



# The Case for Kids Programming

Children's and Youth Audio-Visual Production in Canada

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 Production Association  
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 Alliance for Children and Television  
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## Executive Summary

Canada has a long tradition of producing popular and award-winning audio-visual programming for children's and youth audiences; a tradition that stretches back more than six decades to the National Film Board's first forays in educational documentary and animation production in the 1940s. Canadians are



among the best in the world at generating content across all media platforms from television to Internet and mobile devices. Canadians are well known for bringing entertaining live-action and animation programming to viewers around the world – programming that reflects Canadian values and diversity, enriches the lives of young Canadians, and offers international audiences a view into Canadian culture.

Despite this tradition, the genre and the industry built around it in Canada face a number of challenges. The industry has just come through a period of declining levels of output, dropping average budgets, and decreasing share of public and public-private funding.

There are very good social, cultural and economic cases to be made for the increased support for the creation of children's and youth programming in Canada.

And yet, the genre is no longer a priority. Children's and youth programming is coming second and there is no good reason why it should. The purpose of this study is to report on the social, cultural and economic strengths of children's and youth programming, and at the same time, bring attention to the many challenges that the genre faces today.

## The Many Strengths of Canadian Children's and Youth Programming

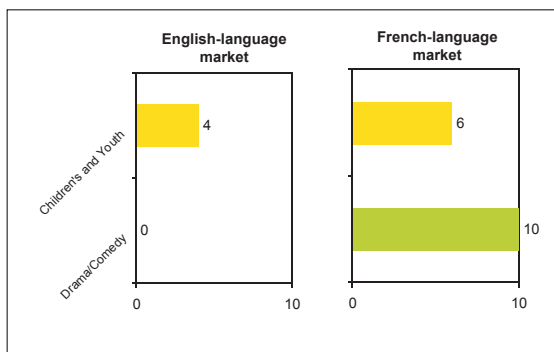
### ► *A Strong Record of Attracting Canadian Children to Canadian Programs*

When it comes to attracting Canadian viewers to Canadian programming, the children's and youth genre does very well when compared to other Canadian fiction programming. In the English-language market, Canadian-produced children's and youth television placed four programs among the top ten television programs in Canada's English-language market in 2004/05. The children's and youth genre performed even better in the French-language market, where it held six of the top ten spots during 2004/05. More broadly, Canadian programs accounted for 38 percent of all viewing of television programs in the children's and youth genre in the English-language market during the 2002/03 television season; this was well ahead of other fiction programming (drama/comedy), which had a 10 percent share. In the French-language market, Canadian programs accounted for an even larger share of viewing to children's and youth programs – 55 percent. Other Canadian fiction programming (drama/comedy) had a 29 percent share in 2002/03.



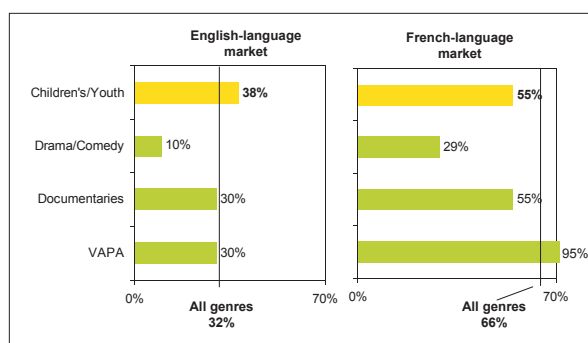
**Exhibit 1 Television audience statistics**

**Number of Canadian-produced programs among the top ten programs (based on average minute audience), 2004/05 television season**



Source: CBC research and Nielsen Media Research

**Viewing of Canadian programming as a share of total viewing in the CTF-supported genres, (6 a.m. to 2 a.m.), 2002/03 television season**



Source: CBC research and Nielsen Media Research  
VAPA - Variety and Performing Arts

► **Attracts Foreign Financing and After-Market Sales**

One of the hallmarks of children’s and youth television programming, particularly animation, is that it has tremendous international sales potential: children’s and youth programming is often said to “travel well”; and thus, Canadian production in the genre has been very successful in capturing the interest of foreign broadcasters and audiences. There is a long list of Canadian children’s and youth programs currently airing on broadcast outlets outside of Canada. *6Teen*, *Caillou*, *Atomic Betty*, *Franklin*, *Life with Derek*, and *Radio Free Roscoe* are all examples of Canadian cultural exports in the genre.

Statistics from Telefilm Canada indicate that children’s and youth television projects have the best rates of recoupment – a good indicator of after-market sales performance. Indeed, Nordicity Group estimates that Canadian children’s and youth television production earned somewhere in the neighbourhood of \$166 million in after-market export sales between 1996/97 and 2000/01. This is a conservative estimate, however; export sales during this period could have been as high as \$400 million. This cultural trade directly contributes to the federal government’s policy of promoting Canadian culture abroad.

► **A Source of Careers for Canada’s Creative/Technical Workforce**

Despite the contribution of computer technology over the last decade, animation production continues to be more labour intensive than live-action production. A typical 26 half-hour episode animation production (with an average per-episode budget of \$500,000) generates 148 full-time production-industry jobs on an annualized basis<sup>1</sup>; a live-action series of similar scope generates 128 full-time jobs. The jobs generated by animation production are also longer-tenure jobs. Whereas the typical Canadian live-action drama series will include 13 episodes and will require three months of shooting, the majority of Canadian animation productions have 26 episodes or more, and can require as long as two years to complete. Practical experience in animation production can also act as a springboard for a career in other genres of audio-visual production and in other occupations in knowledge-based industries. An investment in children’s animation is no longer only an investment in the creation of audio-visual cultural content; it is an investment in the development of a knowledge-based workforce.

<sup>1</sup> We refer to the jobs as “annualized” because the calculations are based on an annual average salary. Therefore, a project running for six months, for example, would employ double the number of persons because the average salary would be one-half the annual average.

► ***Offers a Better Return for the Production-Financing Dollar***

Children's and youth television programming can offer very compelling commercial value for broadcasters. To begin with, children's and youth television programming can generally be made at lower budget levels than prime-time fiction programming. Children's and youth programming can also generate audiences more efficiently. Nordicity Group's analysis indicates that an investment of \$100,000 in the budget of a half-hour of children's and youth programming generates a single percentage point of television-audience share. To achieve the same result for a Canadian fiction program requires an investment of \$167,000. Children's and youth programming can also generate value for broadcasters by helping them to attract audiences during times of the day and times of the year when overall audience levels may be relatively lower compared to peak viewing periods. What's more, when compared to public investments in other genres of Canadian programming, investments in children's and youth television productions offer the best rate of investment recovery – 15.3 percent compared to a cross-genre average of 7.4 percent.

► ***Leverages Public Funding***

In today's political environment, where governments are under pressure to demonstrate value for money in the investments they make in economic- or social-development initiatives, public investments in audio-visual production must be effective in drawing private financing into production. Children's and youth production does. Production financing statistics indicate that in 2005/06, children's and youth television production attracted \$1.99 in private financing for every dollar of public investment in production, compared to \$1.73 in the fiction genre. Despite these metrics, the administration of public-private funding for audio-visual production has resulted in a slide, in recent years, in the genre's share of production-funding resources.

## **The Challenges Facing Canadian Children's and Youth Production**

Despite the social, cultural and economic strengths that the genre displays, as alluded to earlier, it does face a number of challenges that seriously threaten its long-term viability:

► **Falling production volume**

The volume of Canadian children's and youth audio-visual production has been on the decline over the last several years. Children's and youth audio-visual production peaked at \$389 million in 1999/00, and declined in the following years to \$283 million by 2005/06. Not only has children's and youth production fallen on an absolute dollar basis, it has also fallen relative to Canada's overall output of Canadian television production – from 22 percent in 1999/00 to 16 percent in 2005/06.

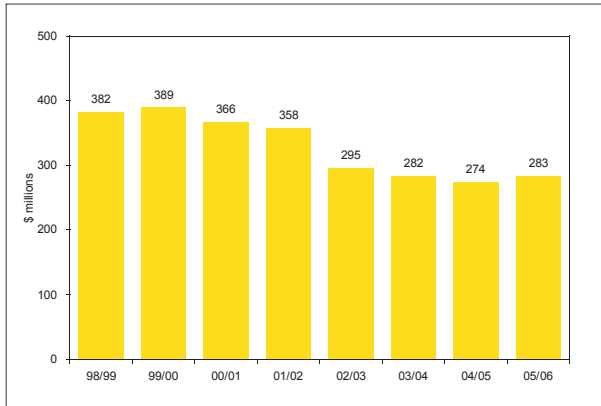
► **Falling budgets**

Average budgets for children's and youth programming have been in retreat. Between 1998/99 and 2005/06, the average half-hour budget of a Canadian television production in the children's and youth genre dropped by 11 percent, from \$224,000 to \$200,000 in current dollars. Adjusting for inflation, the drop was

even more pronounced in real dollars. Based on 2005 prices, the average half-hour budget dropped by 24 percent; it fell from (inflation adjusted) \$263,000 in 1998/99 to \$200,000 in 2005/06. On the surface it may seem that the industry has improved its productivity by lowering the real cost of producing an hour of television programming; and in many respects it has through the use of technology. But still, for projects to be internationally competitive, half-hour budgets need to be in the range of \$250,000 to \$500,000.

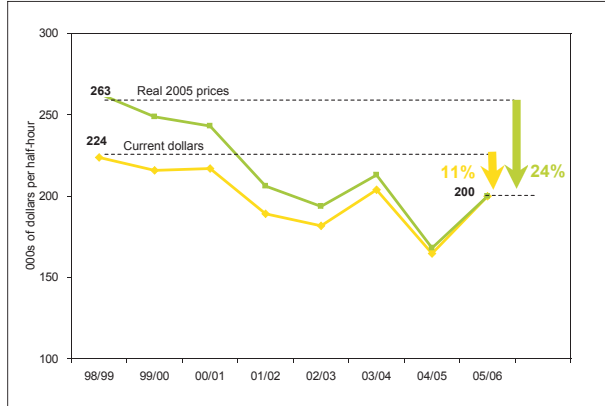
**Exhibit 2 Trends in Canadian children's and youth audio-visual production**

**Volume of Canadian children's and youth production (television and feature film) production**



Source: Estimates based on data from CAVCO; excludes NFB in-house production

**Average budgets of children's television productions**



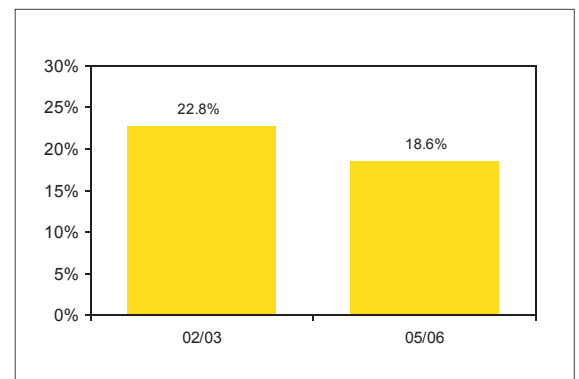
Source: Estimates based on data from CAVCO; excludes NFB in-house production

► **Falling levels of public funding within the Canadian Television Fund**

On the domestic front, conventional commercial broadcasters have shifted increasingly away from children's and youth programming because of limitations on the advertising potential (and a complete ban in Quebec). As a result, specialty and pay television services have taken the leadership in the television distribution of the genre. In terms of public-private funding for the genre, the share of Canadian Television Fund (CTF) funding contributed to children's and youth programming has dropped over the last few years. The CTF's contribution to children's and youth programming on a per-hour basis has dropped by 17 percent over the last three years. The genre's share of the CTF's overall contributions to Canadian television has dropped from 22.8 percent to 18.6 percent during the last three years – an 18 percent drop in share. And, according to the CTF's 2005/06 Stakeholders Report, the share is projected to drop to 18 percent in 2006/07.

Within the CTF, the availability of public monies for children's and youth programming has fallen behind that of other genres. In 1996/97 the amount of public money made available to children's and youth programming through the CTF totalled \$30.9 million; by 2005/06, the amount had dropped by 22% to an estimated \$24.1 million. While direct federal government support for children's and youth

**Exhibit 3 Children's programming's share of CTF funding 2002/03 vs. 2005/06**



Source: Nordicity calculations based on data from CTF

programming has not grown over the last few years, private sector sources have stepped in. Canada's broadcasting distribution undertakings (BDUs) have provided – and continue to provide – substantial financial support to children's and youth programming through both the CTF and independent production funds. Although BDUs have maintained financing levels, Canadian program creators and broadcasters are concerned by the retreat in public monies for the genre.

## Conclusion

The social and cultural value of children's and youth content is overwhelming. Audio-visual programming entertains and informs young people and helps them develop a sense of identity. So, it is important that we provide Canadian children and youth with stories that reflect who they are. If young Canadians have access to entertaining Canadian stories when they are young, they are more likely to view Canadian programming when they are older. Further underlining the importance of the genre is the fact that it is on the front line of the revolution in multi-platform distribution.

While much of Canadian audio-visual programming, particularly in the English-language market, battles to lure domestic audiences away from foreign fare and offer good economics for producers, broadcasters, distributors and investors, Canadian children's and youth programming has had a very good track record for capturing significant shares of Canadian audiences in both the English-language and French-language markets. For Canadian broadcasters, this translates into a more efficient method for attracting Canadian viewers, and a very profitable niche to be in. For investors, the genre has demonstrated excellent international sales potential. Canadian producers can point to a long list of their programs that are currently airing on broadcast networks outside of Canada.

In today's financing environment, however, declining funding levels, and falling production volumes and average budgets will mean that Canadian program creators will miss an opportunity to provide future generations with programs that reflect our values – our sense of being Canadian. With this in mind, all stakeholders – producers, content distributors, funding bodies, broadcasters, government and the regulator – must assess their commitment to the genre, with a view to putting Canadian children's and youth programming on a strong footing for the future – to create an environment where production levels can rise along with average budgets and foster an environment where Canadian children's and youth programming can reach domestic and international audiences. The quality of Canada's children's and youth programming is high. This enables it to generate high audiences both within and outside Canada. What's more, the social and cultural benefits of the genre are compelling. By making the necessary investment in the genre today and the years to come, industry stakeholders can attract Canadian children and youth to Canadian programming and generate stronger interest in Canadian stories and audio-visual programming that Canadian young people will carry with them into their adult years.





# 1 Introduction: Now Is the Time to Take a Close Look at Children's and Youth Programming

Canada has a unique and open approach to a pluralistic society, of which we are justifiably proud. We are one of a select few countries in the world that has made a commitment to developing a tolerant and just society that is open to all cultures. The Canadian experiment is ongoing and requires continual support. Exposing our children to Canadian values is an important part of this support. At the same time, Canadian children should be able to experience the world, through stories told through television, the Internet and other platforms. Canadian program creators and artists make high-quality audio-visual programming that reflects Canadian values and offers a view into global experiences. In this way, the children's and youth programming industry helps enrich the lives of young Canadians. The high social value of children's programming, however, entails that, in many cases, it should be made and aired not necessarily because it will attract the greatest amount of broadcaster or advertiser interest, but because it best reflects public values. In this report, we examine the current state of Canada's children's and youth audio-visual production sector. We elaborate as to its immense social value and also demonstrate that it has tremendous economic value.

## ***Definition of children's and youth audio-visual programming***

What exactly is children's and youth audio-visual programming? Most children's and youth programming is made available in the television realm. With respect to television, children's and youth programming is unique in its definition because it is the only genre that is defined by its audience rather than its content. Whereas genres such as drama/comedy, documentary, variety, sports and news, for example, are defined by the type of content they present, children's and youth programming is defined by its audiences – and crosses many genres. Children's and youth programming may include drama or comedy; it may include factual genres such as documentary and educational programming as well.

The Canadian Radio-television and Telecommunications Commission (CRTC) tracks television programming on the basis of 15 program categories; but none of these categories are specific to children's and youth programming. Most programming (except drama) targeted to children aged 2 to 5 falls under category 5a, Formal Education and Pre-School. Most other children's and youth television programs, including animation programs, fall under category 7, Drama and Comedy. Some children's and youth programs may fall under category 8, Music (including music videos); category 9, Variety, category 19, Game Shows; and category 11, General Entertainment and Human Interest. In its licensing of broadcasting undertakings, however, the CRTC has identified the children's and youth age groups as specific target audiences for certain licensees. In its licence decisions, the CRTC has defined children's programming as that which is targeted at persons aged 2 to 11, and youth programming as being targeted at the 12 to 17 age group.



The CTF also maintains a formal definition for children's and youth programming. The programming must be targeted at persons under the age of 18, and should include protagonists from this age group. What is more, the program should reflect reality from a child or youth's point of view. The CTF's definition excludes

family programming. The Canadian Audio-Visual Certification Office (CAVCO) includes a category for “children’s” programming in its application package; applicants self select whether their television project is a children’s program or not.

In this report, we analyze audio-visual programming targeted at persons under the age of 18. Children’s programming includes audio-visual works targeted at persons ages 12 and under; youth programming targets the 12 to 17 age group.

### ***Though globally successful Canadian producers face new challenges***

Many Canadian producers of children’s and youth programming have achieved tremendous global success. Today, there are some 140 Canadian production companies generating innovative and popular content for children’s and youth audiences in Canada and around the world. Canadian program creators are known the world over for making numerous hit animation series. The animated series *Caillou*, *Franklin*, *Angela Anaconda*, *6Teen*, and *Atomic Betty* have all enjoyed international success. *Radio Free Roscoe*, *Life with Derek*, *The Campbells*, *Danger Bay* and the *Degrassi* serial are just a few examples of Canadian producers’ international success in the live-action realm. But we cannot be satisfied with some singular past achievements when we face some unprecedented challenges. Leadership in the kids’ programming sector must be continually earned through the ongoing generation of quality product.



Despite these past successes of Canadian program creators, our research shows that Canada’s children’s and youth production industry has come through a very difficult period. Today it faces a number of challenges that seriously threaten its long-term viability. Our statistics indicate that the volume of Canadian children’s and youth audio-visual production has been on the decline over the last several years. What is more, average budgets and the levels of public funding for children’s and youth programming have been in retreat. These recent developments are a source of concern for the industry, and provide the impetus for conducting this study.

Today, one of the biggest challenges facing the audio-visual industry is how to transition to a world where alternative distribution platforms comprise a growing share of audiences for audio-visual content. The challenge is not a technological one but rather a question of what business models will work in this new environment. The children’s and youth audio-visual production industry sees alternative distribution platforms as very much an opportunity.

### ***Why focus is needed for the children’s genre***

This report will argue that children’s and youth audio-visual production deserves the same policy attention that prime-time drama receives. The reasons for this increased attention are really twofold. First, children’s and youth programming is a vital part of Canadian culture. The images and stories that today’s Canadian children experience help shape the Canadian society of the future. We all want to see Canada continue to be relatively peaceful and tolerant, and remain a shining example for the rest of the world. What’s more, if Canadian children are drawn to Canadian drama programming when they are young, then it is very likely that they will continue to be attracted to it in their adult years.<sup>2</sup>

<sup>2</sup> CRTC, *Proposed incentives for English-language Canadian television drama – Call for comments*, Broadcasting Public Notice CRTC 2004-32, para. 38.

The second argument for heightened support for the genre has to do with technology and the impact it is having on the media sector throughout the world. For decades, policy makers relied on the Canadian Broadcasting Corporation (CBC) and private broadcasters to fulfil Canada's policy goals in the audio-visual realm. Government then looked to television broadcasters and independent producers to share the responsibility of fulfilling the policy goals of the *Broadcasting Act*. The federal government and the CRTC gave broadcasters and producers the tools needed to do fulfil these policy goals.

