Directors Guild of America, Inc.

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STATEMENT BY EDWIN **SHERIN**

ON BEHALF OF THE

DIRECTORS GUILD OF AMERICA

U.S. TRADE **DEFICIT REVIEW COMMISSION**

MARCH 13, 2000

Mr. Chairman and members of the Commission, thank you for inviting the Directors Guild of America, representing over 11,000 film and television directors and their directorial teams. We are pleased to submit our statement to you on the subject of runaway film and television productions. My name is Ed Sherin and I have been a director, producer, and actor for over forty years including over thirty years as a director in the motion picture and television industry. I am a member of the Directors Guild of America and currently **service** as the National Vice President of the DGA.

I would like to begin by thanking the members of the Trade Deficit Review Commission for devoting time to the challenges and obstacles facing the men and women who work in the U.S. entertainment industry today. Although my statement will include many numbers to demonstrate the impact of global subsidization of films and television programs, I want to begin by describing the artistic and aesthetic impact of runaway films and television.

Mr. Chairman, I also am well acquainted personally with the issue of runaway production. I have directed feature films and hundreds of hours of integral part of this city, which not only gives our productions their creative richness but also brings millions of dollars into the local economy.

Mr. Chairman, We film on the streets of New York City because nowhere else can the taste and feel of the city be recreated. Television programs like “Law and Order” are, however, becoming ever more rare. More often than not, a film or television program written with a specific city or American location is mind, is shot on the streets of Toronto or Vancouver or the suburbs of Ontario or British Columbia. The decisions to shoot in Canada and elsewhere are made strictly on the basis of money. The impact, however, is profound. The quality of the acting pool is limited; the vibrant and multicultural life of New York, Chicago or Los Angeles is replaced with a bland and one dimensional look; and the world view of America increasingly becomes a country of ersatz cities lacking character and history. Films and television programs are the means by which Americans view each other and by which the world views America. We must do more to make certain that these views accurately portray what we as a country are about.

The U.S.-developed film and television industry has grown into a $75 billion per year industry. Our television programs and theatrical films are shown to people over the entire globe, and our productions are the gold standard to which the television and film industries of every other country aspires. Unfortunately, the challenges facing the U.S.-developed film and television industry are growing more numerous and the obstacles more daunting even as U.S. productions are enjoying unprecedented acceptance throughout the world.

We particularly appreciate the opportunity to testify before you today because the financial success of U.S. film and television production has obscured to a significant extent the problems that afflict our industry. The most disturbing of these problems is the exploding number of US-developed television programs and theatrical films that are produced outside of the US. -what we call “runaway productions.”

Runaway productions can be divided into two categories: creative runaways and economic runaways. The former include productions filmed outside of the United States because of such creative considerations as location. As directors, we in the Directors Guild of America are the first to recognize and accept the importance of satisfying creative needs.

Economic runaways are a different story, however. Economic runaways occur solely to achieve lower production costs. In recent years, the practice of moving U.S. production beyond U.S. borders has reached alarming and ever increasing proportions. For example, a study commissioned by the DGA and the Screen Actors Guild concluded that the percentage of U.S. developed television productions has more than tripled from 1990 to 1998, and the percentage of U.S. developed theatrical films more than doubled during the same eight year period. Mr. Chairman, during these same eight years, the number of U.S. developed television programs and theatrical films produced in the U.S. increased by just ten percent and sixty-two percent, respectively.

The impact on the U.S. economy from runaway productions is enormous. The DGA and SAG study estimates that the combined effect of direct job losses, lost tax revenue and indirect economic losses totaled $10.3 billion in 1998. Moreover, these impacts are not felt just in Hollywood and southern California. Some of the most devastating economic losses have occurred in states such as North Carolina, Illinois, Washington, and Texas that have experienced absolute declines in production expenditures of between 20 and 37 percent. In other words, Mr. Chairman, while California has experienced a substantial slowing of growth in the number of television and film productions; North Carolina, Illinois, Washington and Texas have experienced an absolute decline in such productions.

The aggregate numbers of productions do not tell the full story of what is happening in our industry, however. The growing disparity in the growth of U.S.

developed television programs and theatrical films produced domestically and abroad represent a frightening harbinger for the future of the men and women working in the U.S. television and film industry.

