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COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Congress of the United States
House of Representatives

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TESTIMONY BY CONGRESSMAN XAVIER BECERRA
AUGUST 5, 1999
WAYS & MEANS SUBCOMMITTEE ON TRADE

Let me begin by thanking Chairman Crane, Ranking Democrat Levin, and my fellow Subcommittee Members for affording me the opportunity to testify here this morning. I want to also commend my colleague Mr. Weller, for raising the issue of runaway productions as we start to develop our negotiating objectives for the upcoming World Trade Organization Ministerial in Seattle.

Jobs are leaving communities across the nation as production companies choose to film abroad rather than filming in California, New York, North Carolina, Illinois, Washington state, Texas, Oregon, Maryland, Michigan, or Wisconsin, as they had in the past. In 1998, the U.S. suffered a $10.3 billion economic loss because of productions moving to other countries. Last year runaway productions accounted for the loss of 20,000 U.S. jobs.

It is important to note that job loss resulting from runaway productions affects ordinary working people who build sets, provide lighting, 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. The average film industry worker makes about $26,000 a year.

Although a number of factors have caused productions to leave, it is clear that government tax credits in other countries have played an integral role in the exodus of U.S. production companies_ Countries like Canada recognize the benefits that U.S. movie and television production companies can bring to local economies. 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 22% to 46% on Canadian labor expenditures. Moreover, as of January 1998, wardrobe, stage props, special effects equipment, and photographic equipment, of U.S. origin, used in the production of feature films, t.v. movies, or t.v. series are imported duty-free.

I raise this issue today because there is a disconnect between the U.S. accepting Canada's insistence upon its cultural content laws while at the same time it aggressively targets U.S. jobs. For instance, only 40% of films aired on Canadian television can be produced in other countries. The Disney Channel and HBO are not allowed to have their own channels in Canada due to laws designed to protect Canadian competitors. At the same time, it is not uncommon for Canadian government officials and film commission representatives to fly to Los Angeles, New York City, or other U.S. production centers to attend events or meet directly with film and television producers to advertise their incentive structure. For example, representatives of Revenue Canada (the Canadian IRS) attended a recent "Location 99" show in Los Angeles in order to promote Canadian incentives.

The Office of the U.S. Trade Representative will be testifying in the next panel and I look forward to further developing the discussion on cultural content laws at that time. Three years ago the Trade Representative attempted to persuade Canada to drop cultural content restrictions, but unfortunately did not succeed. I encourage Ms. Barshefsky to redouble her efforts in this endeavor. In the past, the issue of cultural exemptions was more narrowly focused on whether a clear violation of free trade should be granted an exception. I think that the answer was "NO" then, and I think it is "NO" today.

However, the unfairness of the exception is even more dramatic today. The recent study commissioned by the Directors Guild of America and Screen Actors Guild demonstrates how the runaway productions problem has escalated since the last round of trade talks. Consequently, the U.S. must fight harder than *ever* to eliminate the cultural content restriction and open up the Canadian markets to all productions.

In 1996, the motion picture and television industry made a $27.5 billion contribution to California's economy-- $14.2 billion in economic activity was generated in Los Angeles alone. The industry is integral to sustaining our economic prosperity not only due to jobs created by the entertainment industry but also because it spurs growth in related sectors such as the fashion and apparel industry, furniture manufacturing, multi-media industry, and tourism.

Canada is now the second-largest exporter of television programming, following the U.S. In 1998, Toronto became the third busiest production center in the world, after Los Angeles and New York, with Vancouver ranking fourth. If we do not engage on this issue, we will find that we have irretrievably lost U.S. jobs because we failed to act in a timely manner.

