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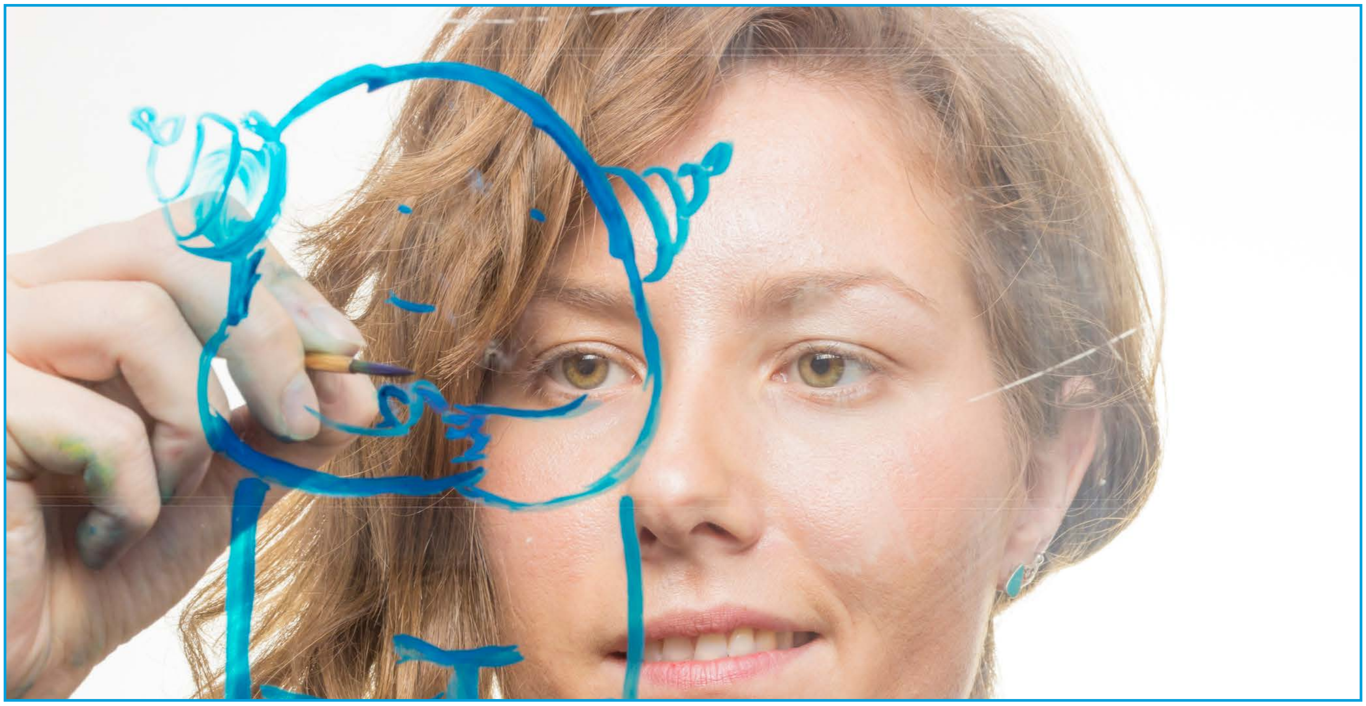
EXECUTIVE SUMMARY: ASIAN ANIMATION INDUSTRY

2016



SUMMARY

Asia has become a major player in the animation industry. The globalized media industry has allowed Western studios to establish and maintain production facilities in Asia by outsourcing various parts of the production process.

Animation production is a three-part process:

1. pre-production: projection drawing for camera angles, script, character design, storyboard and layout
2. production: key frame transitions, animation picture and colouring
3. post-production: special effects, editing and output

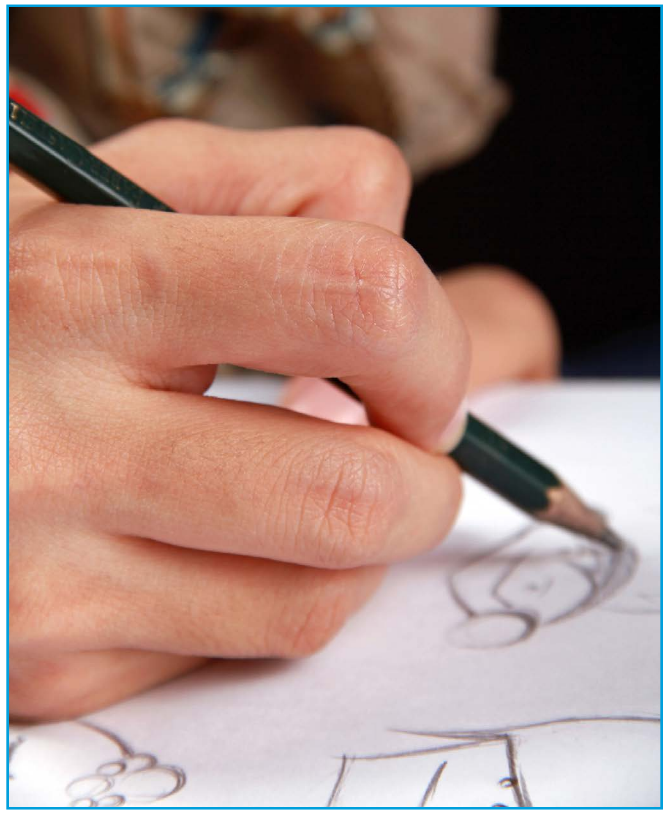
The second phase, production, is where work is outsourced.