In the coming decades, the traditional television broadcaster, as we know it, may no longer be the only conduit for audio-visual content. Television itself will shift toward a more on-demand model – via video on demand (VOD), personal video recorders (PVRs) and other time-shifting technologies. Other mediums such as the Internet, other applications like video gaming, and other platforms such as DVD are driving a wedge between audiences and traditional television broadcasters. These multiple platforms of the digital era are seriously eroding traditional viewership patterns on television. New web-based distribution technologies that lever broadband networks, and legal peer-to-peer algorithms are poised to turn the Internet into a new path for on-demand access to audio-visual content.

These distribution approaches are particularly suitable to children's and youth programming. Younger people are often early adopters of new technologies; or coax adults to quickly adopt new technologies. Furthermore, much of children's and youth audio-visual production lends itself to interactivity, which technology can facilitate. Just as television energized the soap-opera format developed by radio – and ultimately pulled it right off radio – the Internet and mobile video devices may help children's and youth programming find better economic models. The ease with which young people use new technology certainly suggests that the Internet and mobile video may represent a tremendous opportunity for the genre.

But in the world of alternative platforms where consumers become the programmers and pull-distribution models operate alongside traditional push models, only the very best content will find audiences. Under such a scenario, the Canadian government's demand-side policies for promoting Canadian audio-visual content – which have been very effective for many decades – may lose their efficacy. The regulated broadcasting system may no longer stand between audiences and audio-visual content. When this happens, policy makers will have to recognize that support for the *production* side of the audio-visual value chain is going to become paramount.

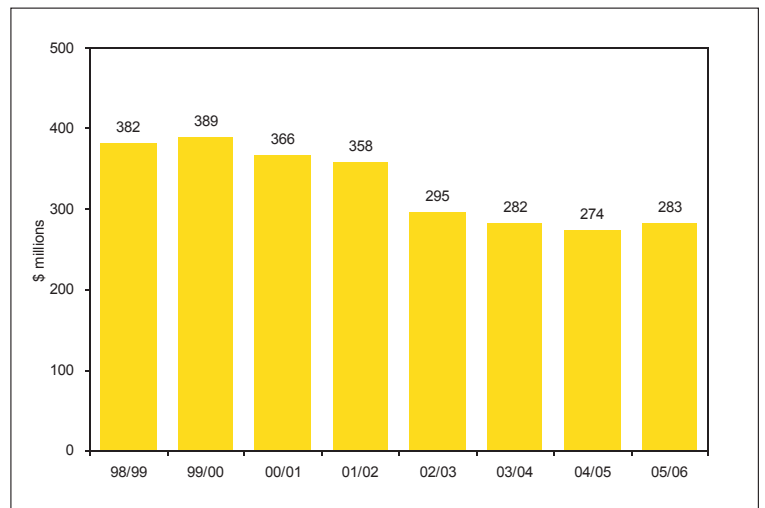
In the next section, we examine the current state of Canada's children's and youth production industry.

## 2 Current State of the Industry: Creating Canadian Content and Staying Globally Competitive

In 2005/06, the total volume of Canadian television and feature film production in the children's and youth genre totalled \$283 million (see Exhibit 4).<sup>3</sup> Of this amount, production for television accounted for virtually all of the production volume; so the children's and youth production sector was almost entirely a television one.

Over the last couple of decades there has been some Canadian children's and youth production in the theatrical segment, but it has been limited. Films such as *Contes pour tous*, *Daniel and the Superdog*, *Bailey's Billion\$*, *Dans une galaxie près de chez vous*, *Spymate* and *La Forteresse Suspendue* have had theatrical releases; but for the most part, Canadian producers in this genre have traditionally focussed on the television window as the primary window through which to reach audiences. This is not surprising, because there are several Canadian television services – CBC, Société Radio-Canada (SRC), educational broadcasters, YTV, VRAK.TV, Teletoon/ Télétoon, Treehouse and Family Channel – which offer ideal channels for reaching children's and youth audiences in Canada. For the producer and distributor, the theatrical route comes with a much higher risk and substantially more competition from Hollywood fare, when compared to the television window.

**Exhibit 4 Total volume of Canadian television and feature film production in the children's and youth genre**



Source: Estimates based on data from CAVCO

Note: CAVCO data do not include all NFB production; only NFB co-productions are included in CAVCO data

Behind this \$283 million in production, there were numerous Canadian companies, and creative and technical professionals. A review of membership data available from the Canadian Film and Television Production Association (CFTPA) and Association des producteurs de films et de télévision du Québec (APFTQ) indicates that there are some 140 companies in Canada engaged in the production of children's, youth or animation programming. Many more companies provide audio-visual services to children's and youth production. Altogether, these production companies generate an estimated 3,100 full-time equivalent jobs for Canadians (for additional employment statistics, see Section 7, Employment).

After growing to an upwards of \$389 million in production in 1999/00, Canada's children's and youth production industry has, in recent years, experienced a steady decline in production activity (see Exhibit 4). Between 1999/00 and 2005/06, the total volume of children's and youth production dropped by 27 percent. Not only has children's and youth production fallen on an absolute dollar basis, it has fallen relative to Canada's

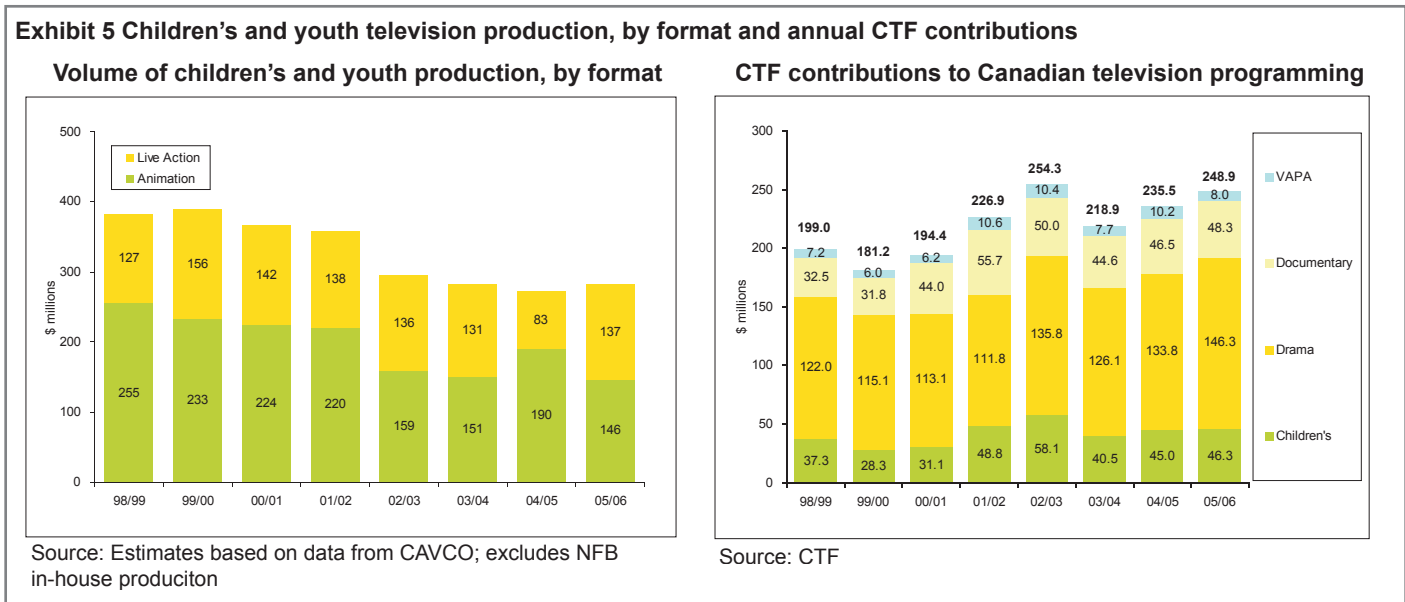
<sup>3</sup> The production statistics contained throughout this report only include co-productions of children's and youth programs with the NFB; the statistics do not include the NFB's in-house production of children's and youth programming.

overall output of television production. In 1999/00, children’s and youth television production accounted for 22 percent of Canada’s \$1.8 billion in total Canadian television production. By 2005/06, children’s and youth television production accounted for 16 percent – a reduction of one-quarter in terms of share.

**Production glut and shrinking market affects children’s production the most**

The drop in production activity partly reflects the environment brought on by Canadian children’s production companies striving to meet public-investor expectations in the late 1990s. During the 1990s, public companies such as Nelvana, Cinar and others were compelled to continually meet investors’ growth expectations. These investor pressures caused many projects to be greenlighted before they were creatively finished or fully financed. The result was a glut of programming that the global market could not absorb. In many respects, the drop in Canada’s children’s and youth production activity in the early years of the 2000s reflects the global market’s response to this glut – a market correction.

The drop in children’s and youth production activity over the past few years has been felt in both the live-action and animation segments. Between 1999/00 and 2005/06, the total volume of live-action children’s and youth production dropped from \$156 million to \$137 million. During the same period, animation production dropped from \$233 million to \$146 million. In 2005/06, live-action accounted for about one-half of Canadian children’s and youth television production.



**Stretched CTF resources for the genre**

The genre’s share of CTF funding has also dropped in recent years, despite the fact that the CTF’s revenues continue to grow by virtue of its contributions from BDUs. In 2005/06, the CTF made contributions totalling \$46.3 million to children’s and youth television programming. This was higher than the amounts in the last couple of years, but still below the 2001/02 contributions of \$48.8 million. More importantly, the genre’s share of the CTF’s overall contributions to Canadian television has dropped from 22.8 percent to 18.6 percent during the last three years – an 18 percent drop in share. And, according to the CTF’s 2005/06 Stakeholders Report, the share is projected to drop to 18 percent in 2006/07.

By the same token, the slow-growing CTF monies have not been keeping pace with the growing number of hours of children's and youth production made with CTF support. Between 2001/02 and 2005/06, the number of hours of CTF-supported children's and youth production increased by five percent. Over the same period, however, the financial support from CTF for this production actually dropped by five percent. In 2001/02, the CTF provided financing amounting to just under \$72,000 for each hour of original production of children's and youth programming; in 2005/06, the amount was down to just over \$64,000.

The broadcaster-envelope system, currently employed by the CTF, creates risks for the children's and youth genre. Under the broadcaster envelope system, all broadcasters have a 15 percent flex amount. The current environment to increase prime-time Canadian drama can make it very attractive for many broadcasters to divert much of their 15 percent flex away from children's and youth programs.

### ***Side-swiped by the drop in international financing***

Financing statistics for Canadian children's television production further shed light on the reasons for the sharp drop in production activity in recent years. As alluded to above, it would appear that the Canadian children's production industry has lost much of the foreign pre-sale financing that it was able to attract during the late 1990s. In 1999/00, Canadian children's television production attracted \$119 million in pre-sale financing from foreign broadcasters and distributors. It attracted another \$53 million from Canadian distributors; many of whom acquired sales rights for foreign territories. Together, these two sources of international financing accounted for nearly half (44 percent) of the production financing for children's and youth production in 1999/00.

By 2005/06, however, foreign pre-sale financing for Canadian children's and youth television programs had dropped dramatically. In 2005/06, foreign financing was down to \$22 million; Canadian distributor financing – generally linked to the potential in foreign markets – was \$22 million. Together, these two internationally-oriented financing sources accounted for 16 percent of total financing in 2005/06; about one-third of the level of five years prior. Throughout the five-year period, public sources of funding, including the public component of the CTF's total funding, remained relatively constant; tax credits, however, did increase their share of financing.

In effect, Canada's children's and youth production community has seen its supply of production capital curtailed by nearly \$400 million in the five years since the industry reached its production peak in 1999/00. Canada's overall indigenous television production community has experienced an across-the-board drop in activity since hitting a peak in 1999/00. All of this drop can be traced back to fiction programming – prime-time comedy and drama, and children's programming. Developments in the global television marketplace were the single biggest contributor to Canada's declining volume of Canadian television production (CFTPA 2006, p. 14). The worldwide trend towards more indigenous programming in television schedules, and the move in Europe to a more continental market have led to a drop in the international trade in television programs (CFTPA 2006, p. 14). Nowhere was the effect of these international market developments more evident than in Canada's children's and youth production segment. Since 1999/00, foreign financing of Canadian children's and youth television programs has dropped by some \$383 million.

**Exhibit 6 Financing of Canadian children's television production**

	1999/00		2000/01		2001/02		2002/03		2003/04		2004/05		2005/06	
	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M
Private broadcaster	11%	41	11%	39	13%	47	14%	42	17%	48	20%	54	16%	46
Public broadcaster licence fee	3%	11	4%	14	5%	16	9%	26	6%	17	7%	20	14%	38
Federal tax credit	9%	37	10%	34	9%	32	9%	25	10%	29	11%	31	11%	31
Provincial tax credit	10%	41	9%	32	12%	42	13%	36	13%	37	15%	41	18%	51
Canadian distributor	14%	53	22%	79	18%	64	17%	49	14%	39	13%	36	8%	22
Foreign	31%	119	20%	73	14%	50	8%	25	15%	42	8%	22	8%	22
Production company	12%	48	12%	42	11%	41	6%	15	5%	14	3%	8	2%	5
Public*	4%	16	5%	17	7%	23	7%	20	7%	19	5%	13	4%	13
Other private**	6%	23	8%	28	12%	44	18%	53	13%	37	18%	48	20%	55
<b>Total</b>	<b>100%</b>	<b>389</b>	<b>100%</b>	<b>358</b>	<b>100%</b>	<b>358</b>	<b>100%</b>	<b>292</b>	<b>100%</b>	<b>281</b>	<b>100%</b>	<b>274</b>	<b>100%</b>	<b>283</b>

Source: Estimates based on data obtained from CAVCO, based on CAVCO classifications. Note: some totals may not add due to rounding. M - Millions

\* Public includes financing from the Canadian Television Fund (Equity Investment Program), provincial governments, Telefilm Canada and other government departments and agencies.

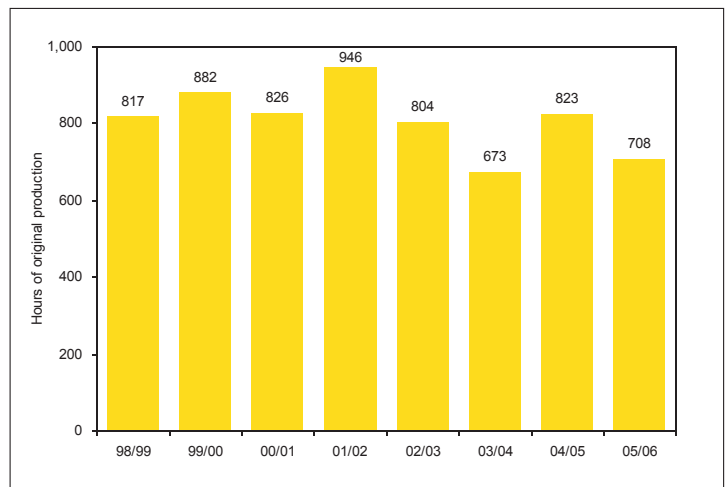
\*\* Other Private includes financing from the Canadian Television Fund (Licence Fee Program), broadcaster equity, and other private investors.

The financing statistics also reveal that production companies are no longer able to make significant investments in their own projects: between 1999/00 and 2005/06, production companies' investments in children's and youth production dropped from 12 percent to 2 percent. This is a symptom of the financial condition of Canadian production companies. Statistics Canada data for the overall industry indicate that its net profit margin was only 4.3 percent in 2004 (the rate was as low as 1.6 percent in 2002) (Statistics Canada 2006); across the whole industrial economy, the rate was 6.4 percent (CFTPA 2006a). The Canadian production industry is now comprised of numerous small companies with lower-than-average profitability; the industry is very fragile. Without healthy profit margins, Canadian producers are increasingly unable to invest in their projects and retain more ownership in the revenue streams of their work. Without financially strong production companies, there is a risk that Canada will lose its position within the genre's international markets.

The annual output of original Canadian children's and youth television production was 882 hours in 1999/00 (see Exhibit 7). Canadian producers' annual output of children's and youth television programming actually peaked two years later, in 2001/02, when they created 946 hours. In 2005/06, output had dropped to 708 hours (although it had rebounded from the very weak achievements of 2003/04).

Canadian producers of children's and youth television programming have adapted to the severe loss of international capital, although their financial position is relatively precarious. The international demand may have cratered, and producers thus have less financial resources to work with, but they are still generating hundreds

**Exhibit 7 Total annual number of hours of original television production in the children's and youth genre**

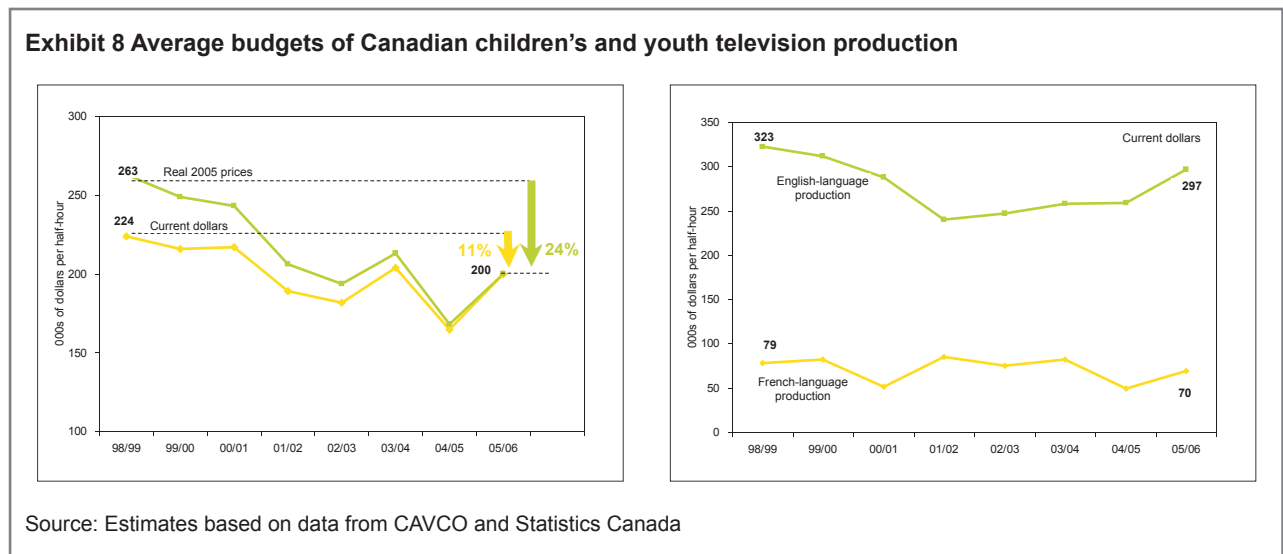


Source: Estimates based on data from CAVCO  
 Note: CAVCO data do not include all NFB production; only NFB co-productions are included in CAVCO data

of original hours per year. They are now forced to produce with lower average budgets to meet the demand of the domestic market, increasingly dominated by pay/specialty-TV services.

Between 1998/99 and 2005/06, the average half-hour budget of a Canadian television production in the children’s and youth genre dropped by 11 percent, from \$224,000 to \$200,000 in current dollars. Adjusting for inflation, the drop is even more pronounced in real dollars. Based on 2005 prices, the average half-hour budget dropped by 24 percent; it fell from (inflation adjusted) \$263,000 in 1998/99 to \$200,000 in 2005/06. On the surface it may seem that the industry has improved its productivity by lowering the real cost of producing an hour of television programming; and in many respects it has through the use of new technology. Improvements in animation technology have lowered the cost of this type of production. But still, for projects to be internationally competitive, half-hour budgets need to be in the range of \$250,000 to \$500,000.

