests on the other. The former argue that production outsourcing undermines the competitiveness of a supposedly quintessential American industry and that tax incentives violate international trade agreements (Monitor 1999; Wright 2006). The Canadian position notes the billions of dollars in Canadian box-office receipts repatriated to the United States (Neil Craig Associates 2004) and frames foreign location production as a form of globalization that can have beneficial as well as detrimental effects on everyone (Johnson-Yale 2008).

Efforts to restrain proliferating intra-US place-based competition for production have not been successful (Christopherson 2008), nor have efforts to curtail foreign governments' incentives through threats of international trade sanctions. Often citing the Canadian example, many national and subnational jurisdictions are aggressively pursuing outsourcing opportunities with subsidies, tax incentives, contributions to the production infrastructure (especially soundstages) and provision of various services (Christopherson and Rightor 2009; Wright 2006). The immediate objective is to attract film and television production activities in order to capture economic multiplier effects believed to exceed the cost of foregone tax income by a factor of two or three.[2] Other frequently mentioned positive outcomes from the capture of runaway productions include upgraded production crew capabilities, induced investment in production infrastructure and the halo effect created by the presence of Hollywood celebrities in the local cultural economy.

Rather than undermining Hollywood's predominance, outsourcing and other forms of transnational film and television production have stimulated the emergence of an altered international geography of the industry in a "New International Division of Cultural Labor" (NIDCL) (Miller et al. 2005) led by the Hollywood-based filmed entertainment cartel. The Hollywood media conglomerates appreciate and profit from fierce competition for their production business. Hollywood-based firms, or more accurately their parent corporations, function as flagships in global media production networks (Coe and Johns 2004; Ernst and Kim 2002). To Hollywood incumbents, outsourcing provides ways to reduce costs, increase flexibility, enter new markets, and shift risks onto less powerful players without loss of control over the key creative, financial, distribution and marketing decisions, which remain in Hollywood (Aksoy and Robins 1992; Schatz 2008).

Under what conditions might satellite or secondary production centers develop sufficiently to become "creative agglomerations in their own right" (Scott and Pope 2007)? The answer depends entirely on the nature of the production and higher-order business capabilities that can be developed locally. As we show below, outsourcing may be expected to induce the development of local production capabilities and raise them to prevailing craft standards, but it is unlikely, by itself, to induce the development of the full range of business, management, creative and organizational capabilities necessary to create, produce and distribute film and television products competitively and profitably. Outsourcing usually begins with routine, low-skill activities, and engages mainly so-called "humdrum" inputs, particularly below-the-line labor, but also logistics, catering, transportation, equipment and studio rentals, and set construction. The activity of an entry-level satellite production center consists of performing clearly delimited tasks according to customers' specifications. Engagement in industry leading production requires that services meet prevailing international quality standards at a competitive cost. The competitive advantage of an entry-level, satellite production center lies in its supply of low-cost, sufficiently skilled audiovisual labor, supplemented by tax credits and publicly subsidized infrastructure.

As experience accumulates in the local supplier industry, service providers can take on increasingly complex and sophisticated tasks. This pattern of development is evident in the industry, where the mix of outsourced activities from Hollywood currently spans lower-budget films, cable productions, television movies, some blockbusters, and high value-added services such as postproduction services, business processes such as payroll administration and country-specific business services concerning taxes, contracts, insurance and project financing. The number of American domestic theatrical releases shot outside the country increased from 35 percent in 1998 to 51 percent in 2005, with the greatest shift occurring in productions with budgets greater than $50 million (CEIDR 2006). The studios locate an increasingly wide range of production away from Hollywood, not just the simplest or lowest cost activities (Christopherson 2008, 2006, 2005). This is evidence of the diffusion and deepening of production capabilities outside Hollywood in some satellite or secondary production centers.