An overview of the market in conditions in Asia reveal that:

- Japan is the centre of animation production in East Asia. It has a strong domestic market that produces a sustainable supply of animation content. Japanese media and entertainment companies have signed contracts with overseas partners in South Korea, the United States, Taiwan, mainland China, Canada, as well as parts of Southeast Asia (e.g. Thailand).

- South Korea and China are representative of the growing regional trend toward subcontracting from foreign production companies (mostly Japanese and Western). China is trying to become a more competitive animation hub through industry incentives and broadcasting regulations that have enabled cities such as Beijing, Shanghai and Guangzhou to become domestic animation hubs.
- Southeast Asia is a growing potential market for animation. Wiwat Wongwarawipat, a board member of Thailand's Software Industry Promotion Agency, said that economic volatility in the eurozone and the U.S. have lowered demand there, leading to a major shift to Asia, especially ASEAN countries. Thailand is seen as one of the fastest growing markets for both consumption and production of digital content. Japan has been active in the region, looking for more co-production in Thailand to pave the way for expansion to Myanmar, Laos and Cambodia. Thailand's own co-operation with Malaysian studios could also open the doors to Indonesia and Brunei.

Vancouver, as a regional North American hub, can tap into this market. Although British Columbia cut tax credits for the film and animation industry due to the low value of the Canadian dollar, more than 60 digital media companies make up the local VFX (visual effects) and animation industry. Creative BC's Annual Activity Report for 2013-14 reported the dollar value of salary and wages resulting from digital animation and visual effects at C$270 million, a figure that continues to grow.



Some of the largest barriers to the growth of the Vancouver animation industry include:

- connectivity infrastructure (including fibre optic and power networks) and space
- a skilled workforce equipped with the appropriate training
- lack of a streamlined immigration process needed to bring foreign talent

With intra-country, regional, and global co-productions becoming popular options that benefit multiple countries, importing rising talent from Asia may alleviate some of the problems the Canadian animation industry is currently facing.

OVERVIEW OF THE MARKET

The economics of the animation industry have made it feasible for Asia to easily feed into this market. Western studios have established production facilities in various Asian economies where it is estimated that 90 per cent of all American television animation is produced in Asia.

Work in the animation industry can be classified into three general areas of development:

1. Pre-Production:
    - work is usually completed in the headquarter country (e.g. the U.S. or Japan); this includes: planning, script, character design, storyboard, and layout
2. Production:
    - animation designs are then sent to other countries in Asia for production: drawing cells, colouring by hand, inking, painting, and camera work
3. Post-Production:
    - work is then sent back to the headquarter country for post-production (film editing, colour timing, and sound)

Asian animation companies argue that they provide employment opportunities for youth, bring in foreign capital, and further enhance the domestic animation industry. Offshore animation helps facilitate the creation of a local industry. As infrastructure is built up, equipment is installed, put into place, and skills are transferred from other industries.

ESTABLISHED MARKETS IN EAST ASIA

Although digital animation allows for production to occur anywhere in the world, people who work in these industries are typically concentrated in specific cities. Some of the biggest movie, music and print media studios are located in New York, London, Paris, and Tokyo. In Japan, up to 78 per cent of Japanese animation studios are located in Tokyo.

In East Asia, Japan is the centre of animation production; the popularity of Manga and their conversion into animation series has put Japan at the top of the Asian animation industry. South Korea, specifically Seoul, has emerged as another animation hub and is one of Japan's regional rivals in the animation industry. Finally, China has also emerged as a rising player. As a latecomer to the animation industry, its market is currently growing with much of the activity centred on Shanghai, Beijing and Guangzhou. Other notable markets in the Greater China Region include Hong Kong and Taiwan, which have also had experience with animation production as both lead and co-producers.

JAPAN

- It is the oldest modern animation industry in East Asia, beginning in the 1960s before the rise of multimedia and web industries.

- The industry has grown alongside the expansion of the domestic market, creating relationships between the Japanese animation industry and related content industries.

- The animation industry has been sustained domestically through the proliferation of content demand in areas such as anime and manga.

- In 2012, a report on the animation industry (Anime sangyo repoto 2012), estimated that the annual sales in the previous year were about 158.1 billion yen (approx. C$2 billion).

- In Japan, over 130 new animated TV series are broadcast each year.

- Because a single animation studio cannot create all the necessary drawings for a complete series (which consist of multiple episodes), some episodes are outsourced to other studios in other countries in the Asia Pacific (see section on ASEAN and the animation market).