Average budgets for both English-language and French-language children’s and youth production experienced a drop between 1998/99 and 2005/06. Average half-hour budgets for French-language productions experienced more fluctuation, but have dropped from \$79,000 to \$70,000. Average half-hour budgets for English-language production experienced a steady decline from \$323,000 to \$297,000.



Again, Canadian English-language productions are operating at the bottom range for globally competitive product. French-language project budgets are way below the bottom of the range, which makes it difficult to develop projects with a market outside Quebec. Higher production budgets do not always translate into higher quality, but these figures reflect that Canadian producers may risk operating outside of this higher-budget game.

***The emergence of specialty-TV as the primary outlet for children’s and youth programs***

Canada’s broadcasting regulatory environment plays a significant role in stimulating the creation of high-quality original television programming for Canadian children and youth. Over the last two decades the CRTC has made sure that children’s and youth programming has had a place in Canadian households’ cable and satellite channel line-up. Since 1987, the CRTC has licensed six specialty-television services (YTV, VRAK.TV, Teletoon/Télétoon, TreeHouse, BBC Kids, Discovery Kids) and one pay-television service (Family Channel) with programming devoted to children and youth.



These specialty and pay services have become the main outlets for Canadian children's and youth programming. With the exception of the Category 2 licensees, all of the specialty and pay-television licensees have expenditure requirements that mandate them to spend between 20 percent and 47 percent of revenues on Canadian programming. Some of the licensees have additional stipulations that require a fixed portion of this expenditure amount to be allocated to independent production. All of the specialty and pay-television licensees have Canadian content exhibition requirements.

On a combined basis, the specialty-television licensees are required by condition of licence to acquire 194 hours of original, first-run Canadian programming each year; they have made commitments to commission an additional 73 hours, on average per year. All told, specialty-television licensees commission at least 267 hours of original, first-run Canadian programming each year, as per their broadcast licences.

### ***The potential for the national public broadcaster to lead in kids' television***

The licence conditions and other terms of Canada's specialty and pay services compensate somewhat for the fact that very few conventional broadcasters have any licence conditions related to children's programming. The CRTC expects SRC and CBC to each air 20 hours per week of children's and youth programming. However, in 2006, the CBC cut the amount of children's programming in its daily schedule, by removing its after-school programming, beginning in the fall. But, even in the face of this pull-back in the afternoon, CBC's English-language network continues to devote its morning schedule to commercial-free pre-school and children's programming and maintains engaging web sites for both age groups.



Given the current environment for children's and youth television programming in Canada, however, some would argue that the national public broadcaster should do more. Canada's national broadcaster should take its cues from public broadcasters in other English-speaking countries; it should embrace children's and youth programming as part of its public service mandate. In the U.K., the BBC operates two over-the-air digital broadcast channels – CBBC and CBeebies – dedicated to children's programming.

All told, BBC accounts for about three-quarters of the weekly children's programming available from public (terrestrial) broadcasters in the U.K. (Ofcom 2006, p. 237). In Australia, the national public broadcaster, Australian Broadcasting Corporation (ABC), is fiercely committed to children's programming (Australian Children's Television Foundation 2006, p. 2). It devotes a significant portion of its daily schedule to children's programs, and has, at times, gone above and beyond its minimum exhibition requirements. In 1999/00, for example, ABC broadcast 1,785 hours of children's programming; on average, this volume translates into 34 hours per week. In the U.S., PBS is an integral partner in PBS KIDS Sprout – a digital-television outlet for children's programming that is a supplement to PBS's main over-the-air network.

**Exhibit 9 Overview of broadcaster licence conditions, requirements, commitments and expectations relevant to children’s and youth production**

<b>Broadcaster</b>	<b>Licence conditions, requirements, commitments and expectations</b>
CBC	<ul style="list-style-type: none"> <li>Expected to broadcast a minimum of 15 hours per week for children and five hours per week for youth</li> </ul>
SRC	<ul style="list-style-type: none"> <li>Required to broadcast an average of at least four hours per week of original Canadian children's programming</li> <li>Expected to broadcast a minimum of 20 hours per week for children and youth</li> </ul>
TVO/TFO	<ul style="list-style-type: none"> <li>TVO expected to broadcast 70 hours per week of educational programming dedicated to children</li> <li>TFO committed to broadcast at least 29 hours per week of Canadian programming for children (ages 2 to 12) and at least 10 hours per week of programming for youth (ages 12 to 17)</li> </ul>
Télé-Québec	<ul style="list-style-type: none"> <li>Required to broadcast an average of 21 hours per week of Canadian programming targeted to children ages 2 to 11</li> </ul>
SCN	<ul style="list-style-type: none"> <li>Dedicates approximately 40 percent of broadcast schedule to children’s programs</li> </ul>
Knowledge Network	<ul style="list-style-type: none"> <li>Expected to broadcast 54 hours per week of children’s and youth programs</li> </ul>
CTV	<ul style="list-style-type: none"> <li>Expected to broadcast 2.5 hours per week of programming for children</li> </ul>
CanWest MediaWorks Inc.	<ul style="list-style-type: none"> <li>Expected to continue to provide children’s programming and committed to maintaining children’s programming within its broadcast schedule</li> </ul>
CHUM	<ul style="list-style-type: none"> <li>Not required to broadcast a minimum level of children’s programming</li> </ul>
TVA	<ul style="list-style-type: none"> <li>Not required to broadcast a minimum level of children’s programming</li> </ul>
TQS	<ul style="list-style-type: none"> <li>Committed to produce the children’s program Le Petit Journal using and independent producer; this program will consist of 52 original hour-long segments, with each segment consisting of two, 30-minute programs broadcast each week, targeting adolescents aged between 12 and 17 years</li> <li>Committed to produce an original 30-minute program each week targeting children aged between 2 and 11 years</li> </ul>
Family Channel	<ul style="list-style-type: none"> <li>Required to devote 25 percent of broadcast schedule to the exhibition of Canadian programming that shall have as its target audience only children, youth to age 17, and families in conjunction with such children and youth</li> <li>Required to spend 30 percent of revenues on the acquisition of Canadian programming that shall have as its target audience only children, youth to age 17, and families in conjunction with such children and youth</li> </ul>
YTV	<ul style="list-style-type: none"> <li>Required to devote 30 percent of broadcast schedule to programming directed at children up to five years of age, 48 percent directed at children and youth aged 6 to 17, and 22 percent directed to families</li> <li>Required to distribute 90 hours of original, first-run, independently produced Canadian programming each year</li> <li>Required to spend 40 percent of annual revenues on acquiring and investing in Canadian programming; allocate one-third of this amount to the development, production and licensing of original, first-run Canadian programming</li> <li>Required to devote 60 percent of broadcast schedule to the exhibition of Canadian content</li> </ul>
VRAK.TV	<ul style="list-style-type: none"> <li>Required to broadcast programming that has as its target audience children and youth up to 17 years of age</li> <li>Required to distribute 104 hours of original, first-run, independently produced programming per year</li> <li>Required to spend 41 percent of annual revenues on acquiring and investing in Canadian programming</li> <li>Required to devote 50 percent of broadcast schedule to the exhibition of Canadian content</li> </ul>
Teletoon/Télétoon	<ul style="list-style-type: none"> <li>Required to spend 47 percent of revenues on the acquisition of Canadian programming; required to allocate 50 percent of this amount to programming made by non-related producers</li> <li>Expected to ensure that 75 percent of all broadcast Canadian programming is from independent producers</li> <li>Required to devote 60 percent of broadcast schedule to the exhibition of Canadian content</li> <li>Committed to commissioning 700 half-hours of new Canadian production, each available in English and French, over the term of the licence</li> </ul>
Treehouse	<ul style="list-style-type: none"> <li>Required to broadcast programming for pre-school children up to six years of age between the hours of 6:00 a.m. and 9:00 p.m.</li> <li>Required to spend 36 percent of revenues on the acquisition of and/or investment in Canadian programming</li> <li>Required to devote not less than 70 percent of broadcast schedule to the exhibition of Canadian content</li> <li>Expected to commission 325 half -hours of original Canadian production over the term of the licence</li> </ul>
Discovery Kids	<ul style="list-style-type: none"> <li>Required to broadcast programming targeted at “children of all ages”</li> <li>Required to devote not less than 35 percent of broadcast schedule to the exhibition of Canadian content</li> </ul>
BBC Kids	<ul style="list-style-type: none"> <li>Required to devote 65 percent of broadcast schedule to programming that targets children ages 2 to 11 (the majority of which will target children ages 6 to 11) and 35 percent to youth ages 12 to 17</li> <li>Required to devote not less than 35 percent of broadcast schedule to the exhibition of Canadian content</li> </ul>

Source: CRTC

## ***Potential expansion of the role for private conventional broadcasters***

Among the private conventional television broadcasters, CTV has committed to only 2.5 hours per week. CanWest MediaWorks Inc. agreed, at its last licence renewal, to maintain a spot in its schedule for children's and youth programming, but made no commitments to a fixed number of hours per week. TQS has made commitments, as have the educational broadcasters. In general, the CRTC does not see a need to impose any licence conditions related to children's and youth programming on conventional licensees. About 90 percent of Canadian households have access to basic-tier programming on Canadian BDUs, and therefore access to YTV or VRAK.TV; however, conventional broadcasters still have the greatest audience reach, and can be viewed by the most children.

In the next section, we recount the history of children's and youth television in Canada and highlight its global accomplishments. We also review many of the developments that led up to the current state of the industry.

### 3 History and Development of the Industry: Building on a Rich History of Creative Accomplishments

Canada has long tradition of producing popular and award-winning audio-visual programming for children and youth; this tradition stretches back more than five decades, and coincides with the advent of Canadian television broadcasting services. However, even before the CBC/SRC's television services went on the air in 1952, Canadians were sowing the seeds for the future of the industry. In 1939, the federal government established the National Film Board (NFB). And while its original focus was producing wartime propaganda films, it would later develop into one of the global leaders in experimental animation – an all-too important element in children's and youth programming. It was, perhaps, Norman McLaren's decision in 1941 to join the NFB and establish an animation division within it, which set the stage for several decades of groundbreaking animation production in Canada. From this hotbed for animation within the NFB sprung much of Canada's future animation talent in the children's and youth genre.

#### **Early developments: the key roles of CBC and SRC**

Children's television programming in Canada is as old as Canadian television itself. On September 6, 1952, the CBC/SRC's bilingual television service went on air in Montreal; the next day, Canada's first children's program debuted (Rainsberry 1986, p. 4). *Pépinot et Capucine* was a French-language puppet show created by Jean-Paul Ladouceur and Edmondo Chiodini (Rainsberry 1986, p. 4). The creators adopted the puppets from a comic strip in a French-language newspaper in Montreal (Rainsberry 1986, p. 5). *Pépinot et Capucine* was filmed in Montreal and dubbed into English and French (Rainsberry 1986, p. 5).



A regular slate of children's programming on CBC/SRC emerged slowly in those early years. The first fiction program produced on the English side of the network was *Uncle Chichimus*. It too was a fantasy puppet show. And, even though the program had an adult appeal to it, it garnered a strong following among children's audiences because of its puppets and fantasy storylines (Rainsberry 1986, p. 5).

Early Canadian television programs in the children's genre were designed to have significant educational value. In 1956, *Hidden Pages* began airing on the CBC. This successful program was developed as a tool to stimulate children's interest in reading and encourage them to seek out library books (Rainsberry 1986, p. 16). The program dramatized excerpts from books for both young and older children, and then offered guidance on how to find the books. *Hidden Pages* had an undeniable impact on children's reading in Canada; it was not uncommon for the show to cause a run on library books (Rainsberry 1986, p. 17).

One of the hallmarks of many Canadian children's television programs is that they have been shared across generations of children. Many Canadian children's programs have been able to capture the interest of successive generations of Canadian children, and thereby remain on the air for several decades. The first such program was the French-language marionette program *Bobino*. It went on the air on Radio-Canada in 1957 and ran until 1985. *Bobino* grew to become one of the most popular children's programs in Quebec. Around the same time as *Bobino*, *The Friendly Giant* appeared on the English-language network. This program was originally developed in Madison, Wisconsin in 1954, but was brought to Canada by the CBC in 1958. *The Friendly Giant* aired until 1985; its demise was coincident with massive budget cuts at the CBC (Allan 1996).

*Mr. Dress-Up* was another successful children's television series that spanned several decades. It began as a segment within another children's program, *Butternut Square*, in 1964. In 1967, a stand-alone version of the program went on air; *Mr. Dress-Up* would air for over 30 years, ending in 1996.

### ***The National Film Board's role in children's and youth television programming***



Programming for children and youth at the NFB has a strong connection to the animation form, pioneered in Canada by Norman McLaren, whom John Grierson invited to join the NFB in 1941. Many of the filmmakers who apprenticed under McLaren or who owe their start in animation filmmaking to his influence went on to make important NFB films for children. From adaptations of classic children's stories in the 1950s and 1960s to groundbreaking series like *Growing Up/Grandir* and *Droits au coeur/Rights from the Heart* in the 1980s and 1990s, NFB films have sought to reach out to children and families to inform and entertain.

NFB animation films for children are regularly recognized in international competitions and festivals: the NFB's third Oscar was awarded to Co Hoedeman, in 1977, for his film *Sand Castle/Le Chateau de sable*. During a career that spanned over 30 years and culminated with the popular Ludovic series, Hoedeman dedicated himself almost exclusively to creating animated films for children, often citing his own grandchildren as the inspiration for his stories. In 1980, the NFB was honoured with its sixth Oscar®; this time for Eugene Fedorenko's *Every Child/Chaque enfant*, made in celebration of UNICEF's International Year of the Child. The NFB's French and English animation studios, worked with Canadian broadcaster Teletoon to produce the Alliance for Children and Television Award of Excellence-winning and extremely well-received *Noël Noël*.

The NFB's commitment to programming for children and youth has not been limited to animation: it includes significant output in multimedia production. Shortly after the year 2000, the NFB Web site *The Prince and I/Le Prince et moi* went online, attracting tens of thousands of children worldwide to its interactive learning and storytelling games. The success of this web project was to be repeated to such an extent that NFB now maintains a comprehensive educational resources website for students and teachers alike, on a broad range of subjects from Canadian history to Canada's Aboriginal peoples.

The evolution of the documentary at the NFB naturally extended to the area of children's programming. NFB programs such as *Feeling Yes Feeling No/Mon corps c'est mon corps* helped to equip millions of Canadian children and their families with the knowledge and tools required to avoid becoming victims of child sexual abuse. This program featured a strong outreach component that became the inspiration for many other outreach programs, such as the recent collaboration between the NFB, the CBC, the Canadian Heart and Stroke Foundation and the Canadian Association for Health, Physical Education, Recreation and Dance, *Weight of the World*. This innovative NFB/CBC co-production offers a comprehensive set of user guides and resources that teach kids about nutrition and better eating habits.



NFB documentaries have assisted Canadian children in better understanding the diversity of their culture and the many different communities that contribute to Canadian society. Series like *Children of Canada* and the NFB's fourth Oscar® winner *I'll Find a Way/Je trouverai un moyen* are both

excellent examples of this type of programming. Similarly, the Franc-ouest series from the early 1990s introduced francophone and bilingual school-aged children to the many different French-speaking regions of the Canadian West.

Fiction production at the NFB, while not the largest part of the institution's output, has also made an important contribution to children's film and television programming in Canada. Jean Beaudin's *Mario*, Marquise Lepage's *La fête des rois*, the Bill Mason classic *Paddle to the Sea* and Anne Wheeler's *Teach Me to Dance* are good examples of the NFB's efforts in fiction.

**Exhibit 10 Notable industry developments in the history of Canadian children's and youth television programming**

<b>2000s</b>	<p>2006: DHX Media floats IPO on Toronto Stock Exchange and AIM (London Stock Exchange) as DECODE Entertainment and Halifax Film Co. merge</p> <p>2004: CTF introduces broadcaster envelopes for English- and French-language children's and youth television production</p> <p>2004: Investor group led by Michael Hirsh purchases Cinar Corp., takes it private and renames it Cookie Jar Entertainment</p> <p>2003: The United Kingdom announces that it will raise the minimum domestic-spend requirements for treaty co-productions from 20% to 40%</p> <p>2003: CinéGroupe applies for court protection from creditors</p> <p>2003: British Columbia introduces digital animation tax credit</p> <p>2002: The United Kingdom announces that television productions will no longer receive favourable tax treatment under the sale-and-leaseback provisions</p> <p>2001: Canal Famille re-launched as VRAK.TV with extended program schedule</p> <p>2001: Prince Edward Island introduces labour rebate program for film and television production</p> <p>2000: Corus Entertainment Inc. acquires Nelvana</p> <p>2000: CRTC grants Category 2 digital licences to BBC Kids and Discovery Kids</p> <p>2000: Ontario introduces Interactive Digital Media Tax Credit</p>
<b>1990s</b>	<p>1999: CRTC Television Policy removes expenditure requirements for conventional TV broadcasters and establishes priority programming requirements</p> <p>1999: Alberta introduces production rebate program (Alberta Film Development Program) for film and television</p> <p>1999: Newfoundland introduces film and television tax credit</p> <p>1999: The Yukon introduces labour rebate program for film and television production</p> <p>1998: British Columbia and Saskatchewan introduce film and television tax credits</p> <p>1998: Shaw Television Broadcast Fund is founded (later renamed Shaw Rocket Fund)</p> <p>1997: Ontario introduces Computer Animation and Special Effects Tax Credit</p> <p>1997: Manitoba introduces film and television tax credit</p> <p>1997: Bell ExpressVu launches the Bell Broadcast and New Media Fund</p> <p>1996: Canadian Television Fund established</p> <p>1996: Quebec introduces the Multimedia Production Tax Credit</p> <p>1996: Ontario and New Brunswick introduce film and television tax credits</p> <p>1996: CRTC licenses Teletoon and TreeHouse</p> <p>1996: The federal government introduces the Canadian Film or Video Production Tax Credit (CPTC)</p> <p>1995: Nova Scotia introduces film and television tax credit</p> <p>1994: Shaw Communications Inc. launches the Shaw Children's Programming Initiative</p> <p>1993: Cinar's first public share offering</p> <p>1992: CRTC licenses Knowledge Network (British Columbia)</p> <p>1991: Quebec introduces the first film and television tax credit in Canada</p> <p>1991: CRTC licenses Saskatchewan Communications Network</p>
<b>1980s</b>	<p>1987: CRTC licenses YTV, Canal Famille (VRAK.TV) and Family Channel</p> <p>1985: Canada signs mini-treaty with France for the international co-production of projects in the field of animation</p> <p>1984: CRTC grants first licence to the Alberta Educational Communications Corporation (later becomes Learning and Skills Television of Alberta Limited [ACCESS])</p> <p>1983: Federal government establishes the Canadian Broadcast Program Development Fund to support independent television production, including children's production</p> <p>1980: Government of Quebec passes legislation banning advertising directed to children</p>
<b>1970s</b>	<p>1978: Canada signs co-production treaty with Germany</p> <p>1976: Cinar Films Inc. is founded in Montreal</p> <p>1975: Canada signs co-production treaty with United Kingdom</p> <p>1974: CinéGroupe is founded in Montreal</p> <p>1974: CRTC licenses Radio-Québec (later renamed Télé-Québec)</p> <p>1971: CRTC licenses the CBC to operate an educational broadcaster in Toronto; later becomes TVOntario</p> <p>1971: Nelvana Animation Ltd. is founded in Toronto</p>
<b>1960s</b>	<p>1967: Federal government establishes Canadian Film Development Corporation (later renamed Telefilm Canada)</p> <p>1963: Canada signs first international co-production treaty; it is with France</p>
<b>1950s</b>	<p>1952: Canada's first children's television program <i>Pépinot et Capucine</i> is launched</p>
<b>1940s</b>	<p>1941: Norman McLaren joins the NFB and organizes and an animation division</p>
<b>1930s</b>	<p>1939: The federal government establishes the National Film Board (NFB)</p>

## ***Emergence of children's-programming-based independent production companies***

In the 1970s, children's television production stepped out of the national public broadcaster. Private television was starting to expand and was looking for programming to help meet the Canadian content requirements that it operated under. The 1970s also saw the emergence of Canada's first major independent production companies focussing on children's television programming. This development would set the stage for Canada's later international success in the genre in the 1980s and 1990s. In 1971, Michael Hirsh, Patrick Loubert and Clive Smith founded Nelvana Animation Ltd. (now part of Corus Entertainment) in Toronto. Nelvana took advantage of the new Canadian content rules to produce several successful children's television specials for Canadian broadcasters. It also produced feature film animation in the 1970s, before turning its focus to the production of animation television series. Three years after the formation of Nelvana, CinéGroupe opened its animation studio in Montreal. It too would achieve international success in children's production in the decades to follow.