Foreign Location Production in Canada

Canada's film industry has been dominated since its earliest days by the US, and still earns approximately 10 percent of Hollywood's revenues. Canada is categorized by Hollywood as part of the "domestic" market. Canadian movies occupy anywhere from 1 percent to 4.5 percent of Canadian box-office revenues, while Hollywood films account for approximately 90 percent. Foreign location production is by far the most important source of Canadian film and television export revenues, generating 85 percent of the $1.7 billion in exports in 2006–07 (CFTPA 2008). It also generates a significant portion of production spending in Canada: between 1991 and 2007, about 31 percent of the $58 billion spent in Canada on film and television production was earned from foreign location production. The peak year for revenue was 2002–03, in which foreign location production amounted to nearly $2 billion in volume, or about 38 percent of the total film and television production volume (see Figure 4.1 below). By 2006–07, however, owing to the rise in value of the Canadian dollar and increased competition from other locations, service production declined to approximately 28 percent of total volume, or $1.4 billion. It nevertheless provided 14,000 direct jobs and

23,100 indirect jobs in 2006–07 (CFTPA 2008).

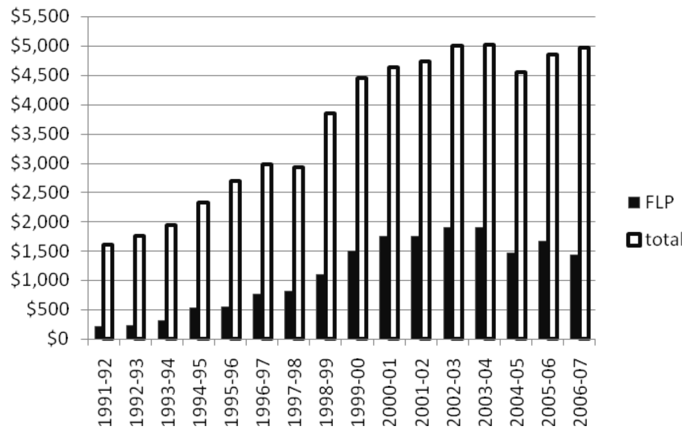

Figure 4.1. Foreign location production in Canada compared to total volume of film and television production in Canada, 1991–92 to 2006–07, in millions of Canadian dollars.
Source: CFTPA annual reports, 1999 and 2008.

Service production is highly concentrated in Vancouver, Toronto and Montreal. Between 1996 and 2007, these three centers hosted more than 90 percent of the $16.1 billion in service-production spending in Canada. Vancouver continues to attract the largest share—nearly half of foreign location production spending in the 1997–2006 period, much of it for television series. Vancouver is much more dependent on foreign location production spending than its rivals in central Canada. From 1996 to 2007, foreign location production accounted for about two-thirds of film and television production spending in British Columbia, and 24 percent and 18 percent in respectively Ontario and Quebec. In 2003, 80 percent of the production spending in Vancouver was generated through service production. The equivalent figures for Toronto and Montreal were 19 percent and 16 percent, respectively (InterVistas 2005). Production volumes in the fourth-, fifth- and sixth-largest production provinces (Alberta, Nova Scotia and Manitoba) are much smaller than in the three largest (British Columbia, Ontario and Quebec). Together they account for less than 10 percent of the production volume of Ontario alone and depend on foreign location production for between 29 percent and 41 percent of their volume.

The story of how Vancouver emerged as the third-largest film and second-largest television production center in North America has been told by Coe (2001, 2000a, 2000b), Gasher (2002, 1995), Spaner (2003) and Tinic (2005, 2004). Vancouver began to attract American film production in the 1960s as Hollywood studios engaged in increasing foreign location shooting in order to lower costs and because audiences came to expect realistic depictions of locales. In the early 1970s, American directors Mike Nichols and Robert Altman moved some production to Vancouver (Tinic 2005). The city possesses numerous qualities that enhance its value as a foreign location production site: it is a short flight from Hollywood; it is in the same time zone; its mild climate allows year-round filming; and it offers a wide variety of location types, from mountains to deserts, within a short distance of the city. These attributes allow it to present itself as “the biggest backlot in North America” (Tinic 2004). Vancouver’s labor costs are also lower than in Hollywood; Canadian labor unions have offered more flexibility than their American counterparts; the Canadian dollar has had lower value than the US dollar; and Canadian federal and provincial production tax incentives have been increasingly generous. The critical enabler of Vancouver’s development as a film and television production outsourcing destination, however, was entrepreneurial action on the part of Vancouver’s film and television labor unions and the provincial government, beginning in the 1970s. Shrinking production opportunities on Canada’s west coast because of cutbacks and the centralization of production in Ontario and Quebec by federal film and broadcasting agencies prompted the British Columbia government and representatives of the BC film and television labor unions to seek production contract opportunities in Hollywood (Gasher 2002; Tinic 2005). The BC provincial government and its agencies provided tax credits, a government-owned studio and tight control over labor conflicts. As production volume grew throughout the 1970s, a community of specialized service providers and indigenous production firms developed there. Production volume increased from $12 million to more than $1.2 billion between 1978 and 1998, the majority earned from foreign location production (Coe 2001). Vancouver eventually attracted high-budget Hollywood productions and television series with long runs such as *The X-Files*, *The Outer Limits*, *Highlander* and *Stargate*.