In 1998 alone, the number of economic runaway productions cost U.S. workers more than 20,000 full time equivalent jobs as directors, assistant directors, unit production managers, associate directors, stage managers, actors, stunt and background performers, camera operators, production designers, wardrobe managers, makeup artists, set construction workers and drivers. Many of these lost jobs require highly skilled individuals who have devoted years to their profession. We estimate that the loss of jobs due to economic runaway productions increased five-fold between 1990 and 1998. Should this trend continue over the next eight to ten years, the impact would be devastating.

Moreover, the job loss caused by runaway productions affects thousands of people outside of the television and film industry. Ordinary working people who build cater food, operate hotels, wait tables in restaurants and bars, and work in other capacities that directly and indirectly support the production of movies and television programs also are losing wages and, in far too many cases, jobs. The U.S. Bureau of Economic Analysis, for example, has determined that for each lost dollar of goods and services related to film and television production and for each lost dollar of wages and salaries related to film and television production, the amount of direct spending lost to the United States is $3.60 and $3.10, respectively. In 1898 the U.S. lost $0.86 billion of goods and services and $0.85 billion of wages and salaries. Using the U.S. Bureau of Economic Analysis mulitplier formula, these losses translated into aggregate losses to the U.S. economy of $5.6 billion.

The principal factors causing U.S.-developed productions to leave the U.S. are the generous government tax credits other countries provide to U.S. production companies. For example, since 1996 Canada has offered federal rebates that equal

11% of spending for all Canadian labor involved in a production. Many provincial. governments supplement these incentives, creating a total savings of between 22% and 46% of all Canadian labor expenditures attributable to film and television production. Moreover, as of January 1998, Canada permitted wardrobe, stage props, special effects equipment, and photographic equipment of U.S. origin, used in the production of feature films, television movies, and television series to be imported duty-free. Canadian programs to encourage the construction of sound stages and the training of workers to meet the growing exodus of U.S.-developed productions supplement these benefits.

Mr. Chairman, Canada has targeted the U.S. film and television industry just as surely as Japan targeted the U.S. electronics industry over a decade ago. If we are to maintain our leadership in the global film and television industry, attract working men and women to the industry, and resist the economic entreaties of Canada and other nations, we must begin to respond today. First, the U.S. must insist that Canada revise its cultural content laws to allow open access of U.S. produced films and televisions to the Canadian market. Although designed to preserve Canadian culture, the current cultural content rules are nothing more than a jobs protection program.

Because of the Canadian cultural content rules, only 40% of films aired on Canadian television can be produced in the U.S. and other countries. The Disney Channel and HBO are not allowed to have their own channel in Canada due to laws designed to protect Canadian competitors. We believe it is intolerable that Canadian government officials and film commission representatives fly to L.A., New York City, and other U.S. production centers to entice film and television producers to the north with their incentive programs while simultaneously limiting the exhibition of U.S. films and television programs.

Secondly, the U.S. must equal the playing field between producing films and television in Canada and the U.S. We believe that most U.S. producers will choose to stay in the U.S. even if Canada offers modest economic advantages. The difficulty with the current situation, however, is the huge disparity between the two countries. The U.S. must provide a credit against wages attributable to work in the production of films and television that reduce the disparity even if the credit does not eliminate it.

Finally, the U.S. must act now. The erosion of U.S. jobs in my industry is accelerating rapidly. Until recently, a U.S.-developed *film* or television program produced in Canada would usually employ a number of U.S. based personnel to make the movie or television program including directors, assistant directors, actors and technical crew. But, as Canada has attracted increasing numbers of U.S. productions, the stable of experienced Canadian personnel has grown. Now, many of these positions are filled by Canadians; a trend that will surely increase in years to come. Canada is now the second-largest exporter of television programming, following the US. In 1998, Toronto became the third busiest production center in the world, after Los Angeles and New York, with Vancouver ranking fourth. Mr. Chairman, if we do not engage on this issue now, we will find that we have irretrievably lost U.S. jobs and jeopardized our global leadership in film and television industry.