## ***Emergence of educational broadcasting in the 1970s***

The early 1970s also saw the beginnings of the provincial educational broadcasters. Educational broadcasters differentiate themselves from commercial broadcasters and from the national public broadcaster in that their programming is designed to not only entertain viewers but to also "serve the needs of educational institutions" (CRTC 2001, para. 1); the latter requires that programming often be consistent with the provinces' education curriculum. In 1971, the CRTC granted the CBC a licence to operate an educational broadcaster in Toronto. Two years later, the CBC transferred this operation to the Ontario provincial government; this operation became TVOntario. In 1974, Radio-Québec (later renamed Télé-Québec) received a licence to operate an educational broadcaster in Quebec. Both TVOntario and Télé-Québec grew to become major producers and outlets for Canadian children's television programming; they remain so today. In the 1980s and 1990s, other provinces would also establish educational broadcasters. In 1984, Learning and Skills Television of Alberta started operations; in 1991, the Saskatchewan Communications Network started up; and in 1992, British Columbia launched the Knowledge Network.

## ***The birth of children's programming "franchises" in the 1980s***

Canada's children's and youth production sector really came of age during the 1980s. Canadian children's producers began churning out live-action and animation programs that were immensely popular in Canada, won over audiences outside of Canada, and gained international critical acclaim. In 1982, Linda Schuyler, Kit Hood and the CBC introduced Canadians to *The Kids of Degrassi Street*. It was followed by three sequel series and a second generation. The *Degrassi* franchise achieved enormous international success and aired on major U.S. networks, including PBS, HBO, Showtime and the Disney Channel (Nicks undated). *Degrassi* was both entertaining and educational, and some would argue changed the way television depicted adolescents.

Other live action series such as *The Campbells* and *Danger Bay* also found large audiences in Canada, the U.S. and other markets. *The Campbells* aired on CTV, ITV and the Christian Broadcast Network (CBN). *Danger Bay* aired on CBC and The Disney Channel. The 1980s was also the decade of *Anne of Green Gables*. The first *Green Gables* television movie aired in 1985. In 1986, it won an Emmy® Award for Outstanding Children's Program. The second instalment of the *Green Gables* serial was *Road to Avonlea*. It debuted in 1989, and would also win an Emmy® Award in 1993 for Outstanding Children's Program.



**Exhibit 11 Notable productions and events in the history of Canadian children's and youth audio-visual production**

	English-Language Market	French-Language Market
<b>2000s</b>	2005: <i>Life with Derek</i> begins airing 2005: <i>Naturally Sadie</i> begins airing 2004: <i>6Teen</i> begins airing 2004: <i>This is Daniel Cook</i> begins airing 2004: <i>Atomic Betty</i> begins airing 2003: <i>Radio Free Roscoe</i> begins airing 2002: <i>Olliver's Adventures</i> begins airing 2001: <i>What's with Andy</i> begins airing 2001: <i>Degrassi: The Next Generation</i> begins airing 2000: <i>Yvon of the Yukon</i> begins airing	2004: The feature-film version of <i>Dans une galaxie près de chez vous</i> is released 2002: <i>Une grenade avec ça?</i> begins airing 2002: The feature film <i>La Mystérieuse Mademoiselle C.</i> is released 2001: <i>Ramdam</i> begins airing 2000: <i>Le Monde de Charlotte</i> begins airing
<b>1990s</b>	1999: <i>Angela Anaconda</i> begins airing 1999: <i>The Zack Files</i> begins airing 1998: <i>Rolie Olie Polie</i> begins airing 1997: <i>Caillou</i> television series begins airing 1994: <i>ReBoot</i> begins airing 1993: <i>Groundling Marsh</i> begins airing 1993: <i>Road to Avonlea</i> wins Emmy® Award for Outstanding Children's Program	1998: <i>Marcaroni tout garni</i> begins airing 1998: <i>Dans une galaxie près de chez vous</i> begins airing 1998: <i>Cornemuse</i> begins airing 1997: <i>Caillou</i> television series begins airing 1996: <i>Pin-Pon</i> begins airing 1991: <i>Watatatow</i> begins airing (until 2005) 1990: <i>Les Débrouillards</i> begins airing
<b>1980s</b>	1989: <i>Road to Avonlea</i> television series begins to air 1989: Nelvana adapts the <i>Babar</i> story book into a television series (in association with Ellipse and France 3) 1989: <i>Degrassi High</i> television series begins 1988: <i>Ramona</i> television series airs 1987: <i>Degrassi Junior High</i> television series begins 1987: <i>A Child's Christmas in Wales</i> (short film) airs 1986: <i>Anne of Green Gables</i> wins Emmy® Award for Outstanding Children's Program 1985: <i>Anne of Green Gables</i> airs 1985: Nelvana begins co-producing <i>Care Bears</i> television series and movies 1985: <i>The Campbells</i> begins airing 1984: <i>Danger Bay</i> begins airing 1983: Nelvana begins co-producing <i>Inspector Gadget</i> television series 1982: CBC begins airing <i>The Kids of Degrassi Street</i> 1980: <i>Every Child</i> wins Oscar® for Best Animated Short	1989: Nelvana adapts the <i>Babar</i> story book into a television series (in association with Ellipse and France 3) 1989: <i>Robin and Stella</i> begins airing 1988: <i>Le Club des 100 Watts</i> begins airing 1987: <i>Iniminimagimo</i> begins airing 1987: <i>L'Homme qui plantait des arbres</i> wins the Oscar® for Best Animation Short 1983: <i>Le Traboulidon</i> begins airing 1980: <i>Tape-Tambour</i> begins airing
<b>1970s</b>	1978: <i>The Sand Castle</i> wins the Oscar® for Best Animated Short 1971: <i>Polka Dot Door</i> begins airing (until 1993) 1970: CKCO-TV Kitchener begins producing Canadian version of hit U.S. show, <i>Romper Room</i>	1978: <i>Le Château de sable</i> wins the Oscar® for Best Animated Short 1977: <i>Passe-Partout</i> begins airing 1972: <i>Nic et Pic</i> begins airing
<b>1960s</b>	1967: <i>Mr Dress-up</i> begins airing (until 1996) 1963: <i>The Forest Rangers</i> begins airing 1961: <i>Razzle Dazzle</i> goes on air	1969: <i>Sol et Gobelet</i> begins airing 1968: <i>Fanfreluche</i> begins airing 1966: <i>La Souris Verte</i> begins airing
<b>1950s</b>	1958: <i>The Friendly Giant</i> begins airing on CBC (until 1985) 1954: CBC begins producing its own Canadian version of the American hit, <i>The Howdy Doody Show</i> 1952: Canada's first children's television program <i>Pépinot et Capucine</i> is launched	1957: <i>Bobino</i> begins airing (until 1985) 1956: <i>La Boîte à surprises</i> begins airing (until 1972) 1956: <i>Le Village enchanté</i> , becomes Canada's first animated feature film 1952: Canada's first children's television program <i>Pépinot et Capucine</i> is launched

Following the establishment of the Canadian Broadcast Program Development Fund in 1983, Canada's independent production community really started to flourish. Nelvana, for example, developed and produced several outstanding animated children's programs, including *Inspector Gadget* and *Care Bears*; both of which became worldwide successes. Nelvana also adapted the famous children's cartoon book, *Babar*, for television.

However, in Quebec, producers of French-language children's programming found themselves operating in very difficult environment brought on by regulation. In 1980, the Government of Quebec passed legislation banning advertising during television programs directed at children. This lack of ad revenue greatly changed



the economics of children's programming in Quebec, keeping additional downward pressure on licence fees paid by broadcasters. More than 25 years later, broadcasters and producers of children's programming in Quebec still operate under the advertising ban.

### ***The emergence of public companies and a boom in international production in the 1990s***

In the 1990s, Canada's independent producers built on the success they earned in the 1980s. Many production companies started to tap into public financial markets. In 1993, Cinar made its first public share offering in Canada; this was followed by a share offering in the U.S. in 1995. In 1994, Nelvana raised equity financing in the public markets. But the race to the public markets did not end with these two companies.



By the end of the 1990s several companies involved in children's and youth production raised equity financing on public markets; among them were Atlantis Films, Alliance Communications, Paragon Entertainment, Coscient Group, Lions Gate Entertainment, Telescene Film Group, Fireworks Entertainment, and Mainframe Entertainment. These financial developments combined with the CRTC's licensing of Teletoon and TreeHouse in 1996, and thirsty international markets set the stage for a boom in children's and youth production in the mid-1990s. The big three – Nelvana, Cinar and CinéGroupe – all ramped up production, while many smaller Canadian service producers began to move into

the development of their own productions (Armstrong 1997).

In the mid 1990s, Vancouver-based Mainframe Entertainment produced the first 3-D computer animated series, *ReBoot*. *ReBoot* achieved audience success on YTV in Canada, and on ABC and the Cartoon Network in the U.S. Also during the 1990s, Nelvana co-produced *Rolie Polie Olie* – the first 3-D animation series for pre-school children; Cinar gave us the award-winning animation series, *Caillou*; DECODE Entertainment produced the hit series *Angela Anaconda*.

### ***Crashing to reality after 2000***

In the early years of this millennium, Canada's children's and youth production industry experienced financial pressures, consolidation, and re-generation. Those companies that were able to raise millions of dollars from public investors in the 1990s found themselves searching for private buyers following 2000. Corus Entertainment acquired Nelvana in 2000. Also in 2000, a series of regulatory violations and corporate-governance difficulties at Cinar led securities regulators in Canada and the U.S. to ban the public trading of its shares. A group of investors led by Michael Hirsh acquired Cinar in 2004 and renamed it Cookie Jar Entertainment. CinéGroupe also found itself in financial straits and filed for protection from its creditors in 2003.

The purchase of Nelvana, Canada's largest children's and youth production company, and the financial distresses faced by the two other major production houses – Cinar and CinéGroupe – however, have not stopped the industry from moving forward. There is a new generation of live-action programs, and several animation series that have found international audiences. Behind these successful programs are innovative companies, including, for example, Breakthrough Films and TV, Mainframe Entertainment, Studio B Productions, DECODE Entertainment, and Cookie Jar Entertainment. However, for reasons that we will explore further in this report, it has become increasingly difficult for Canadian producers of children's and youth programming to reach international audiences. In the next section, we review the social and cultural value of the genre.

## 4 Social Impact: The Importance of Children's and Youth Programming

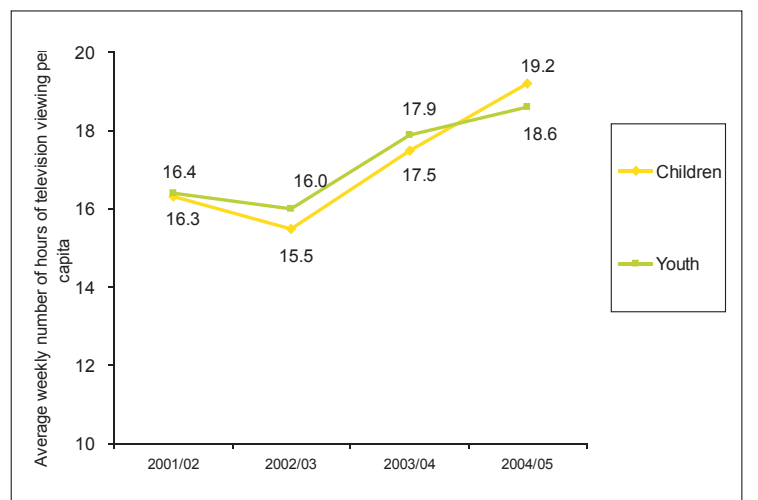
Without a doubt, television is one of the most powerful mass-media technologies in the world. Television and the audio-visual programming that it provides have a tremendous impact on people of all ages. Audio-visual programming helps shape people's political views and their social values; it influences many of the economic decisions that they make. Audio-visual programming has an even greater impact on children and youth. Young people are in their formative years: they are forming attitudes and learning behaviours that they will keep for the rest of their lives. Canadian children spend about 30 hours per week in school classrooms; they spend an upwards of 14 hours per week watching television. While many parents, educators, and physicians lament the fact that our children grow up in front of the television, the reality is that television has become an important part of children's lives in Canada.

### *Rising TV viewing even among young Canadians*

While Canadian teenagers, adolescents and children, for that matter, are increasingly turning to the Internet, cellular phones and MP3 players (including iPods) for audio-visual entertainment, as mobility and instant access are becoming the norms, they are not turning away from television; in fact, television viewing among Canadian young people appears to be trending upwards in recent years (see Exhibit 12). BBM data show a slight increase in the average number of hours of television viewing among Canadian children and teenagers. In 2000/01, Canadian teenagers watched an average of 16.4 hours of television per week; by 2004/05, Canadian teenagers' television viewing was up by 13 percent to 18.6 hours per week. Canadian children's television viewing increased by even more – 18 percent – during this period.

A 2005 survey by the Media Awareness Network found that 40 percent of grade 11 students downloaded movies and TV shows on computers connected to the Internet; the rate for grade four students was 17 percent (Media Awareness Network 2005, p. 20). The Media Awareness Network also found that two-thirds of Canadian students (grades four to 11) used a cellular phone, and nearly one-quarter of Canadian students actually owned their own cellular phone (Media Awareness Network 2005, p. 16). Forty-one percent of Canadian students (grades 4 to 11) have an MP3 player for their own personal use (Media Awareness Network 2005, p. 4). Not all of these technologies currently come with video capabilities, but they quickly are including this feature; and the statistics show that Canadian children are eager adopters of new media technologies. Canadian children and youth are still consuming audio-visual content; however, they are doing so away from the television, more

**Exhibit 12 Average weekly hours of television viewing per capita by Canadian children and youth**



Source: BBM Television Databook 2005-2006

and more (Mahoney 2006). The traditional television broadcast medium, while still dominant, is losing some of its primacy. However, audio-visual content does not seem to have lost its place in the media lives of Canadian children and youth; Canadian children and youth are just using different paths to find it.

### ***Educational value and social relevance of children's programming***

It is important for parents, educators, and broadcasters to continue to discuss the merits of television and audio-visual programming in children's lives; we do not want to ignore or minimize this debate. However, this analysis starts from the premise that much of children's television or audio-visual content can be very positive; it can be educational, it can contribute to their positive social development, and it can be very entertaining. Recent research points to the benefits of television for children. An analysis by Matthew Gentkew and Jesse Shapiro of the University of Chicago found that an additional year of pre-school television exposure led to a slight rise in average test scores, for example (Gentkew and Shapiro 2006, p. 3).



It is already a policy of the Canadian federal government to financially support children's and youth television programming, as well as interactive new-media content. It does this largely through the CTF and Canada New Media Fund. Canada's industry regulator requires certain conventional, and specialty and pay television services to exhibit programming targeted at children's and youth age groups. Educational broadcasters – owned by provincial governments – commission and exhibit children's television programming. So, children's television programming is more than just a commercial endeavour; an important piece of it takes place within the context of public policy and educational objectives. Clearly Canadian governments view it as public policy to invest, on behalf of citizens, in children's and youth audio-visual content.

Decades of social science research has demonstrated that television has a myriad of impacts on children's social development. Audio-visual programming is a powerful educational tool. "Television programming that is designed to be entertaining, intelligent, and educational can open a 'cognitive window' and have a profound effect on formative minds" (Hume 2005). Audio-visual programming allows children to learn about the world that they live in; it gives them the opportunity to travel to museums, galleries, other cities, other countries, Mount Everest, or Mars. It gives children a window to the world around them and offers them visual insights that they may not otherwise be able to obtain (Gladstone et al., 1985 p. 13). It also introduces them to the injustices, differences and commonalities that continually shape our world (Gladstone et al. 1985, p.v). Audio-visual programs, particularly those in the new-media sphere, require children to be interactive. This interactivity leads children to question and think (Gladstone et al. 1985, p. v). Audio-visual programs can even make children's minds sharper by presenting them with cognitive challenges (Johnson 2005).

When audio-visual programming is made available through the television, it can be a tool for levelling experience among children. Outside of the classroom set of books, no other form of media has the same universal penetration in Canada as television. Many children do not have access to the Internet; many cannot access books outside of schools; and whether we like it or not, most children do not live around the corner from a local library. Printed media have never been as accessible as the television media came to be; virtually every household in Canada has a television that receives local programming.

Factual programming has an obvious informational purpose; but fiction programming has tremendous value too. Storytelling is also a powerful method for conveying ideas. Children's stories, whether they are in print or audio-visual format, often have a socialization function: they set good examples for children. Through proper narratives, stories can expose children to values like tolerance, openness and responsibility. Children's audio-visual programming can reinforce notions that social good will prevail and be rewarded (Messenger Davies 2001, p. 68). Audio-visual programming helps children to grow into adults (Messenger Davies 2001, p. 58). Children, themselves, tell researchers that audio-visual programming "...helps them identify with others, meet a variety of people, learn about different lifestyles, and, through models, improve their own social skills" (Gladstone et al. 1985, p. 23).

### ***Entertainment as well as educational value of children's programming***

It is important to remember that the value of children's and youth audio-visual programming should not only be measured in terms of its educational value; children's and youth programming should also strive to be entertaining. If the industry focussed only on programming of high educational value – such as curriculum-driven programming – it would run the risk of losing the interest of children and teenagers, and eroding the commercial success it has achieved. What makes Canadian children's and youth programming a vibrant and commercially successful field is that it offers Canadian children and their parents a wide array of options along the scales of education and entertainment. Parents can look to the provincial educational broadcasters and be assured that they will find programming of high educational value. At the same time, they have a choice of outlets, when they would like their children to access more entertaining fare.

### ***Providing a window on the world and Canadian society***

In the introduction to this report, we underlined the importance of audio-visual programming to Canada's role in the world. Our airwaves are bombarded by children's and youth programming from the United States (U.S.). The Canadian experiment – as it is often referred to – is ongoing and requires constant reinforcement. Community leaders look primarily to the school system to teach children about Canada's social values. But children are spending at least half as much time in front of television and the Internet, as they are in the classroom. The messages that children encounter on television or the Internet must be consistent with those they receive in the school system. Canadian children's and youth audio-visual programming must have a prominent place on television and the Internet, so that Canadian children can access it.