Effects of Foreign Location Production on Host-Country Capabilities

Many authors, Canadian as well as international, who have written on service production, regard it as a problematic way to stimulate the development of indigenous film and television capabilities (see Gasher 2002; Goldsmith and O'Regan 2008; Herd 2004; Miller et al. 2005; Mould 2007; Vang and Chaminade 2007; Scott and Pope 2007; Ward and O'Regan 2007). Service production is said to risk inhibiting development by deflecting or eclipsing indigenous production or by absorbing resources that might otherwise have been devoted to it. For example, Tinic (2004, 52) qualifies service production as "a contradictory process that at times limits the labor and resources invested in indigenous production but also provides the requisite capital and experience otherwise unavailable for domestic productions." Writers identify three groups of risks: opportunity costs, integration with Hollywood and the race to the bottom.

In this section we examine possible trade-offs between indigenous capability and foreign location production development at two levels—at the firm and policy levels. To understand possible opportunity costs at either level, it is necessary to distinguish clearly between the indigenous independent production industry and the production services industry, both represented by one trade association—the Canadian Film and Television Production Association (CFTPA).

- Independent production firms, which are unaffiliated with broadcasters or other broadcast distribution firms, are the principal producers of Canadian-owned film and television content. In 2006, the Canadian independent production industry included about 250 firms with film and television projects in development or production, accounting for approximately $1.8 billion in production volume. The development of the independent production sector has been encouraged as a matter of Canadian public policy since the early 1980s. An independent domestic audiovisual production industry is considered necessary to ensure quality, creativity, flexibility, efficiency, and regional and cultural diversity in Canadian film and television content, thereby contributing to the goals of cultural sovereignty, a sense of citizenship and national identity (Canada, House of Commons 2003). Canada's 1991 *Broadcasting Act* recognizes the independent production sector as playing a key role in the Canadian broadcasting industry. An underlying policy assumption of promoting an independent production sector is that an increasingly capable indigenous production industry would attain a significant degree of economic viability through the conquest of domestic and international markets.

- The production services industry encompasses below-the-line production crews as well as professional service providers such as lawyers and tax accountants, equipment suppliers and services such as logistics, infrastructure providers, and post-production services. They supply key service inputs to indigenous as well as foreign firms.

Foreign location production primarily involves the production services industry, notably below-the-line labor. Indigenous independent producers are involved as for-fee contractors, with no claims to intellectual property rights. Service production provides opportunities for them that might not otherwise exist:

> Hollywood's presence in British Columbia has in some ways enabled a local cinema to emerge. The location production industry has encouraged the development of film industry services and personnel, and provides the kind of steady training, employment, and income that a small, indigenous cinema could not provide, but nonetheless benefits from. Rather than moving to Toronto or Los Angeles like many of their predecessors, BC filmmakers today can remain at home, assured that they can find steady work. While Hollywood provides most of the employment, indigenous filmmakers have a pool of skilled labour from which to draw. (Gasher 2002, 134)

Service production helps local crews learn to produce according to industry-leading craft standards. People with these film and television production skills are now readily available in Canada and producers can contract them on an as-needed, project-by-project basis.