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Congressman Jerry Weller

UNITED STATES FILM PRODUCTION AND THE **WTO** TALKS

August **5, 1999**

Mr. **Chairman,**

Thank you for this opportunity to testify here today. I want to reintroduce to the Subcommittee an issue that I brought before the full Committee during the markup of the Financial Freedom Act of 1999. The issue is the loss of 20,000 American film industry jobs **from runaway film production.** I want to raise this issue to urge that our domestic film industry be given a seat at the table at the WTO talks in Seattle to address the cultural content issue and its relationship to runaway film production.

The problem with runaway film production is a growing National issue which directly impacts thousands of working Americans from New York to Florida; Washington to California, Illinois to Texas. During the committee discussion on the Financial Freedom Act, I offered an amendment to introduce a wage based tax credit and creative financing tax incentives to counter the loss of film production jobs to Canada.

Remember the film "Coming to America?" Unfortunately, its seems that film making jobs are now running from America. In fact, a one time Presidential candidate once referred to that giant sucking sound of jobs heading south – well that giant sucking sound is really the sound of 20,000 film jobs heading north to Canada.

A recent study commissioned by the Director's Guild of America and the Screen Actors Guild shows that in 1998 over $10 billion was lost to runaway economic film and television production. This is more than fivefold since the beginning of the decade. In the last four years, Texas has shown a 31% decrease in direct production revenues, while my state Illinois is down nearly 20%. This has resulted in a loss of 20,000 jobs nationally.

In looking at the small businesses and jobs lost by this phenomena, we are not just talking about directors and actors, rather we are talking about the small businesses that support the film industry and make America great. This

includes: caterers, hotel and motel operators, restaurants and bars, rental equipment businesses, electricians, set construction workers and many others involved in this vitally important and culturally indigenous economic activity. Over the years, this industry has been a leading exporter and driver of small business job creation.

Mr. Chairman this is a constituent issue which we should take seriously. This is a constituent issue for you too. I come from a district which includes Joliet, Elwood and Calumet City, the home of Joliet Jake and Elwood Blues, which I often refer to as the "Blues Brothers" district. Last year, my constituents and I were stunned when they decided to make the film "Blues Brothers 2000", they choose to film it in Toronto rather than Chicago. Embarrassing was the fact that the Canadian filmmakers were calling the Chicago film commission to ask them how to best portray Chicago.

With my statement, I have included the Directors Guild and Screen Actors Guild study explaining the reasons why the film industry is moving out of the country, and they have concluded that one of the main reasons is the tax incentives offered in other countries like Canada, Australia and the U.K. which we do not have in the United States. Canada alone offers federal and provincial tax credits of between 22% and 46% of labor costs. Those incentives are enough to make any business relocate. Particularly when savings from filming in Canada can mean a dollar savings overall.

The United States should not be put at a competitive disadvantage by tax incentives offered abroad. Rather we need to level the playing field for the small businesses impacted by runaway production and create jobs in America, for Americans.

Related to this there is an issue of Canadian cultural content policy. The Canadian Government has given certain "cultural industries" special treatment. This policy has been implemented in large part through Canadian legislation, as well as some foreign trade through tariffs, taxes, foreign investment restrictions and content requirements that discriminate against U.S. cultural industries. Canada has consistently protected its cultural industries.

This has been discussed and negotiated in the past. I believe that it must be addressed in Seattle with the backdrop of the issue of runaway film production. We have a situation in which thousands of U.S. jobs are being lured to Canada and other countries through favorable tax treatment. While at the same time, cultural policies established by the Canadians and others discriminate against

U.S. interests thereby creating a double hit to industries like domestic film production.

Mt. Chairman, with the problem of runaway film production in mind, I ask that the issue of cultural content be placed on the table and addressed at the WTO talks in Seattle. Lets be honest about this issue of runaway production — its all about jobs. The average film industry worker earns $26,000 a year. This Congress has given great attention to the loss of 10,000 steel industry jobs over the past year. The film industry has lost 20,000 jobs and most of those jobs have emigrated north. It is time to address the problem and save U.S. jobs.

Thank you Mr. Chairman.