Canadians also like to lead by example; they will go to all corners of the globe to offer other communities the chance to understand that the Canadian option – Canada's approach to building the social fabric of a nation – is available to them. Audio-visual programming, particularly for children, can also be another tool in Canada's international development toolkit. But in order for Canadian audio-visual content to reach international audiences, it must be of the highest quality, and it must be globally competitive.

### ***Encouraging engagement in society and learning***

All this may sound like television and audio-visual programming is some type of paternalistic tool used by adult decision makers to program children into robots that carry on what adults see as the acceptable social norms. But just like other media, audio-visual programming also teaches children to challenge and question

society; and in some respects, it gives children a voice in a society where they often cannot make their views known. Traditional fairy tales and modern stories told through the audio-visual medium present children with situations where the poor, the young, and women are empowered (Messenger Davies 2001, p. 59 [Lurie]). They teach children to be sceptical of adults, i.e., sceptical of the decision makers. Children's stories are told from the child's point of view, and thereby give children a voice.

On another level, audio-visual programming gives children a voice because they often have the ability to choose what they want to watch. By choosing what they will and will not watch, young children communicate with the adults around them. Children do not vote; most do not engage politicians or business leaders; they can, however, express their views through the programs they choose to watch. That is why it is important to offer children a diverse range of high-quality audio-visual programming. Without the highest quality, we fail to maximize the educational and social value of video content. Without diversity, we risk offering children only a limited array of choices and paths for expressing their views.



Canadian educators and audio-visual creators have long recognized the social importance of television programming. Through television, children learn more about the world they live in by fostering their curiosity. Television programming can prompt kids to go on the web and learn more about the world around them, just as the shows from yesteryears encouraged children to go to the library, helping them become smarter and more positive. In the next section, we identify some of the major trends in the global media market, which are putting tremendous pressure on Canadian producers of children's and youth programming. We also scan the children's and youth production and broadcasting markets in other countries. In a later section we explore Canadian producers' performance in international markets in recent years.

## **5 Global Market Trends: Canadian Content under Threat from the Challenging Global Media Landscape**

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In this section we examine the two major global market trends affecting children's and youth production. The first is vertical integration; the second is emergence of new distribution technologies. We also present some snapshots of the children's and youth programming in the U.S., U.K. and Australia. Canadian producers of children's and youth programming operate in the global market; while they enjoy a certain degree of protection in the domestic market, the emergence of new distribution technologies could pose a challenge to even these protections. Outside of Canada, Canadian producers compete with other producers to reach audiences. Vertical integration can often tilt the playing field against independent Canadian producers. However, the emergence of new distribution technologies may represent an opportunity to re-level the playing field to some degree, or at least give Canadian producers other options for reaching audiences. A scan of the industry structure and recent developments in children's and youth programming in other countries reaffirms the case for the national public broadcaster to maintain a strong presence in the genre, even with specialty cable channels holding leadership in terms of commercially oriented programming dedicated to children and youth.

### ***The pervasiveness of vertical integration***

Like other genres, the children's and youth audio-visual industry is one characterized by significant vertical integration. The Walt Disney Company represents the quintessential vertically integrated media company. It combines production assets (Walt Disney Pictures, Pixar, Miramax and Touchstone Pictures), and distribution (Buena Vista Entertainment, Buena Vista Television) with a series of media outlets that blanket American television screens. Disney operates four children's/family oriented cable networks: Disney Channel, ABC Family, and Toon Disney; Disney also owns ABC Television.

Another major vertically-integrated player in children's and youth production is CBS/Viacom. While the two companies did split into two separate corporate entities on December 31, 2005, they continue to maintain business relationships. Between them, these two companies control major broadcast outlets for children's programming, including CBS, Nickelodeon, Nicktoon, Nick Jr., Noggin/The N. These two companies also control major production and distribution (Paramount Pictures, Paramount Home Entertainment, and Dreamworks Entertainment). CBS also holds a joint interest in the CW. The CW was formed by the combination of the Time Warner Inc.'s WB and CBS's UPN, and features children's and youth programming throughout its schedule.

Time Warner Inc., itself, is another vertically integrated operation that owns the Cartoon Network, several production companies (Warner Bros., New Line Cinema, Castle Rock Entertainment), and has access to the film libraries of MGM, Warner Bros and Hanna-Barbera. In addition, Time Warner Inc. owns Time Warner Cable with over 27 million cable subscribers in the U.S., not to mention AOL.

Canada also has its share of vertical integration. The Shaw Family controls both Shaw Communications Inc. and Corus Entertainment. The former provides multichannel cable/satellite services to 30 percent of Canadian multichannel households. The latter controls three of Canada's major children's television broadcast outlets (YTV, TreehouseTV, Discovery Kids Canada) and holds 50 percent of Teletoon. Corus also owns Canada's largest producer and distributor of animation programming, Nelvana.

Much of the vertical integration we have today has come about over the last decade. Disney purchased ABC in 1995. CBS and Viacom (first separated in 1971) merged in 1999, and split again in 2005. Corus acquired Nelvana in 2000.

These large vertically integrated media groups, which have emerged over the last decade, possess the economies of scale and scope that allow them to manage the economic risks associated with generating and marketing audio-visual content for children's and youth audiences. Vertical integration does not entirely preclude independent production from entering the media channel; however, it does raise the bar for independent producers in Canada and elsewhere. For example, over the last several years, broadcasters in Canada and elsewhere have demanded more and more episodes from a project. At one time, 13 episodes was the norm, then 26; these days, broadcasters are seeking an upwards of 52 episodes. Projects with more episodes often come with lower average licence fees. They also raise the overall financing requirements and risk beyond where many Canadian independent production companies can comfortably operate.

In the U.S. only a handful of independent production companies (Sesame Workshop, DIC, Scholastic, etc.) have survived vertical integration, which has otherwise virtually vaporized the independent sector. Independent producers have to be that much better. On the domestic front, Canadian broadcasting policy and broadcasting licence conditions help to ensure a place for independent producers; but, in the international market, Canada's independent producers are faced with a far more formidable task today than ten years ago.

Before the wave of vertical integration, Canada's producers of children's and youth programming faced many challenges in selling programming in the U.S.; but the statistics indicate that they achieved measurable success. Earlier in the report, we presented historical foreign financing statistics that pointed to annual international pre-sale values in excess of \$100 million in the late 1990s; today the foreign pre-sale levels are one-third what they were during the late 1990s. Canada's independent producers have to be that much better than the affiliated production companies of the vertically integrated media corporations, if they are going to continue to sell programs to the major American broadcast outlets. Being better in audio-visual production often means having better writers and directors; it means being able to access global talent rather than strictly national talent. Canadian producers risk being on the outside looking in – unless they obtain access to sufficient financial resources and global creative talent to be engaged in the global marketplace.

## Exhibit 13 Snapshots of children's and youth programming in selected countries

<p><b>United States</b></p>	<p>Disney, Nickelodeon, Cartoon Network and Discovery Kids, and their associated spin-off channels offer numerous cable and satellite broadcast outlets for children's and youth television programming. In the conventional over-the-air segment, WB maintains a focus on children's and youth audiences; ABC provides an outlet for Disney programming; CBS has a Saturday-morning kids block, as does Fox and NBC. Alongside the commercial broadcasters, PBS continues to supply a daily block of six and half hours of children's educational programming to an estimated 90 million U.S. households. With the exception of PBS and perhaps Discovery Kids, all of the major American broadcast outlets for children's and youth programming are associated with production studios. The American market is characterized by a high degree of vertical integration, which creates an enormous challenge for independent producers everywhere, including Canada.</p> <p>American children's and youth broadcasters appear to be quickly embracing interactivity and new distribution models. PBS introduced a video-on-demand (VOD) service for pre-school-age programming, which was so popular that it spawned a linear-programming cable channel, PBS Sprout. Broadcasters such as PBS have been able to forge agreements with cable companies like Comcast to facilitate the roll-out of VOD offerings like PBS Sprout. Nickelodeon has Turbo Nick, which avoids the cable companies altogether and goes straight to the consumer over the Internet. Internet providers/portals, themselves, are also jumping into the fray of interactive children's content. In the U.S., America On-Line (AOL) has introduced AOL for Kids (KOL), which is fast becoming a portal for the distribution of audio-visual content.</p> <p>While there are no comprehensive statistics on children's and youth production activity in the U.S., the advertising market for children's and youth television programming was said to be worth US\$800 million in 2005 (KidScreen 2006). If we assume that programming expenditures accounted for about one-half that amount,<sup>4</sup> then the total broadcaster licensing market in the U.S. would be worth about US\$400 million (C\$484 million) annually. By comparison, Canada's broadcaster-licensing market was \$75 million in 2004/05.</p>
<p><b>United Kingdom</b></p>	<p>In the United Kingdom (U.K.) the BBC is, arguably, the leader in the provision of children's programming. It operates two over-the-air digital broadcast channels, CBBC and CBeebies, dedicated to children's programming and still programs children's content on Saturday mornings on its flagship channel, BBC1. Together, BBC's outlets account for about three-quarters of the weekly children's programming airing on the U.K.'s public (terrestrial) broadcasters (Ofcom 2006, p. 237).</p> <p>The commercial public broadcasters, ITV and Channel 5, are required by licence, to schedule ten hours of children's programming each week; Channel 4 provides educational programming for school-age children; while the breakfast-time television licensee, GMTV, televises children's programs on Saturday and Sunday mornings. ITV recently announced, however, that it will seek permission from Ofcom to significantly reduce its hours of televised children's programming (Revoir 2006).</p> <p>On direct-to-home (DTH) satellite and cable, many of the familiar global brands, such as the Disney Channel, Nickelodeon, Cartoon Network and Boomerang compete with the BBC's dedicated children's services.</p> <p>Statistics compiled by the Producers Alliance for Cinema and Television (PACT) and Ofcom suggest that public (terrestrial) broadcasters (BBC, ITV, GMTV, Channel 4, Channel 5) spent £121 million (C\$240 million) on children's television in 2004 (PACT 2006, p. 30). Of this amount, PACT estimates that 82% of hours were commissioned from the independent production sector. This puts the value of the independent-production licensing market at about £100 million (C\$200 million).</p>
<p><b>Australia</b></p>	<p>Children's television broadcasting in Australia is subject to considerable demand and supply-side government intervention that serves to promote the production and exhibition of high-quality Australian children's programs. On the demand side, the Children's Television Standards require each of the over-the-air commercial broadcast networks – Seven, Nine and Ten – to televise at least 390 hours per year of children's and pre-school programming (Australian or non-Australian). Of these 390 hours, at least 130 hours must be for pre-schoolers ("P programs"), and 260 hours for children ("C programs"). One-half of the C programs must be of Australian origin; all of the P programs must be Australian. The standards also stipulate that the commercial broadcasters televise 32 hours per year (on average) of first-release Australian children's drama, and a minimum of eight hours per year of repeat Australian children's drama.</p> <p>The national public broadcaster, ABC, dedicates a significant portion of its daily schedule to children's programs (Australian Children's Television Foundation 2006, p. 2). At times, it has gone above and beyond the minimum exhibition requirements; in 1999/00, it broadcast 1,785 hours of children's programming, for example. ABC is actually not subject to the standards that the commercial broadcasters are; however, it still is active in acquiring new and repeat children's programming.</p> <p>Children's broadcasters on Australian pay television, including Disney Channel, Nickelodeon, Cartoon Network, and Discovery Kids reach about 25 percent of Australian households. These channels are required to invest ten percent of their programming budgets in locally produced drama. This is roughly equivalent to five percent of revenues, if one follows the rule-of-thumb ratio of one dollar of programming spend for every two dollars of operating revenue.</p> <p>In 2004/05, the total volume of Australian children's television drama dropped to A\$50.5 million (C\$42 million), from A\$79.4 million (C\$66 million) in 2003/04. There were a total of nine children's television projects in 2004/05 comprising 92 hours of original programming. Out of the total volume of production, international co-productions accounted for two projects and A\$10.9 million (C\$9 million) in production. Note that in 2004/05, the average per-hour budget of Australian children's television drama was A\$550,000 (C\$450,000).</p> <p>Government sources accounted for about one-third of the total financing for Australian children's television drama production. Most the government funding came via the Film Finance Corporation Australia (FFCA); the Australian government agency charged with financing television and film production. In 2004/05, FFCA invested in eight children's television drama projects with total budgets of A\$56.9 million (C\$47 million). This comprised one quarter of total FFCA-supported production of A\$228.6 million (C\$190 million), and the level of television drama production of A\$53.9 million (C\$45 million).</p> <p>Between 2000/01 and 2004/05, the total volume of Australian animation television production averaged A\$30 million (C\$25 million) and 44 hours per year.</p>

Source: Nordicity research

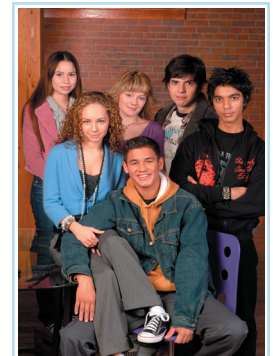
<sup>4</sup> Canadian specialty and pay television services spent about 50 percent of total revenues (advertising and subscriber) on programming in 2005.



## ***Emerging distribution models and role of broadcasters***

The traditional television broadcasters contend that they are best positioned to exploit online relationships with viewers. They point to their long-standing and highly-recognizable brands that can draw high traffic volumes to their sites and thus deliver the most eyeballs to online audio-visual content. If there is one outcome that the Internet has demonstrated over the last decade, however, it has been its power to turn brand recognition on its head. Amazon usurped Borders Books; Expedia challenged the airlines and hotel chains to improve their Internet offerings; and Web logs are even challenging the daily newspaper as a source of the news! Many traditional brands have been successful on the Web, but this success often arises from the combination of a compelling new business model and the ability to quickly establish user trust. Around the world, and in Canada, children's television broadcasters have moved quickly into the online distribution environment.

Disney is the unrivalled leader in the online distribution of linear and interactive content for children. Nickelodeon maintains a portfolio of Web sites for children and parents, including Nick.com, Nickjr.com, nick-at-nite.com, tvland.com, and teachers.nick.com, to name just a few. In Canada, Corus Entertainment has introduced a digital download service for pre-school programming including shows from independent producers. The new service, TreehouseDirect.com, leverages its specialty-television brand and allows users to purchase and download single episodes or full seasons of many of Nelvana Animation's popular television shows. The downloaded programming is either single use or time restricted in some manner.



Corus Entertainment has also teamed up with NBC Universal, Scholastic and Classic Media/Big Idea, as well as broadcasters ION Media Networks, NBC and Telemundo, to create a multi-platform network for children's programming called Qubo. Qubo launched in September 2006 and includes a branded Web site, a 24/7 digital broadcast channel, and video-on-demand services.

The NFB recently teamed up with Discovery Channel, Japan Broadcasting Corporation (NHK), and Film Australia to produce a series of 60-second *multi-platform* vignettes on topics in science and technology. While this particular series was not made with children's and youth audiences as the targets, it does represent an example of a new production model, under which Canada's public producer/distributor can partner to develop platform-agnostics content. This same model can be applied to children's and youth programming.

The television broadcast outlets may not emerge as the only strong brands in the Web distribution environment, however. The content itself often carries a stronger brand than the broadcast outlet. Would anyone notice if *Law & Order* jumped from NBC to CBS? The Sesame Street brand is one that really transcends its American broadcast outlet, PBS. The Sesame Workshop's Web site is poised to become a major source for passive and interactive audio-visual content for children. Other leading international brands, such as *Bob the Builder* and *Thomas the Tank Engine* have developed web presences that offer interactive experiences for children and post-broadcast sales to parents.

Nelvana's animated television series, *Jacob Two-Two*, actually found its first distribution in the U.S. on KOL. This transaction is a watershed of sorts, and may be an indicator of the marketplace of the future. New



distribution technologies will allow Canadian producers like Nelvana and others to reach American/international audiences outside of the often concentrated and vertical-integrated broadcasting market. Of course, only very high quality programming, such as *Jacob Two-Two*, is going to be viable enough for alternate distributors to put the marketing muscle behind such on-demand offerings.

Web communities such as YouTube.com and MySpace.com are also gathering tremendous power as sites that build awareness and direct audiences to audio-visual content. MySpace provides an excellent route for reaching teenagers; parenting-networking sites designed in the spirit of MySpace may offer a similar route to reach children. There are already dozens of parenting-networking sites up and running, such as Miniti.com, Ourstory.com, Zamily.com, Amiglia.com, Families.com, Famoodle.com, Jotspot Family Site, Cingo.com, FamilyRoutes.com and Famundo.com. Many of these sites offer advice on topics ranging from feeding an infant to choosing a college for your teenager. It is only natural that these sites will start to offer advice on the best audio-visual programming for children, and then connect users directly to the programming.

We have already mentioned the cellular phone as another device for the distribution of audio-visual content, particularly among teenagers. Mobile television is developing quickly throughout the world, most notably in Asia (KPMG 2006, p.2). Indeed, a recent survey in the U.K. found that 87 percent of children (aged 10 to 12) would like to watch television on their mobile phones (Hemley 2006). In Canada, the CRTC's hands-off approach to new media should allow Canadian cellular operators to keep pace with global technology and business-model developments.

### ***Challenge to create opportunities for Canadian programming on new platforms***

The vertically integrated media companies are poised to move quickly into alternate distribution models. For the most part, they do not face the same rights issues when exploiting their in-house content that they do when they are handling independently produced content. This is one of the new challenges facing independent producers. The uncertainty of how all of these new potential distributions will play out is liable to put them at a disadvantage when negotiating with vertically integrated media firms. The U.K. media regulator, Ofcom, has recognized the negative potential of this situation, and has already instituted a terms of trade framework for the U.K.'s independent producers when dealing with U.K. distributors and broadcasters. The CRTC has the power to manage the relationship between Canadian producers and broadcasters, but it has no jurisdiction over broadcasters outside of Canada.

New platforms allow Canadian producers to reach audiences in Canada and internationally. The Canadian market is a finite one, and so Canadian children's and youth producers have built their businesses with a view to international markets. In the next section, we re-visit Canadian children's and youth production in the traditional broadcasting market and analyse its track record in attracting domestic audiences.

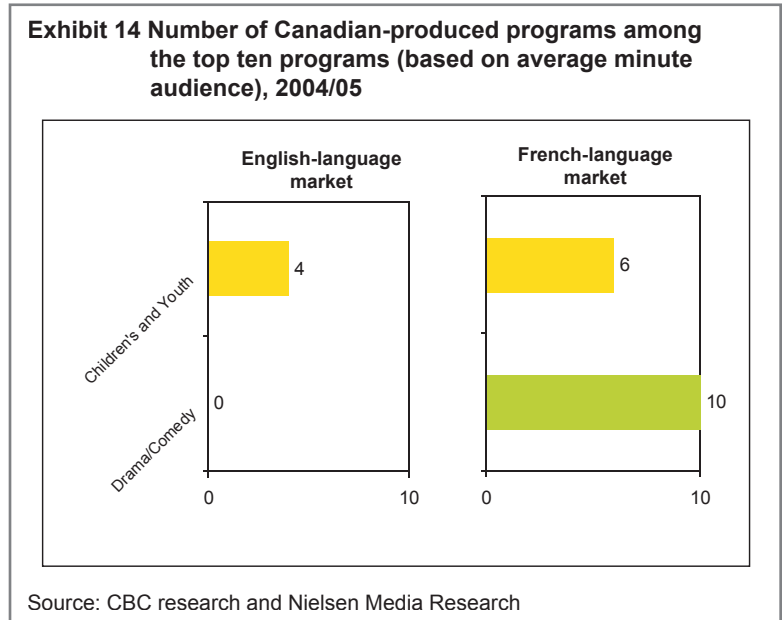
## 6 Television Audiences: A Strong Record of Attracting Canadian Children to Canadian Programs

In recent years Canadian policy makers have underlined the policy objective of attracting larger Canadian audiences to Canadian programming. There has been an increased emphasis on building audiences and rewarding success in attracting viewers. Canadian children’s and youth programming has always had relatively strong audience performance within its target demographic.