Although service production engages many independent producers as well as crews, post-production houses, soundstages, etc., it does not broadly engage Canadian independent production firms. Of approximately $1.4 billion in service production activity in Canada in 2006 as reported in the CFTPA annual report, only about $300 million was performed by indigenous production firms, according to data provided in *Playback*'s annual survey. Furthermore, these service revenues are highly concentrated among a handful of independent firms. The top six Canadian independent production firms in terms of 2006 service revenues—Brightlight Pictures in Vancouver, Muse Entertainment in Montreal, and Don Carmody Productions, Cuppa Coffee Studios, Barna-Alper Productions and Shaftesbury Entertainment, all in Toronto—accounted for more than 80 percent of service production revenues in the independent industry that year. Each of these firms has a service as well as a proprietary production line of business. (Barna-Alper was recently acquired by a new Canadian production and distribution firm, E1 Entertainment). In other words, a half-dozen major Canadian production houses have developed business models providing good revenues from service production while also engaging in proprietary production. Service production, however, does not provide a key source of revenue to the majority of independent production firms in Canada.

Entrepreneurial indigenous film and television firms regard production capability as a necessary but not sufficient enabler of business viability (Davis, Vladica and Berkowitz 2008). To be successful at higher levels of value production in the international division of cultural labor, indigenous firms must own and exploit intellectual property rights. To do so, they must possess key business and creative capabilities (ibid.). While service production can provide welcome income and learning opportunities to crews, no intellectual property rights accrue to indigenous producers. Engagement in service work does not result in the development of firm-level competitive advantage as a creator and exploiter of intellectual property rights. As one Canadian producer put it, choosing between service production and independent creative production is like choosing between being "the bricklayer or the architect." In British Columbia, where service production predominates,

> 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. (The Film and New Media Advisory Committee [IAC] et al. 2006)

The challenge to indigenous independent producers who work as service providers is to move up the value chain to create original content and exploit intellectual property rights through commercial licensing around the world.

> 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 (IAC et al. 2006).

Numerous accounts exist of Canadian producers who have engaged in service production in order to earn income and capitalize their firms while developing their own intellectual property (Coe 2001; Gasher 1995 and 2002). Canadian producers say it can be difficult to leave the relative security of service work (when it is available) because it brings in revenue with few risks. Explained one executive of an independent production firm,

> The service business is not what we're in. We all did some of it over the past twenty-five years in order to pay rent. It was hard to move from service production to our own production because it is hard to say no to the good money that service work pays. You work for hire, and you sometimes get higher margins in your service work. They'll say to you, "Here's a quarter-million-dollar fee for a five-million-dollar movie" and it is nice money. Independent production is risky from a cash-flow perspective. I do a five-million-dollar movie for my company and chances are the company won't make fifty thousand dollars out of it at first. But over the years we've had some successes and built up a little bit of a nest egg and, more importantly, a library. Our library is not huge but we can sell it around the world…. Service work is great if you're interested in learning production. If you're interested in creative development or the industry as a whole, go and write for a sitcom in the States or work for an international distributor.

We now turn to an assessment of opportunity costs of foreign location production at the policy level. Canada has two principal federal tax-incentive programs for film and television production. One is for service production, and the other for indigenous production. Most provinces offer a counterpart to each program.

- The Film or Video Production Services Tax Credit (PSTC) program, introduced in 1997, covers eligible labor costs of productions regardless of the national origin of the production firm. The PSTC attracts foreign productions to Canada, generating revenues for services provided by Canadians from the end-of-script stage through postproduction, especially below-the-line crew costs. The PSTC is a tax credit equal to 16 percent of salary and wages paid to Canadian residents, taxable Canadian corporations or foreign-owned corporations with permanent establishments in Canada for services provided to productions in Canada. The PSTC has been widely emulated by national and subnational jurisdictions around the world.

- The Canadian Film or Video Production Tax Credit (CPTC), also introduced in 1997, covers productions controlled by Canadians and using Canadian creative talent. This tax credit encourages the development of indigenous programming by providing content production inducements. There are no requirements that content be distinctively Canadian (this increases the potential exportability of programs) but intellectual property rights must reside with the Canadian firm. The CPTC accommodates international coproduction partnering with 53 countries.