### Canadian programming highly competitive in the children’s genre

Audience statistics demonstrate that children’s and youth television programs are very strong within their target market – viewers aged 2 to 17. What is more, Canadian-produced children’s and youth programming has a much better record at reaching its intended audience than Canadian-produced prime-time fiction does; it also fares better against competition from foreign programming in Canada.

During the 2004/05 television season, Canadian-produced children’s and youth television programs comprised four of the top ten children’s and youth programs in the English-language market. In the other fiction genre, prime-time drama/comedy, there were no Canadian-produced television programs among the top ten in the English-language market.



In the French-language market, Canadian-produced programs dominated the list of the top ten prime-time drama/comedy programs – holding all ten spots. In the French-language market, Canadian-produced children’s and youth programs held six of the top ten positions, including the top three positions. This total was fewer than in prime-time drama/comedy, but still higher than in the English-language market.

**Exhibit 15 Top ten children’s and youth television programs, English-language market, 2004/05**

Rank	Title	Broadcast Network	Origin	AMA (Ages 2+)
1	<b>Degrassi: The Next Generation</b>	<b>CTV</b>	<b>Canada</b>	<b>635,000</b>
2	The Wonderful World of Disney	CBC	U.S.	489,000
3	<b>Instant Star</b>	<b>CTV</b>	<b>Canada</b>	<b>391,000</b>
4	SpongeBob SquarePants	YTV	U.S.	267,000
5	The Fairly Odd Parents	YTV	U.S.	242,000
6	Danny Phantom	YTV	U.S.	219,000
7	<b>Timothy Goes School</b>	<b>Treehouse</b>	<b>Canada</b>	<b>198,000</b>
8	Jimmy Neutron	YTV	U.S.	194,000
9	All Grown Up	YTV	Australia	193,000
10	<b>Max &amp; Ruby</b>	<b>Treehouse</b>	<b>Canada</b>	<b>192,000</b>

Source: CBC research and Nielsen Media Research

**Exhibit 16 Top ten children's and youth television programs, French-language market, 2004/05**

Rank	Title	Broadcast Network	Origin	AMA (Ages 2+)
1	<b>Ramdam</b>	<b>Télé-Québec</b>	<b>Canada</b>	<b>348,000</b>
2	<b>Cornemuse</b>	<b>Télé-Québec</b>	<b>Canada</b>	<b>158,000</b>
3	<b>Match!</b>	<b>SRC</b>	<b>Canada</b>	<b>152,000</b>
4	Bob l'éponge	VRAK.TV	U.S.	147,000
5	<b>Le monde de Charlotte</b>	<b>SRC</b>	<b>Canada</b>	<b>140,000</b>
6	Jackie Chan	VRAK.TV	U.S.	136,000
7	<b>Une grenade avec ça?</b>	<b>VRAK.TV</b>	<b>Canada</b>	<b>129,000</b>
8	Phénomène Raven	VRAK.TV	U.K.	128,000
9	<b>Macaroni tout garni</b>	<b>Télé-Québec</b>	<b>Canada</b>	<b>124,000</b>
10	Kim Possible	SRC	U.S.	121,000

Source: CBC research and BBM

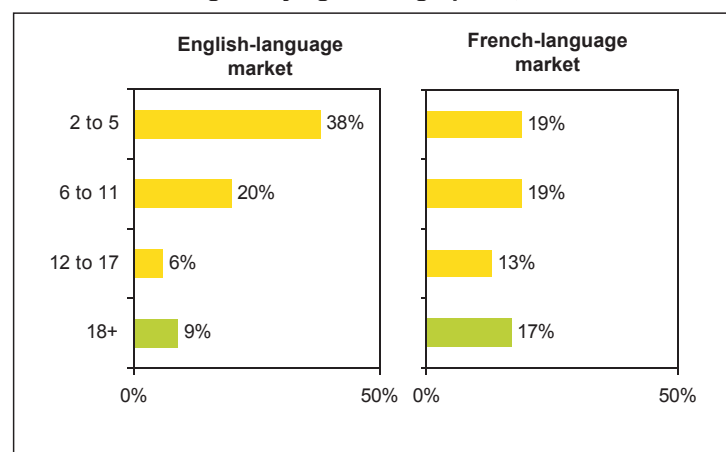
As one can see, among the fiction genres, Canadian-produced children's and youth television programs are much more prominent among the top-rated programs when compared to prime-time drama/comedy (see Exhibit 14). This demonstrates that Canadian-produced children's and youth programming does indeed attract Canadian audiences and can compete in the Canadian market with world-class programming from the U.S., U.K. and elsewhere, whether it is televised in English or French.

### ***Attracting a larger market share than other genres***

Overall, in the English-language market, Canadian-produced children's and youth programming captures a much larger share of its target demographic (2 to 17) than other CTF-supported genres – drama/comedy, documentary, variety and performing arts – do in the 18-and-over age demographic. During the 2004/05 television season, Canadian-produced programs in the CTF-supported genres accounted for nine percent of all television viewing (all day) by English-language Canadians aged 18 and over. In stark contrast, Canadian-programming captured 38 percent of total viewing by Canadian children aged two to five, and 20 percent of all viewing by Canadians aged 6 to 11. In the teenage segment, Canadian programs captured six percent of total viewing; this was well below the performance of Canadian programming in the other children's and youth age demographics, and even somewhat below the performance of Canadian programming (CTF-supported genres only) in the 18-plus demographic.

In the French-language market, Canadian children's and youth programming performed on par with Canadian programming targeted at adults. Viewing to Canadian television programs in the CTF-supported genres accounted for 17 percent of total viewing during the 2004/05

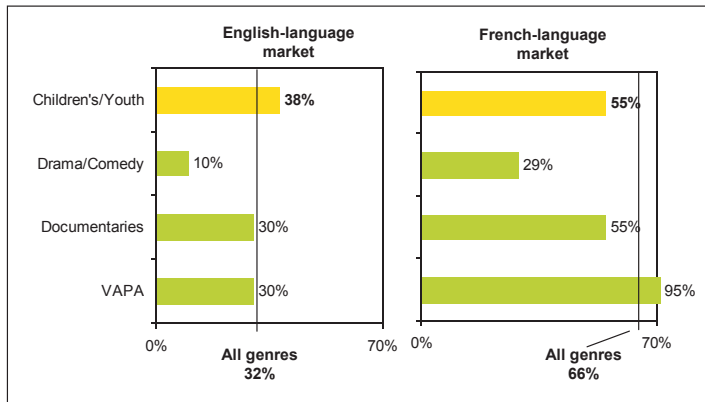
**Exhibit 17 Viewing to Canadian programming as a share of total viewing in key age demographics, 2004/05**



Source: CBC research and Nielsen Media Research  
 Note: For age demographics 2 to 5, 6 to 11 and 12 to 17, percentages are based on total hours of viewing to Canadian children's and youth programs as a share of total hours of viewing to television. For the 18+ age demographic, the percentage is based on total hours of viewing to Canadian drama/comedy, documentary, and variety and performing arts programming as a share of the total hours of viewing by the demographic.

television season. During the same television season, Canadian programming captured 19 percent of total viewing in both the two-to-five and six-to-11 age demographics. In the 11-to-17 age group, Canadian television programs captured 13 percent of the total all-day audience.

**Exhibit 18 Viewing to Canadian programming as a share of total viewing in the CTF-supported genres, (6 a.m. to 2 a.m.), 2002/03**



Source: CBC research and Nielsen Media Research  
VAPA – Variety and Performing Arts

Audience statistics for overall viewing over the whole television day (6 a.m. to 2 a.m.) indicate that Canadian-produced children's and youth television programs deliver the highest share of viewers to Canadian programming in the English-language market when compared to other CTF-supported genres. In the 2002/03 television season, Canadian-produced children's and youth programs accounted for 38 percent of all viewing to children's and youth television programming in Canada. Viewing to foreign-produced children's and youth programs accounted for 62 percent

of all-day viewing. In the documentary and variety and performing arts (VAPA) genres, Canadian programs accounted for 30 percent of total viewing; foreign programs accounted for 70 percent. In the drama/comedy genre, Canadian programming accounted for ten percent of total viewing; foreign programs accounted for 90 percent of all-day audiences.

In the French-language market, Canadian children's and youth programming attracts an even larger share of the total audience within the genre. During the 2002/03 television season, 55 percent of the total viewing of children's and youth programs was to Canadian-produced programs. While this was somewhat lower than Canadian television programming's overall share of viewing in the Francophone market – two-thirds of all viewing was to Canadian programs – among the CTF-supported genres, only Canadian VAPA programming performed better within its genre.

## 7 Employment: A Source of Careers for Canada’s Creative/Technical Workforce

All forms of audio-visual production are very labour-intensive activities. Television and film productions employ a wide array of creative and technical personnel – from writers to accountants to carpenters to electricians to musicians. Children’s and youth television production, and animation production in particular, make an even greater contribution to employment; this contribution arises in several different ways.

### ***Despite technology, animation production remains labour intensive***

With the help of computers, the animation production process has come a long way in terms of the time and labour required to complete a finished product. Despite the contribution of technology, however, animation productions still devote a larger share of their production budgets to labour than the live-action format. According to data from CAVCO, 50 percent of the total budget for a live-action production was devoted to Canadian labour costs; for animation productions, the Canadian-labour share was 58 percent.<sup>5</sup>

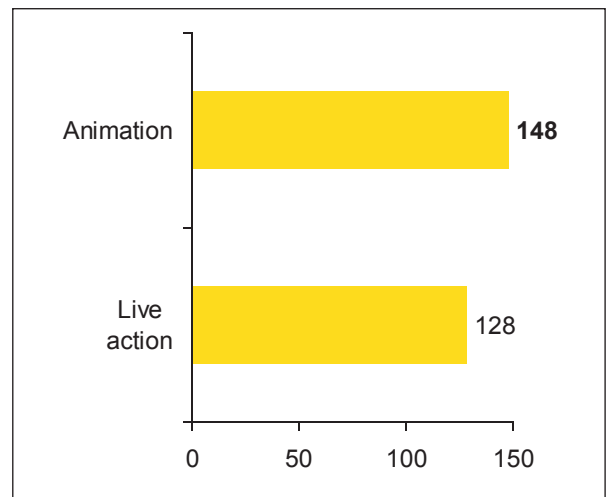
With a higher share of project budgets devoted to labour expenditures, animation production and children’s and youth production, in general, generate more direct jobs for every dollar of production activity. While a typical 26 half-hour episode live-action series with average per-episode budget of \$500,000 would generate, on average, 128 annualized<sup>6</sup> full-time equivalent production-industry jobs throughout the production cycle, an animation production of similar scope would generate 148 annualized full-time equivalent production-industry jobs. Animation production today often employs sophisticated computer hardware and software technology, but it does not require the studio, lighting, set material and location-shooting paraphernalia that are often required for live-action productions. Because of this, more of the animation-production process originates from human input, rather than equipment and materiel.

Not only does animation production generate more jobs for each dollar of production, it also generates jobs with longer tenures. Animation-production jobs tend to have longer tenures than jobs in live-action production, because the animation projects themselves take longer to complete. The typical Canadian live-action drama series will include 13 episodes, and will require three months of shooting. The majority of Canadian animation productions have 26 episodes or more. Data from CAVCO indicate that in 2004/05, 19 out of a total of 30 children’s animation projects had 26 episodes or more; seven television-series projects had 13 episodes.

<sup>5</sup> Canadian labour share statistics are based on CAVCO-certified productions between 2003/04 and 2005/06.

<sup>6</sup> We refer to the jobs as “annualized” because the calculations are based on an annual average salary. Therefore, a project running for six months, for example, would employ double the number of persons because the average salary would be one-half the annual average.

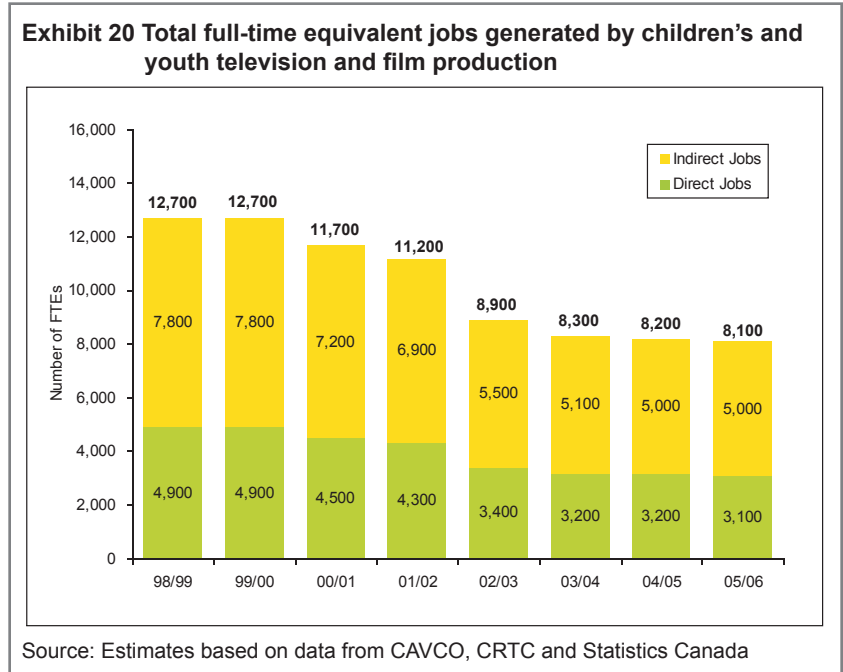
**Exhibit 19 Average number of annualized full-time equivalent jobs for a 26 half-hour episode series (average episode budget of \$500,000)**



Source: Estimates based on data from CAVCO and Statistics Canada

The completion of a 26-episode animation project can require as long as two years to complete (Australian Film Commission 2006, p. 118). This suggests that the production of an animation television series requires about double the time that a live-action television series requires. A production job is a production job; but one that is expected to last two years as opposed to three months does give the production professional a certain degree of security that they may not find working on the set of a live-action project.

In 2005/06, children’s and youth television and film production generated an estimated 3,100 full-time equivalent production-industry jobs (often referred to as direct jobs). Of these 3,100 direct jobs, approximately 1,600 were in animation production; about 1,500 were in the production of live-action programs. The direct employment in the industry as well as the use of services and equipment in the production process generated an additional estimated 5,000 full-time equivalent jobs in other areas of the Canadian economy. The contribution of children’s and youth production to employment in Canada in 2005/06, of course, is below what it has been in past years. Production jobs are a function of production activity; and production activity in the children’s and youth genre is well below what it has been in recent years. The number of full-time equivalent production-industry jobs peaked at 4,900 in 1999/00; the same year that the total volume of children’s and youth television and film production peaked at \$389 million.



The drop in the volume of production since 1999/00 has forced the industry to shed the equivalent of 1,700 full-time jobs. Job losses in television and film production can be stealth-like; they occur in small increments, as projects wind up without enough new projects to replace the old ones. Job losses in television and film production do not make the newspaper headlines the way that the closing of a factory employing 1,700 persons would. Granted, production professionals in children’s and youth production are a malleable lot: many of the production professionals that lost their jobs in children’s and youth production would have found employment in other segments of Canada’s television and film industry – perhaps in other genres, perhaps in foreign-location activity. Indeed, this is strength of the talent pool in this industry.

**Canada a leader in training and skills development**

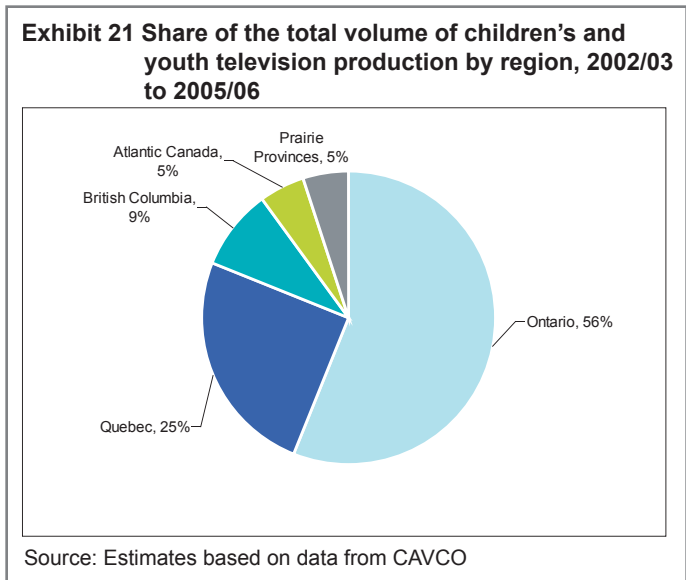
Over the last several decades, Canada has established itself as a world leader in animation training. The NFB has been involved in animation production since the 1940s, and has garnered numerous accolades for its innovation in the field. Today, the NFB has special programs for emerging filmmakers in animation, like *Hothouse* and *Cinéaste recherché*, designed to develop and find new talents. Sheridan College, in Oakville, Ontario, is considered among the top schools in North America for animation training. This training

and a career in children’s animation production provides an excellent springboard for creative roles in other genres of production and in other occupations in the knowledge-based economy. More and more, live-action formats – from feature films to television commercials – are employing visual effects in production. Computer-animation professionals also have the skills required to excel in the fast-growing video-game design and production industry. The career opportunities for computer-animation professionals do not stop with the audio-visual industries. Interactive visual imagery is playing a larger and larger role throughout the knowledge-based economy. From e-learning to architecture to engineering to biotechnology, computer-based applications that employ audio-visual content are already the new standard for training and design tools. An investment in children’s animation is no longer only an investment in the creation of audio-visual cultural content; it is an investment in the development of knowledge-based workforce, which Canada needs to keep its economy globally competitive.

Governments and businesses no longer discuss the brain-drain issue as much as they did during the telecom-dot-com boom of the late 1990s; however, that does not mean that talented and creative Canadians are not being attracted to the U.S. To fully realize the investments that we have made in training our production professionals and animation specialists, we need to provide opportunities for them to pursue careers in Canada. With a strong children’s and youth audio-visual production sector, we can retain the professionals who can make contributions in other knowledge-based sectors of the Canadian economy.

***Children’s programming’s contribution to regional employment***

While much Canadian television and film production is often concentrated in Montreal and Toronto, like other genres, children’s and youth production creates jobs in virtually every province. Several of Canada’s producers of children’s and youth programming are located outside of Montreal and Toronto: Studio B Productions is located in Vancouver; Collideascope Digital Productions Inc. is based in Halifax; Amberwood Entertainment is located in Ottawa; Cellar Door Productions is in Charlottetown; Vérité Films is based in Regina. Eagle Vision Incorporated in Winnipeg is the production company behind *Tipi Tales*. Calgary-based Alberta Filmworks co-produced *Shoebox Zoo*; New Brunswick is home to Fatkat Animation Studios Inc. Indeed, during the last three years, there has been children’s and youth television production activity in every region of Canada.