The cost of federal film and television tax incentives (which are forms of foregone revenue called tax expenditures) is estimated by the Department of Finance at $300 million annually, of which the PSTC accounts for approximately $125 million. At the time of its 1998 implementation, the PSTC represented about 20 percent of federal film and television tax expenditures. It has since grown to about 40 percent of federal film and television tax expenditures for 2008, as projected in 2006 (Davis and Kaye 2008). See Figure 4.2 below. It was anticipated that support for service production would increase in proportion to support for indigenous production. In recent years, however, the volume of service production in Canada did not increase according to projections.

Why subsidize foreign entertainment conglomerates to produce Hollywood film and television products in Canada when the same resources could be spent to subsidize proprietary content by indigenous independent production firms? No public debate has taken place in these terms in Canada.

We know of only one attempt to quantify the economic benefits of film and television production tax incentives in Canada. InterVistas (2005) presents an econometric model that estimates a net gain of $55 million in British Columbia tax revenues from provincial film and television incentives, and a decline in production volume of approximately 15 percent if provincial incentives were removed. (Recall that about 80 percent of film and television production in British Columbia is service production.) The model forecasts a net tax revenue gain of $45 million by eliminating the credits altogether. This estimate, however, does not take into account federal tax incentives or other subsidies.

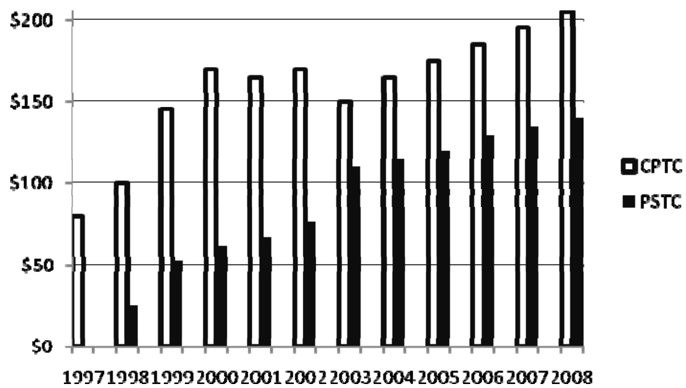

Figure 4.2. Estimated and projected CPTC and PSTC tax expenditures, 1997–2008, in millions of Canadian dollars. Source: Department of Finance, tax expenditures and evaluations 2002, 2004 and 2006.

It appears that indigenous creative producers (i.e., those with business models predicated on ownership and exploitation of intellectual property) benefit indirectly from subsidized service production in several ways. We have already mentioned three benefits: service production provides an alternative source of income that can come in handy, it induces investment in production infrastructure, and it provides experience to production crews. A fourth benefit is not as obvious. By wrapping service production and indigenous creative production together in the same industry, the latter benefits from the halos of the former. The principal halo comes from service production's economic spillovers and export earnings, which some governments in Canada consider to be of more compelling interest than Canadian cultural production. At the same time, the commercial orientation of service production provides some legitimacy to the growing indigenous production community more interested in commercially successful indigenous media products than those deemed culturally relevant or appropriate by Canadian funding agencies or regulators. Indigenous producers also benefit indirectly when service production allows them to suggest that they should receive more generous tax incentives in order to keep Canadian creative producers from switching to lower-value-added service roles, or even from migrating to more opportune domestic or international production locations (CFTPA 2004). Finally, fluctuating levels of service production increase Canadian jurisdictions' demand for indigenous production, which is less volatile and over which they have some influence via domestic political processes.

Integration with Hollywood

To what extent does integration of Canadian production into the Hollywood filmed entertainment circuit create opportunities, or does it instead paint Canadian film and television production into a corner? Writers on service production in Canada have variously suggested that it induces integration with Hollywood that is too strong, too weak or of the wrong kind.

Canadian scholars who have carefully studied the Vancouver film and television industry disagree about the extent to which foreign location production displaces or marginalizes indigenous production (Gasher 2002; Tinic 2005). Service production implies the integration of local providers into Hollywood's transnational network as private-label manufacturers of cultural products that are conceived, financed, branded and distributed by Hollywood, but rarely recognized or credited as an indigenous contribution. One well-known disadvantage is the "body-double" phenomenon (Elmer 2002). Foreign location production practically guarantees locational anonymity, thereby preventing the production location from communicating a place-specific look and feel, considered to be a hallmark of preeminent cultural cities such as Los Angeles, Paris or New York (Scott 2007). This is a common occurrence in

Canada. Toronto specializes in urban landscape "placelessness" as a backdrop for other more "authentic" places (Matheson 2005). In the more than 600 foreign film and television movie productions that took place in the Toronto region between 1999 and 2006, Toronto played itself in only about 5 percent of them. In the other 95 percent Toronto impersonated locations in 34 other jurisdictions, usually New York City, Chicago or Washington, DC (Davis and Kaye 2008).

Vang and Chaminade (2007) examine Toronto's film cluster and observe that the strategy of attracting foreign location production has failed to induce the emergence of a competitive indigenous film industry, as evidenced by the very low box-office share of indigenous English-language films in Canada. They suggest that the solution is to develop strategic differentiation in film production and postproduction. This prescription is problematic because as we saw previously, indigenous television production, not service production, is the primary target of Canadian audiovisual support measures. Moreover, Toronto already possesses strong post-production capabilities as well as specialized indigenous capabilities in certain genres, notably children's programming and documentaries (Davis, Vladica and Berkowitz 2008; Vladica and Davis 2009). Toronto can claim to be a genuine creative agglomeration, rather than a satellite production complex that relies primarily on outsourcing. The general unavailability of indigenous English-language feature films in Canadian theatres is a result of inability or unwillingness to impose national origin quotas on theatrical exhibitors and failure to use the broadcast system as an alternative distribution channel for indigenous feature films.

Scott and Pope (2007) also address the question of how Canadian film can become competitive. They recommend that Vancouver, Toronto and Montreal collaborate "in the interests of a globally competitive pan-Canadian cinema" (p. 1379). Most of the crucial policy levers are controlled by senior governments, however. National governments control fiscal, intellectual property, trade, competition, telecommunications and broadcasting policy. Provincial governments control policy for education and training, and can offer fiscal and R & D incentives, subsidies and such services as support for international marketing. Within the limits of their respective budgets, municipal governments can offer services, subsidies, regulatory concessions regarding real-estate development, and encouragement of local collective action. This policy hierarchy explains why most local publicly supported collective action in favor of screen-based industry aims at influencing the behavior of higher levels of government and at marketing local capabilities to potential investors or customers.

Scott and Pope (2007) also recommend that Vancouver shift its emphasis to indigenous production, "though whether Vancouver has the threshold of assets necessary to succeed in this prospective task of upgrading remains an open question" (p. 1379). The answer is now a qualified yes. Vancouver, which in 2000 was known as a production center without a major studio or production house, by 2006 had the two largest production houses in Canada—Brightlight Pictures and Insight Film Studios, each of which finances, produces and distributes film and television products for domestic and international markets.

Racing to the Bottom

Labor costs represent a significant portion of the cost of film or television production. Above-the-line talent alone, i.e. actors, directors, writers and producers, can consume half of the cost of production (Wasko 2008). Canada's initial competitive advantage resided in labor flexibility and lower below-the-line labor costs. Droesch (2002) examines four possible drivers of the migration of production from Hollywood to British Columbia between 1977 and 2000: the exchange rate, rebates (i.e., tax incentives), escalation of actors' salary demands, and demarcation (make-work) rules in Hollywood workers' production contracts. She finds demarcation rules to be the principal driver of production offshoring, with actors' salaries a secondary factor. Additional factors affecting production location decisions are local labor skills and flexibility; the nature and diversity of shooting in one locale; actors' preferences; the cost of insurance; the quality, cost and availability of local production infrastructure and services; the quality of transportation links; the relative degree of risk involved; and the quality of prior working relationships (Neil Craig Associates 2004).