***An excellent training ground for work in other genres***

Children’s and youth production offers longer-tenure jobs outside of the major production centres, as well as skills transferable to other knowledge-based sectors. It also can give Canadian creators a good training ground for developing into leading makers of prime-time fiction programming. Many of Canada’s



leading producers, directors and writers cut their teeth on children's programming. Norman Jewison worked in children's programming at the CBC in the 1950s (Rainsberry 1986, p. 5). Kevin Sullivan (*Anne of Green Gables*, producer) also created the more mature drama, *Wind at My Back*, which ran for four seasons on CBC. Linda Schuyler (*Degrassi*, producer) also developed the prime-time soap opera, *Riverdale*. Susin Nielsen, who has written numerous episodes of *Degrassi*, *Renegade*, *press.com*, *Braceface*, and *What About Mimi?*, has also worked on Canadian prime-time dramas such as *Cold Squad*, *The Collector*, and *Robson Arms*. George Bloomfield (*Road to Avonlea*, director) has directed Canadian drama series such as *E.N.G.*, *Due South* and *La Femme Nikita*. Creators of children's and youth programming do not stay in one genre and can go on to other genres quite easily. Canada's children's and youth production segment gives many of Canada's rising creative talent the opportunity to work on projects that will be tested with Canadian and international audiences. In the next section, we explore further the international side of Canadian children's and youth production.

## 8 International Markets: Attracting Foreign Financing and After-Market Sales

One of the hallmarks of children's and youth television programming, particularly animation, is that it has tremendous international sales potential; children's and youth programming is often said to "travel well." Indeed, there is a long list of Canadian children's and youth programs airing on broadcast outlets in the U.S. and elsewhere. *D'Myna Leagues*, *The Save-Ums!*, and *Franklin*, are just a few examples of Canadian-produced programs currently airing on broadcasters outside of Canada.

**Exhibit 22 Selected list of Canadian-produced children's and youth television programs currently airing outside of Canada**

Title	Broadcaster (County)	Title	Broadcaster (County)
6Teen	Nickelodeon (U.S.)	Jacob Two-Two	TPS Jeunesse (France), Cartoon Network (Latin America) ARD (Germany), Ki.Ka (Germany), JETIX (U.S.)
Amazing Adrenalini Brothers	ITV (U.K.), Cartoon Network (U.K.), ABC (Australia)	Life with Derek	Disney Channel (U.S.)
Angela Anaconda	Channel 4 (U.K.)	Little Bear	Noggin (U.S.)
Arthur	PBS (U.S.)	Maggie and the Ferocious Beast	Noggin (U.S.)
Atomic Betty	Cartoon Network (U.S.)	Max and Ruby	Noggin (U.S.)
Being Ian	ABC (Australia)	Miss Spider's Sunny Patch Friends	Noggin (U.S.)
Berenstain Bears	PBS (U.S.)	Naturally Sadie	Disney Channel (U.S.), Nickelodeon (U.K.)
Beyblade	JETIX (U.S.), Nickelodeon (U.K.), Cartoon Network (U.K.), Cartoon Network (Australia)	Postcards from Buster	PBS (U.S.)
Bromwell High	Channel 4 (U.K.)	Radio Free Roscoe	The N (U.S.)
Caillou	PBS (U.S.)	Rescue Heroes	Disney Channel (U.S.)
Cyberchase	PBS (U.S.)	Saddle Club	Discovery Kids (U.S.)
Degrassi	The N (U.S.)	Save-Ums!	Discovery Kids (U.S.) TLC (U.S.)
D'Myna Leagues	WB Kids! (U.S.)	Strange Days at Blake Holsey High	Discovery Kids (U.S.)
Franklin	Noggin (U.S.)	The Backyardigans	Nick Jr./Noggin (U.S.)
Franny's Feet	Channel 4 (U.K.), ABC (Australia)	The Doodlebops	Disney Channel (U.S.)
George Shrinks	PBS (U.S.)	The Hoobs	Nickelodeon (U.K.)
Gerald McBoing Boing	Cartoon Network (U.S.)	Yakity Yak	Nickelodeon (U.S.)
Instant Star	The N (U.S.)	Yvon of the Yukon	CBBC (U.K.)

Source: Nordicity Group research.

Note: This is not an exhaustive list of all Canadian children's and youth programs airing in broadcasters outside of Canada.

Statistics on foreign financing of Canadian production and estimates of after-market sales further underline the international sales potential of Canadian-produced children's and youth programming. In 2005/06, Canadian children's television programming attracted an estimated \$44 million in foreign financing, including pre-sales to foreign broadcasters and advances from foreign distributors. Children's production accounted for 16 percent of the total amount of foreign financing of Canadian television production in 2005/06.

The export performance of Canadian children’s television programming is even stronger when one considers the after-market sales that it generates.<sup>7</sup> While there are no comprehensive statistics available on the after-market sales of Canadian television programming, statistics from Telefilm Canada suggest that the genre performs well in this area. According to data from Telefilm Canada, children’s and youth television projects yielded the best return on equity investments. Since equity investors must recover their investments from release windows and regions that were not pre-sold, equity recoupment provides a good gauge for the after-market export performance of Canadian television programming.

**Canadian children’s programming leads other genres in financial returns**

Statistics available for Telefilm Canada’s equity investments in CTF projects with vintages of 1996/97 to 2000/01 show that among all the genres, children’s and youth productions posted the highest rate of equity-investment recoupment. Between 1996/97 and 2000/01, Telefilm Canada made equity investments in children’s and youth programs totalling \$54.4 million. On these investments, the federal agency has, to date, recovered \$8.3 million, or 15.3 percent of the original equity investment. This recoupment recovery rate is more than double the overall rate of 7.4 percent earned by Telefilm Canada from its equity investments across all genres, and betters the recovery rates of any other genre.

**Exhibit 23 Telefilm Canada equity recoupment as a percentage of equity investments (based on projects between 1996/97 to 2000/01)**

Genre	Recoupment (\$ 000s)	Equity investments (\$ 000s)	Recoupment as a percentage of equity investment
Children’s	8,314	54,398	15.3%
Drama	20,371	297,076	6.9%
Documentary	6,057	72,354	8.4%
Variety	329	6,965	4.7%
Feature film	2,402	73,247	3.3%
<b>Total</b>	<b>37,475</b>	<b>504,040</b>	<b>7.4%</b>

Source: Nordicity Group tabulations based on data from Telefilm Canada, see *Analysis of Canadian Television Fund Equity Financing Recoupment*  
 Note: Figures include only recoupment from equity investments; figures exclude Telefilm recoupment from projects contracted prior to 1996/97. Figures only include revenues for projects contracted between 1996/97 and 2000/01.

Using the historical data on the recoupment performance of Telefilm Canada’s equity investments, Nordicity modelled the after-market export sales of all Canadian children’s and youth production – both inside and outside the CTF (a description of the estimation model can be found in Appendix A). Based on this model, Nordicity estimates that Canadian children’s and youth programs produced between 1996/97 and 2000/01 earned an estimated \$166 million in after-market export sales. This is a conservative estimate, however; export sales during this period could have been as high as \$400 million. All Canadian productions (all genres) during this period earned an estimated \$495 million in after-market export sales; so children’s and youth programming contributed 34 percent to performance, even though it accounted for 21 percent of the total volume of production during this period. Clearly, Canadian children’s and youth television production has after-market sales potential that no other genre of Canadian television programming can match; children’s and youth television programs are overweight by 55 percent when it comes to after-market sales potential.

<sup>7</sup> The Television Research Partnership (U.K.) reported in *Rights of Passage: British Television in the Global Market* that Canada had a 3.9 percent share of the global market for made-for-television programs. Canada ranked third behind the U.S. (71 percent share) and the U.K. (10 percent share).

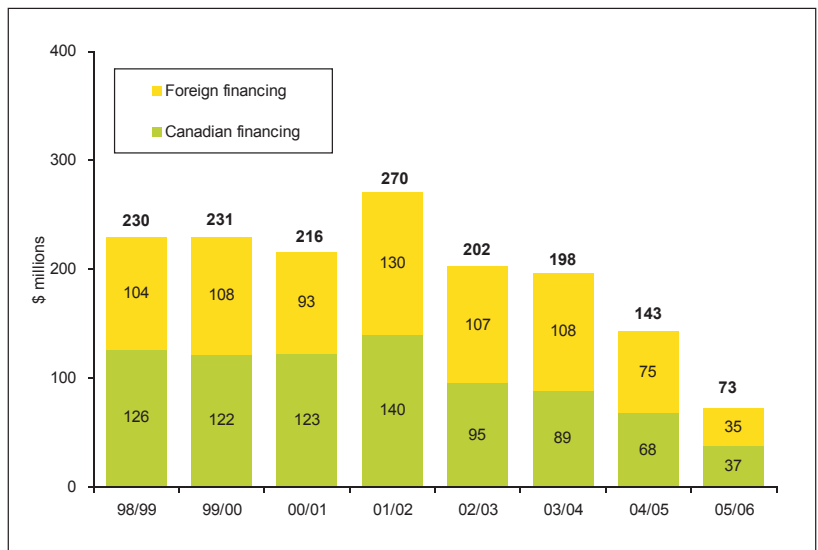
## Decline in international treaty co-production

International treaty co-production has been one of the avenues for Canadian producers of children's and youth programs to access foreign financing, foreign creative talent, and foreign markets. The Government of Canada maintains treaties with 53 countries around the world. Canadian producers have taken advantage of these treaties to make numerous successful children's television series, including *Yvon of the Yukon* (China), *Braceface* (China), *Atomic Betty* (France), and *Martin Mystery* (France).

Based on data from Telefilm Canada and CAVCO, Nordicity has prepared estimates for the annual volume of international treaty co-productions in the children's genre. In 2005/06, Canadian producers were involved in \$73 million worth (based on global budgets) of international treaty co-production in the children's and youth genre. Of this amount, the Canadian portion of the budget, i.e., expenditures on Canadian elements within the project, totalled \$37 million. Just as the overall production volumes in Canadian television production in the children's and youth genre have fallen since the turn of the millennium, so have treaty co-production volumes in Canadian children's and youth projects. Canada's volume of children's and youth treaty co-production peaked during in 2001/02 at \$270 million. Between 2001/02 and 2005/06, it dropped by about 73 percent.

This drop in Canada's children's and youth treaty co-production mirrors the overall trend in Canada's treaty co-production across all formats and genres. Between 2000 and 2005, Canada's volume of treaty co-production dropped from \$925 million to \$349 million – a decrease of 62 percent. The causes of this precipitous drop can be traced back to several developments, including: the global shift to indigenous production; Europe's move to a more intra-continental production market, following the adoption of the European Union's Television without Borders Directive; changes to the U.K.'s policies related to domestic expenditures on international treaty co-production, and its sale-and-leaseback tax-relief provision; and the collapse of Germany's distribution market, following the bankruptcy of Kirsch Media. Despite the international appeal of Canadian children's and youth production, it has not been immune to the overwhelming forces moving against all of Canada's treaty co-production.

**Exhibit 24 Canada's international treaty co-production in the children's genre**



Source: Estimates based on data from CAVCO  
Note: Some totals may not add due to rounding

**Exhibit 25 Volume of Canada's international treaty co-production in the children's genre (\$ millions)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
<b>Animation</b>								
Canadian budget	123	111	106	115	69	79	68	37
Foreign budget	101	98	84	106	83	94	75	35
Total budgets	225	210	190	221	152	174	143	73
<b>Live Action</b>								
Canadian budget	3	11	17	25	26	10	0	0
Foreign budget	3	10	9	24	24	14	0	0
Total budget	6	21	26	49	50	24	0	0

Source: Nordicity estimates based on data from CAVCO

The lion's share of Canada's international treaty co-production in the children's and youth genre is in the animation format. In past years, there has been live-action treaty co-production, but it has only been a fraction of the volume of animation production. Much of Canada's animation co-production takes place with France, with which Canada has forged a mini-treaty covering animation production. During the mid-1990s, France lauded Canada as an ideal partner for animation production because of its tax incentives and the ability of Canadian companies to secure pre-sales to U.S. broadcasters (Nordicity 2004, p. 62). During these halcyon days of animation co-production, Canada-France producer pairings, including Nelvana and Ellipse, Cinar and France Animation, and CinéGroupe/Astral and Dupuis Audiovisual maintained profitable relationships (Nordicity 2004, p. 62). In recent years, however, Canadian partners are no longer seen by the French as keys to accessing the U.S. market (Nordicity 2004, p. 62). In recent years, Canada-France projects that do go forward have more likely been majority French with Canada as the minority partner.



The Canadian market is a finite one; and it is one that is under continuous threat from American audio-visual programming. Canadian children's and youth television programs have demonstrated resilience in finding broadcast sales and audiences outside of Canada; the list at the top of this section is evidence of this. Canadian children's and youth producers have achieved international sales in a very tight international pre-sale market. The pre-sale market is only going to become even tighter as emerging distribution models make broadcasters more inclined to only pre-pay for programming when they can obtain wider rights to alternate-channel revenues.

In the next section, we examine the economics of children's and youth programming and show why it has grown into being a good business for broadcasters in Canada and elsewhere.

## 9 Production Economics: A Better Return for the Production-Financing Dollar

Children's and youth television programming has tremendous social and cultural value, but it also offers very compelling commercial value for broadcasters. In some cases, this commercial value is because of the advertiser interest that it attracts; in other cases, the commercial value arises from the interest of parents who choose to subscribe to children's and youth broadcasting service on behalf of their children. In either case, audiences drive much of the commercial value for broadcasters. Still, the commercial value of children's and youth television programming does not stop with viewing audiences. Children's and youth programming can generate tremendous merchandising potential. The producers of children's and youth television programs are not only in a position to license their creation to broadcasters, they can also license it to toymakers and other consumer product/services suppliers (e.g. restaurants). In this section, however, we focus on the commercial value that children's and youth programming offers to broadcasters. In Section 6, we presented some of the audience statistics behind Canadian children's and youth television programming. In this section, we present additional audience statistics to show that children's and youth programming has the potential to generate commercial value for broadcasters and those that invest in its development and production.

### ***Generating good audiences with relatively lower average budgets***

To begin with, children's and youth television programming can generally be made at lower budget levels than adult fiction. The average budget for a half-hour episode of an English-language children's and youth television program was \$297,000 in 2005/06 – or approximately \$300,000. The average budget of a one-hour episode of English-language prime-time fiction was \$1.3 million,<sup>8</sup> or \$650,000 per half-hour. What makes Canadian children's and youth programming very economic for broadcasters, producers and other investors, is that with an investment of \$300,000, a broadcaster can more efficiently attract a larger audience share. Based on the fact that Canadian children's and youth programming garnered 3.0 percent of total television viewing in the English-language market in 2002/03, a Canadian children's and youth television program earned a single percentage point of television viewing for an average per-half-hour investment of \$100,000. For prime-time fiction, on the other hand, a single percentage point of television viewing in the English-language market required an average per-half-hour investment of \$167,000; Canadian drama attracted a 3.9 percent share of total viewing in the English-language market in 2002/03.



The relative efficiency of Canadian children's and youth television programming is not entirely surprising. In contrast to prime-time drama, children's and youth television programming offers broadcasters and distributors a much longer shelf life. Young viewers are able to tolerate repeat programs much better than adult viewers. Indeed, repeat screenings of programs often generate even higher audiences than original airings (Australian Children's Television Foundation 2006, p. 8).

<sup>8</sup> For French-language projects, the figure was \$326,000.

**Exhibit 26 Analysis of relative audience efficiency of fiction genres: children's and youth vs. prime-time fiction**

Genre	Average budget per half-hour episode	Share of total Canadian television viewing to all programs from all origins (6 a.m. to 2 a.m.)	Efficiency \$ per percentage point share
Specialty and pay			
Children's and youth	\$300,000	2.2%	\$136,000
Prime-time fiction	\$650,000	2.0%	\$325,000
Conventional			
Children's and youth	\$300,000	0.8%	\$375,000
Prime-time fiction	\$650,000	1.9%	\$342,000
Total			
Children's and youth	\$300,000	3.0%	\$100,000
Prime-time fiction	\$650,000	3.9%	\$167,000

Source: Nordicity Group calculations based on data from CFTPA, *Profile 2006*, and CBC Research/Nielsen Media Research.

The efficiency is greatest for Canadian specialty and pay television broadcasters. From a children's and youth television program, they can earn a percentage point of television viewing for every \$136,000 in average budget; for prime-time fiction, the figure is \$325,000. For conventional broadcasters, the case is still good for children's and youth programming, but not as compelling as in the specialty and pay segment. In the conventional segment, a Canadian broadcaster can capture a single share of television viewing for an average budget of \$375,000 in children's and youth television programming. For prime-time fiction, the average budget for single percentage point is \$342,000.

### ***Generating off-peak value to broadcasters***

Children's and youth programming can also generate value for broadcasters by helping to attract audiences during times of the day and times of the year, when overall audience levels may be relatively lower compared to peak viewing periods. This type benefit is of particular value to conventional broadcasters that schedule different genres of programming throughout the day. Not surprisingly, television viewing by persons in the 18-to-49 age demographic begins to climb at around 2:30 p.m. and peaks at 35 percent at around 9:30 p.m. Television viewing by children in the two-to-five age demographic is actually at its strongest in the early morning. The share of the pre-school demographic watching television climbs to about 20 percent by 9 a.m., before displaying a slow tail-off to about 3 p.m. in the afternoon. Some conventional broadcasters, such as the CBC and provincial educational broadcasters, take advantage of this viewing differential; they schedule children's programs in the morning. But not all conventional broadcasters do take advantage of morning viewing by pre-schoolers.

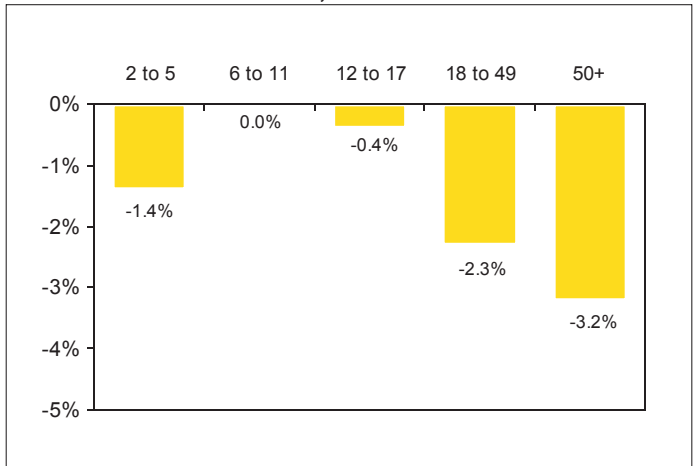
Children's and youth programming can also help conventional broadcasters maintain viewing levels during the summer months. Television viewing is generally lower in the summer, on an overall basis. However, the children's and youth demographics display much lower drop-offs in viewing when compared to the 18-to-49 age demographic. The viewing level among adults aged 18 to 49 averages around 14 percent during the period running from September to May. In June, July and August, the television viewing level for this age group drops by about 2.3 percentage points. Television viewing among children aged 2 to 5 drops by

about 1.4 percentage points, when the summer is compared to the rest of the year. Television viewing among children aged 6 to 11, and youth aged 12 to 17 actually stays virtually unchanged between the summer and the rest of the year; the percentage drops are zero percent and 0.4 percent, respectively.

### **A higher probability of return**

Behind every successful television program, there are numerous failed ones; television production is a high-risk business. In many respects, television production is a “hits” business: one big success can make up for several less-successful projects. Within the Canadian television sector, any means of improving the probability of success can go a long way to improving the economics of the domestic production sector. It is less likely that Canada is going to produce runaway successes in the English-language domestic market or the international market. Given that lower probability, some attention should be paid to improving the likelihood of success.

**Exhibit 27 Drop-off in television viewing shares during summer months, 2004/05**



Source: Nordicity calculations based on data from CBC Research and Nielson Media  
 Note: The average share of the total audience during June July and August was compared to the average across the other nine months the year.

Statistics from Telefilm Canada point to children’s programming as offering the best probability of return, when compared to other CTF-supported genres. Between 1996/97 and 2000/01, Telefilm made equity investments through the CTF in 95 children’s television projects. Of these 95 projects, 75 projects, or 79 percent of investments, generated some type of return or recovery of the equity investment. By comparison, the probability of return across all of Telefilm Canada’s investments was 63 percent. And probabilities in each of the other genres were also lower: drama (70 percent), documentary (63 percent), variety and performing arts (55 percent), feature film (30 percent).

**Exhibit 28 Telefilm Canada equity recoupment as a percentage of equity investments (based on projects between 1996/97 to 2000/01)**

Genre	Total number of projects with Telefilm Canada equity investment	Total number of projects with recoupment (as of August 2005) of equity investment	Percentage of equity investment with some investment recovery
Children’s	95	75	79%
Drama	220	154	70%
Documentary	554	349	63%
Variety and performing arts	40	22	55%
Feature film	70	21	30%
<b>Total</b>	<b>979</b>	<b>621</b>	<b>63%</b>

Source: Nordicity Group tabulations based on data from Telefilm Canada, see *Analysis of Canadian Television Fund Equity Financing Recoupment*  
 Note: Figures include only recoupment from equity investments; figures exclude Telefilm recoupment from projects contracted prior to 1996/97. Figures only include revenues for projects contracted between 1996/97 and 2000/01.



## ***A case for higher Canadian broadcaster licence fees and investment in children's programs***

The audience efficiency, off-peak value, and probability of return all point to Canadian children's and youth television programming offering very good economics for broadcasters and other investors to some extent. Despite the good economic proposition offered by the genre, it is unclear whether or not producers are finding themselves in a position to capture much of this economic value. Instead, the licensing broadcasters may be capturing most of the value. According to financial statistics published by the CRTC, Canada's children's and youth specialty television broadcasters in the English-language market had higher rates of profitability than most of the major fiction-programming-oriented specialty services. On a combined basis, YTV, Teletoon and Treehouse posted a PBIT (Profit Before Interest and Taxes) margin of 43.3 percent in 2005. The five major English-language fiction services (Showcase, Bravo!, W Network, Space, The Comedy Network) recorded a PBIT margin of 32.9 percent.

**Exhibit 29 Profitability of selected English-language specialty-television services, 2005**

<b>Genre</b>	<b>Revenue (\$)</b>	<b>PBIT (\$)</b>	<b>PBIT margin</b>
<b>Children's and youth specialty services</b>			
YTV	83,032,025	31,045,471	37.4%
Teletoon (English/French)	71,712,373	36,236,509	50.5%
Treehouse	10,238,357	4,201,790	41.0%
<b>Total</b>	<b>164,982,755</b>	<b>71,483,770</b>	<b>43.3%</b>
<b>Fiction specialty services</b>			
Showcase	53,942,571	19,838,563	36.8%
Bravo!	43,658,213	13,530,224	31.0%
W Network	57,203,158	21,124,880	36.9%
The Comedy Network	45,125,569	17,099,976	37.9%
Space	44,238,100	8,705,126	19.7%
<b>Total</b>	<b>244,167,611</b>	<b>80,298,769</b>	<b>32.9%</b>

Source: Nordicity Group calculations based on data from CRTC.

The relatively higher profitability of the children's and youth genre among Canadian specialty-television broadcasters is a reflection of the economic strength of the genre and the position of Canadian broadcasters vis-à-vis producers. With such a wide divergence in levels of profitability among the two groups of broadcasters, surely there is room for children's and youth specialty-television services – and conventional broadcasters for that matter – to invest more in children's and youth programming via a combination of higher licence fees and perhaps more hours of original content.

Of course, in the Canadian television programming market, broadcasters are just one of the major sources for investment in programming. In the next section of the report, we assess the public and public-private sources of financing available to Canadian children's and youth production.

Thus far in this report we have seen that Canada's children's and youth production segment has a tradition of global leadership, delivers strong audiences, generates good careers for skilled Canadians, and offers good economic returns in domestic markets and international sales. Despite the social and cultural importance of the genre and the strong economic contribution that it makes, the federal government has allowed its investment in the genre to fall behind its support in other areas of audio-visual production. In this section, we investigate the role that public funding and public-private funding has played in recent years and why stakeholders should look at bolstering their support for the genre.

### ***Relatively lower public investment in children's and youth programming***

Tabulations prepared by Nordicity indicate that Canadian governments' (federal and provincial) total funding of children's and youth television production fluctuated considerably between 1999/00 and 2005/06, but did not show any increase from the beginning to the end of the period. While tax credit monies have increased, other direct public funding of the genre has decreased in recent years – from \$23 million in 2001/02 to \$13 million in 2005/06.

**Exhibit 30 Public funding of Canadian children's and youth television production**

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
(\$ millions unless indicated otherwise)							
Federal tax credit	37	35	32	26	29	31	31
Provincial tax credit	41	33	42	37	37	41	51
Other public money	16	17	23	22	19	13	13
<b>Total</b>	<b>94</b>	<b>85</b>	<b>97</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>95</b>
Share of total financing	24%	23%	27%	29%	30%	31%	33%

Source: Nordicity Group calculations based on data from CRTC.

While the provincial and federal tax credits have become critical public funding elements in Canadian television production, the CTF still represents the largest single source of direct public-private investment in Canadian television programming, with contributions from Telefilm Canada, the Canadian government, and BDUs.<sup>9</sup> In 2005/06, the CTF provided a total of \$249 million in financing to Canadian television productions with budgets totalling \$817 million. CTF support was distributed across four genres – drama/comedy, children's and youth, documentary, and variety and performing arts.

Using statistics found in the CTF and Telefilm Canada's annual reports over the last several years, Nordicity has prepared estimates of the annual levels of *public* financing made available to children's and youth programming through the CTF. Since the inception of the CTF, contributions from BDUs have grown steadily as BDU revenues have grown. Contributions from the federal government have, on the other hand, remained stagnant. Because of this, the amount of public monies provided to CTF projects (through both the Equity

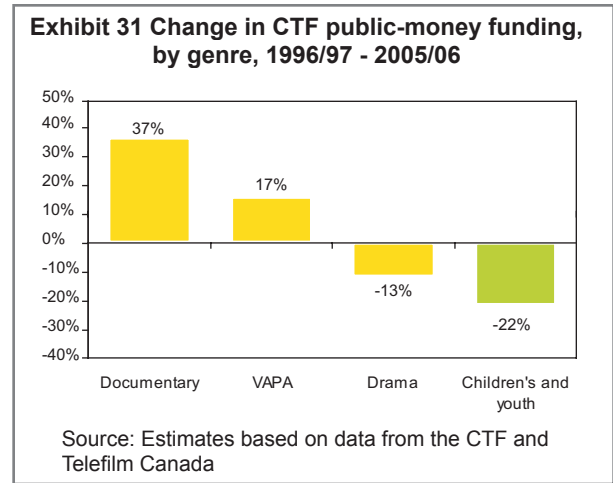
<sup>9</sup> BDUs include cable-TV providers, direct-to-home satellite services, and other distributors of multichannel television services

Investment Program [EIP] and Licence Fee Program [LFP] has decreased since the fund's inception in 1996/97. Children's and youth productions supported through the CTF have also seen the public-money portion of their CTF financing drop. In 1996/97 the amount of public money made available to children's and youth programming through the CTF totalled \$30.9 million; by 2005/06, the amount had dropped by 22 percent to \$24.1 million.<sup>10</sup> This represented the steepest drop among the CTF genres. Drama saw its public-money funding through the CTF drop by 13% between 1996/97 and 2005/06, while variety and performing arts programming experienced an increase of 17%; the documentary genre experienced a 37% increase.

**Investment by BDUs and private funds steps into the funding breach**

While direct federal government support for children's and youth programming has dropped over the last few years, private sector sources, particularly the BDUs, have stepped in to ensure that a pool of financing was available for the production of high-quality Canadian children's and youth programming. Within the CTF, BDUs have seen their annual contributions grow from \$44.3 million in 1996/97 to \$137.3 million in 2005/06. Out of the total BDU contribution, Nordicity estimates that \$22.2 million flowed to children's and youth television productions.

The CTF represents only one channel through which BDUs provide financial support to children's and youth production. Canada's independent production funds represent another important source of private-sector financing of Canadian children's and youth programming. Statistics supplied by Canada's independent production funds indicate that, in 2005, they provided an estimated \$14 million to the development and production of television programming for children's, youth and family audiences. The bulk of these monies came from BDUs. The Shaw Rocket Fund accounted for \$8.5 million. The Bell Broadcast and New Media Fund, the Cogeco Fund and Vidéotron Fund also made significant contributions to children's and youth programming.



**Children's programming: best return on public investment**

In today's political environment, governments are under pressure to demonstrate value for money in the investments they make in economic- or social-development initiatives. Value for money often entails attracting the maximum amount of private-sector contribution to an initiative, and perhaps recovering some of the initial public investment under certain circumstances. Public investments in audio-visual production should be effective in drawing private financing into production. When compared to overall television production and other fiction production, children's and youth production offers strong leverage of public investment.

Financing statistics reported by the CFTPA show that in 2005/06, children's and youth television production attracted \$1.99 in private financing for every dollar of public investment in production. The private financing included various forms of financing from broadcasters, distributors, foreign pre-sales, CTF

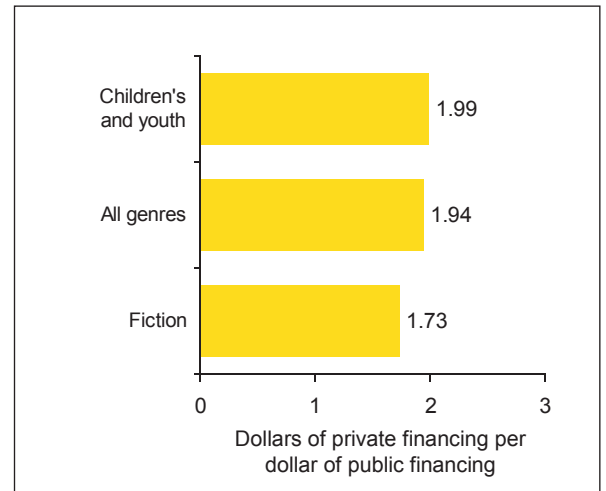
<sup>10</sup> While the CTF no longer operates with two distinct pools of funding, the Equity Investment Program (EIP) and Licence Fee Program (LFP), an alternate calculation approach that takes into account this legacy structure of the CTF would indicate that the drop in public funding to the children's and youth genre was 34% between 1996/97 and 2005/06 (\$26.4 million to \$17.4 million).

(Licence Fee Program), independent production funds, and production companies. The public financing largely came from federal and provincial tax credits, CTF (Equity Investment Program) and provincial-agency investments. By comparison, across all types of Canadian television production, one dollar of public investment attracted \$1.94 in private financing in 2005/06; Canadian fiction television production found \$1.73 in private financing for each dollar in public financing.

When compared to public investments in other genres of Canadian programming, investments in children’s and youth television productions also offer the best rate of investment recovery. As discussed in Section 8, statistics available for Telefilm Canada’s equity investments in CTF projects with vintages of 1996/97 to 2000/01 show that children’s and youth productions posted the highest rate of equity-investment recoupment among the CTF genres. Between 1996/97 and 2000/01, Telefilm Canada made equity investments in children’s and youth programming totalling \$54.4 million. On these investments, the federal agency has, to date, recovered \$8.3 million, or 15.3 percent of the original equity investment. This recoupment recovery rate is more than double the overall rate of 7.4 percent earned by Telefilm Canada from its equity investments.

Not only does Canadian children’s and youth television programming help Canadian broadcasters build strong audiences, it can also help governments improve the economics – leverage and return – of their own support programs for the audio-visual industry. Despite these metrics, the federal government (through Telefilm Canada and the CTF) appears to have allowed its commitment to the genre slide in recent years.

**Exhibit 32 Financing leverage of public investments in Canadian television production**



Source: Nordicity calculations based on data from CFTPA, *Profile 2006*

Over the course of the last sixty-plus years, Canada has built a children's and youth production industry that has achieved much global success. Through the course of the industry's development, Canada's policy makers have been highly supportive. They have enabled Canadian producers to create compelling children's and youth audio-visual content for domestic and international audiences.

The global media industry, however, has changed dramatically over the last decade, and it is poised to experience even more and faster change over the next decade. Canada's public policy framework for the support of Canadian audio-visual production, and children's and youth production in particular, may not necessarily be keeping pace with the global transformation we are witnessing. A policy and regulatory framework that, in the past, may have given Canadian producers the basis for fulfilling public policy goals at home may actually now be stifling their ability to contribute to these goals.

The social value of children's and youth content is overwhelming. Canadian society has a responsibility to inform and entertain Canadian children and young adults with Canadian stories. Further underlining the importance of the genre is the fact that it is on the front line of the revolution in multi-platform distribution. Children's and youth programming is ideally suited for online distribution, as is the interactive experience of educational content. Producers, content distributors and broadcasters of children's and youth programming have been experimenting with new content-distribution methods and models for some years already; other genres are just beginning to catch up with them.



While much of Canadian audio-visual programming, particularly in the English-language market, battles to lure domestic audiences away from foreign fare and offer good economics for producers, broadcasters, distributors and investors, Canadian children's and youth programming has had a very good track record. Canadian children's and youth programming captures significant shares of Canadian audiences in both the English-language and French-language markets. For Canadian broadcasters, this translates into a more efficient method for attracting Canadian viewers, and a very profitable niche to be in. For investors, the genre has demonstrated excellent international sales potential. Canadian producers can point to a long list of their programs that are currently airing on broadcast networks outside of Canada. No other genre of Canadian audio-visual programming has achieved a similar level of international success.

In today's financing environment, however, declining funding levels, and falling production volumes and average budgets will mean that Canadian program creators will miss an opportunity to provide future generations with programs that reflect our values – our sense of being Canadian. With this in mind, all stakeholders – producers, content distributors, funding bodies, broadcasters, government and the regulator –

must assess their commitment to the genre, with a view to putting Canadian children's and youth programming on a strong footing for the future – to create an environment where production levels can rise along with average budgets.

Producers, content distributors, funding bodies, broadcasters, government and the regulator all have a vested interest in fostering an environment where Canadian children's and youth programming can reach domestic and international audiences. The quality of Canada's children's and youth programming is high. This enables it to generate high audiences both within and outside Canada. What's more, the social and cultural benefits of the genre are compelling. By making the necessary investment in the genre today and the years to come, industry stakeholders can attract Canadian children and youth to Canadian programming and generate stronger interest in Canadian stories and audio-visual programming that Canadian young people will carry with them into their adult years.

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## Appendix A: Estimates of After-Market Sales

Nordicity used the following modelling approach to estimate the total value of after-market sales for children's and youth programming produced between 1996/97 and 2000/01.

- An analysis conducted by Nordicity in fall 2005 found that between 1996/97 and 2000/01, Telefilm Canada recovered 15.3 percent of the equity investments it made in Canadian children's productions. As well, during this period, Telefilm Canada recovered some part of its investment from 75 of the 95 projects (79 percent) it invested in.
- The financing of production is such that only certain financing elements are recoverable. The distributor typically recovers its advance first, before equity investors begin to recover their investments. In effect, for our modelling we assumed that distributors recovered their investment in 79 percent of projects. The average investment by distributors in CTF projects was nine percent. This rate of investment recovery translates into an implied recovery rate of 7.1 percent return ( $79\% \times 9\%$ ) when viewed as a share of total project financing.

**Exhibit 33 Estimate of the average investment recovery rate for CTF projects**

Type of financing	Average share of financing	Recovery rate for project investors	Implied investment recovery rate as a share of total financing
Broadcaster licence fees	25%	0%	0%
CTF-LFP	12%	0%	0%
Canadian distributor	9%	79.0%	7.1%
Foreign licence fees	9%	0%	0%
Tax credit and other public	20%	0%	0%
Investor equity	25%	15.3%	3.8%
<b>Total</b>	<b>100%</b>	<b>--</b>	<b>10.9%</b>

Source: Nordicity Group calculations based on data from CAVCO, Telefilm Canada, and CTF.

- Using Telefilm Canada's recovery rate of 15.3 percent and given that equity financing typically comprises about 25 percent of total project financing for CTF children's project, we calculated that, on a total financing basis, the implied recovery rate for equity investors was 3.8 percent ( $15.3\% \times 25\%$ ).
- Adding the estimates for distributor-advance and equity-investor recoveries yields an overall recovery rate of 10.9 percent ( $7.1\% + 3.8\%$ ) of total project financing. Therefore, we assumed that CTF-supported projects earned after-market sales revenues equal to 10.9 percent of total project budgets. We multiplied this rate by the annual volumes of CTF-supported children's and youth production to arrive at an estimate of the after-market sales for CTF projects.
- We used the same financing recovery rate of 10.9 percent to estimate the annual levels of after-market sales for non-CTF projects. We multiplied the annual volumes of non-CTF children's and youth production by 10.9 percent to estimate the annual dollar value of after-market sales.

**Exhibit 34 Estimate of after-market sales for children's and youth production (all amounts in millions of dollars unless specified otherwise)**

<b>Type of financing</b>	<b>1996/97</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>Total</b>
Volume of CTF production	147	127	211	117	124	726
Recovery rate	10.9%	10.9%	10.9%	10.9%	10.9%	--
Estimate of after-market sales	16	14	23	13	14	79
Volume of non-CTF production	93	46	158	267	236	799
Recovery rate	10.9%	10.9%	10.9%	10.9%	10.9%	--
Estimate of after-market sales	10	5	10	29	26	87
<b>Total (CTF + non-CTF)</b>	<b>26</b>	<b>19</b>	<b>40</b>	<b>42</b>	<b>39</b>	<b>166</b>

Source: Nordicity Group calculations based on data from CAVCO, Telefilm Canada, and CTF.

- We summed the dollar value estimates for after-market sales from CTF and non-CTF projects to arrive at an estimate of the total value of after-market sales from Canadian children's and youth production. We assumed that 100 percent of the after-market sales originated from outside Canada.
- The result: children's and youth productions created between 1996/97 and 2000/01 earned an estimated \$166 million from after-market sales.
- We arrived at the high-end estimate of export sales of \$400 million by multiplying the total number of produced hours of children's programming during the period (3,980 hours or 7,960 half hours) by an average after-market sales rate of \$50,000 per half hour ( $\$50,000 \times 7,960 = \$398$  million).

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*The Shaw Rocket Fund is a permanent, independently governed, not-for-profit corporation that provides equity financing for the production of high quality Canadian children's, youth and family programming. Its broader mission is to champion the best in children's programming. The Shaw Rocket Fund is supported by Shaw Communications Inc., Shaw Pay Per View Ltd. a division of Shaw Cablesystems G.P., Star Choice Television Network, EastLink Cablesystems and Delta Cable Communications.*



*The Alliance for Children and Television positively affects Canadian children's lives by using advocacy, recognition and training to enrich the screen-based media they experience. More specifically, the ACT Awards of Excellence support creators and encourage the celebration of the best kids programming in English and French Canada. ACT provides opportunities for creative and professional development through workshops, seminars and special events, such as Média-Jeunes and the Children, Youth & Media Conference. ACT is also at the forefront in lobbying governments and drawing attention to the cause of children's screen-based entertainment.*



*The National Film Board of Canada is a federal cultural agency within the portfolio of the Canadian Heritage Department. Its mandate is to produce and distribute films and audiovisual works intended for Canadian audiences and foreign markets, in order to increase viewers' knowledge and understanding of the social and cultural realities of Canada. NFB films are produced or co-produced, in both official languages, by filmmakers from across the country.*