Cost-based competition on the basis of tax incentives, wage concessions and subsidized infrastructure is a race won by the location providing the best package of subsidies, incentives and low labor costs. The race to the bottom results from successive rounds of rivalrous, increasingly generous tax and other incentives to compete with lower-cost new entrants and concessions offered by incumbents. With the rise in the value of the Canadian dollar, the cost advantage previously enjoyed by Canadian service providers has been compensated by several rounds of increases in tax incentives. This competition is led by provincial authorities, typically following intensive lobbying by local film and television production interests. In 2007 and 2008, Nova Scotia, Ontario, British Columbia and Manitoba each announced increases in tax incentives for film and television production. Despite them, in the summer of 2008, while some Hollywood productions were shot in Vancouver and Nova Scotia, the situation in Toronto and Montreal was unusually quiet (Binning 2008a). The Canadian production services industry reports that the Canadian dollar must fall to around 88 US cents to attract the attention of Hollywood producers.

Policy lock-in can occur not only as a result of rounds of rivalrous competition or pressure from dependent industrial interests, but also from concerns about retaliation. The film and television industry has become accustomed to generous tax incentives, and many jurisdictions are inclined to offer them. Any jurisdiction withdrawing from this competition may find itself facing retaliation by the industry:

> It is important to consider the possibility that there may be a strategic retaliatory response to the elimination of the tax credits by the BC government. The industry response from decision centres in Los Angeles, New York and elsewhere may be to drastically cut production in BC in order to "punish" the province. This action would serve as a warning to other jurisdictions about the implications of removing film/TV production tax credits (InterVistas 2005, 8).

In North America, jurisdictions currently lacking production capabilities and infrastructure would seem to have few options for building a competitive film and television industry at this stage. They can only compete for service business on the basis of lowest price, unique infrastructure, or some undiscovered specialization, as they attempt to siphon business from the more established centers. Ruinous competition for production may decline as jurisdictions with low development prospects withdraw from the race, leaving more business for centers with advanced capabilities.

Because high-quality, purpose-built infrastructure is everywhere regarded as an essential component of local competitive advantage, a wave of studio and soundstage construction is taking place across Canada. These initiatives are often propelled by "location interests" (Goldsmith and O'Regan 2003) in the form of entrepreneurs allied with promoters, local officials and real-estate developers. In several Canadian cases, the construction of new soundstages is motivated by the impending loss of soundstages in older buildings, as is the case when warehouses or military barracks are repurposed by their owners (Binning 2008b). New studio complexes such as Toronto's Filmport (now owned by Pinewood) offer not only production space for rent, but also advanced IT and communication infrastructure, co-located business service providers,cultural amenities, and the promise of environmental friendliness.

The decline in service production is only one of several forces to affect Canadian media production centers in recent years. Toronto has seen its film and television production volume fall from $1.2 billion in 2000 to $700 million in 2006 owing to six factors that form a "perfect storm" (Toronto Film Board 2007): the paradigm shift in screen-based industry to digital platforms; the hollowing out of the Toronto production center by domestic policies that decrease demand for indigenous television drama and provide incentives to move production to outlying regions; the increase of incentive-based international and domestic competition; worldwide competition in screen-industry infrastructure through the construction of ever-improved purpose-built studios; the rise of the Canadian dollar; and shortcomings in conventional methods of financing and revenue models applied to digital platform content production. While some of these factors affect foreign location production and some mainly influence the indigenous industry, most affect both.

The principal Canadian production centers' strategies for constructing jurisdictional advantage have evolved in response to the aforementioned factors. It has become clear to those most dependent on foreign location production that they cannot compete for service business primarily on the basis of lowest cost. They must now offer the best value for money along with comprehensive services and distinctive capabilities. The larger centers are repositioning themselves as fully integrated production hubs capable of handling the entire range of production and postproduction tasks. Because they recognize that service production offers very limited long-term growth prospects to indigenous production firms, they are looking for ways to improve their capability to serve domestic and especially foreign markets (British Columbia Film 2008). In the case of Toronto, the goal is to recapture the city's role as the Canadian English-language center of excellence in screen arts (Toronto Film Board 2007). Competitive strategy among the most highly developed Canadian centers thus does not focus primarily on attracting foreign location production. It involves instead a broader focus on the health and vitality of the local screen-based industry, encompassing indigenous production firms as well as services.

Conclusion

With the United States in such close geographic and cultural proximity, some believe that Canada should be ideally positioned to take advantage of the expansion of media markets and the decentralization of film and television production in North America. If success is measured by export volume though, Canadian film and television products are generally only modestly successful. If success is measured by domestic market share, English-language film and television products do not perform well overall, while French-language film and television products substantially outpace the rest of Canada in attracting viewers in Quebec.

Service production and indigenous creative production represent two very different roles in the international division of cultural labor. While the former uses indigenous production capabilities, the latter is driven by business and creative capabilities. Service production is the principal role in which Canada has been able to develop an international competitive advantage, having failed to gain significant market share for its English-language film and television products at home or abroad. Service production has brought immediate economic benefits to the Canadian production services industry. We have suggested that service production also has various indirect learning effects on the development of indigenous film and television capabilities, but that service production does not offer the learning opportunities afforded by the policy measures and programs designed to develop the indigenous independent production industry.

For indigenous independent production firms, international treaty co-productions and co-ventures with the States, not service production, are the favored pathways to international expansion and higher value-added roles in the global screen-based industry (Davis and Nadler, 2009). International treaty co-productions and co-ventures are on the rise. International partnering is a venerable strategy for small production firms outside Hollywood. It can be illustrated by the three European companies that produced the unexpected commercial and artistic success of a then-obscure trilogy of movies ending with *The Good, the Bad and the Ugly* in 1964. Sergio Leone, the driving force behind the film, put together funding from Italy, Germany and the US to make an Italian-Spanish coproduction in Italian and English, shot in Spain and Italy. In the process, the trilogy converted a classic Hollywood genre into a new subgenre, the spaghetti western, and *The Good, the Bad and the Ugly* in particular became a cult classic. The process neither fundamentally altered the international division of cultural labor nor mitigated the requirements for public support and protection of film and television industries in Europe. It did, however, demonstrate that hybridization of global audiovisual content need not be a one-way street and was not, even forty-five years ago.

The 2008 movie *Juno* was hailed as an international sleeper hit. While the Vancouver-shot movie is technically a runaway, it was directed by a Los Angeles-based Canadian (Jason Reitman), written by an American (Diablo Cody) and starred two Canadians (Ellen Page and Michael Cera in the lead roles) and four Americans (Jennifer Garner, Jason Bateman, J. K. Simmons and Allison Janney). Director Reitman calls it a Canadian movie and yet it is neither certified Canadian nor eligible for the Canadian Genie Awards. Fuelled by international funds, it is a US/Canada/Hungary co-production/co-venture. Made for approximately $7.5 million, by the end of 2008 it had garnered $227 million at the box office, $144 million of that in the United States (www.imdb.com). It might be the most successful Canadian movie Canada never made.

As noted by Magder and Burston (2001), "building new alliances with foreign partners" is something Hollywood is learning to do and Canada has always had to do. They recommend dispensing with the term *runaway* altogether, since it "clarifies little" (220–22). With the increasing transnationalization of the industry generally known simply as *Hollywood*, the term is more complex than ever. *Global Hollywood* quotes John Ford, who noticed as far back as 1964 that “Hollywood is a place you can’t geographically define. We don’t really know where it is” (1). *The Good, the Bad and the Ugly* did not run away from Hollywood; it ran *toward* Hollywood, emphasized its cultural, geographical and linguistic differences and created a hybrid. As the country closest to the US in language, culture and geography, Canada has specific advantages not available to any other country. How talent, funding, cultural policy, economic policy, trade policy and international partnerships come together is key to success in foreign location and indigenous production, as well as to the future of the Canadian film and television industry.

Notes

1. International outsourcing is also known as offshoring. In Canada, international outsourcing of film and television production is called service production or foreign location production, terms we use interchangeably in this chapter. In the film and television industry, they are called “runaways.”

2. As discussed further in the chapter, evaluation of the effects of film and television production tax incentives in a variety of jurisdictions does not support the belief in strong multiplier effects.

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