SOUTH KOREA

- The country's animation industry has developed through subcontracting from Japanese and Western animation industries. This is still the case today.

- During the 1980s, animated movies were the domestic industry's main product, partly because of the low level of TV ownership.

- The development of South Korea's animation industry resulted from the international division of labour from Japanese and Western animation industries. Many of the orders received are production departments' processes, such as key picture, animation picture, and colouring for studios.

- The Korea Culture and Contents Agency (2004) notes that (1) Japanese-made animation accounts for the largest share of products circulating in the South Korean domestic market, and (2) subcontracted production from overseas accounts for the largest share of revenues among animation studios. Incidentally, recent years have seen both an enlargement of the South Korean domestic market and the expansion of South Korean production companies into foreign markets.

- Some universities offer courses related to animation production. However, as of 2014, there was no technical school that acts as a source of labour supply for the outsourced Japanese animation industry.

CHINA

- The country's modern animation industry did not begin until the 1990s, adopting the animation picture and colouring processes of the Japanese and Western animation industries.

- For the 2014-15 year, the total output value of China's animation industry exceeded RMB100 billion (approx. C$19.6 billion), up 14.84 per cent from a year earlier.

- Shanghai ranked second in China for the number of animation series aired. In the past, it was the foreign market, rather than the domestic market, that supported Shanghai's animation industry. However, with new policies pushing the growth of the domestic animation industry, there has been an increase in domestic animation productions.

- Products circulating in the domestic market are produced by foreign production studios, in particular, Japan. Although the Chinese animation industry has a huge potential domestic market, the overseas markets support the industry.

- There have been state-led initiatives to improve the quality of the country's animation industry, such as establishing industry incentives and broadcasting regulations. For instance, SARFT (State Administration of Press, Publication, Radio, Film and Television) requires each TV station to allocate at least 60 per cent of animation airtime to domestic animation. Under the Chinese broadcasting system, studios have to obtain permission to make new animation products by applying to the government with their project plans.

- According to surveys about opportunities for staff to acquire technical skills, workers gained industry-acquired skills through a combination of factors:
    - guidance on the job from senior staff members
    - self-education after joining the industry
    - acquiring skills at educational establishments and study groups comprising fellows
- China's animation industry has skyrocketed recently with the success of several films, including: Monster Hunt (2015), Little Door Gods (2016), and Monkey King: Hero is Back (2016), which have all become popular domestic box-office hits.

NEWLY ESTABLISHED-RISING MARKETS IN ASEAN

- Thailand's Software Industry Promotion Agency has described the country as one of the fastest growing markets for both consumption and production of digital content globally, and one of the top industries for future growth.
- From 2004-2009, Thailand invested US$2 billion into its multimedia and animation industry. Japan's Nomura Research Institute also ranked Thailand as the top destination within ASEAN for digital content and animation.
- As of 2016, it is reported that 54 deals have been signed with Japan's leading animation companies. The top countries that Japan has signed deals with include South Korea and the United States, with 78 contracts each, Taiwan (76), mainland China (64), and Canada (57). When it comes to contracts landed by Southeast Asian countries, Thailand leads the way, followed by Singapore and Malaysia.

INDIA

- The animation industry in India is driven by the same factors as in ASEAN – a large base of highly-skilled labour and low production costs.
- The government's role in supporting the animation industry adds to the growth. Industry centres are Hyderabad, Mumbai, Pune and Chennai.
- India has also demonstrated a rise in some areas of film production, such as special effects. A combination of high-speed Internet and the rise of a computer graphics industry in Mumbai have helped India become a special effects production base for Hollywood.

VANCOUVER AS A CREATIVE INDUSTRY HUB FOR ASIAN ANIMATION

Vancouver, as the third largest centre for the North American film industry outside the U.S., has been commonly described as "Hollywood

North." Since the decline of the Canadian dollar, the BC Government, assessing market conditions, reduced the tax credits available due to the "unsustainable" condition of the market. Beginning in October 2016, new film and TV productions are eligible for 28 per cent tax credits, down from 33 per cent. Meanwhile, tax credits for visual effects and animation studios will drop to 16 per cent from 17.5 per cent.

Despite this, many American companies have moved their headquarters to Vancouver due to the favourable exchange rate. For instance:

- Sony Pictures Imageworks moved its headquarters from California to Vancouver last year. Its satellite office currently employs approximately 700 people in downtown Vancouver.
- DHX Media announced earlier in 2016 that it would centralize its two Vancouver animation studios into a single hub in a new studio located in Mount Pleasant.

According to the Vancouver Economic Commission, more than 60 digital media companies make up the local VFX (visual effects) and animation industry, which represents the "world's largest cluster of domestic and foreign-owned studios." Even with the provincial government's 1.5 per cent tax credit cut for visual effects and animation studios, the industry does not show any immediate signs of slowing down.

B.C.'s animation industry produces a variety of entertainment, ranging from children's cartoons, fantasy video games, and action TV series. Creative BC and the B.C. branch of the Canadian Media Production Association recently held the first 'BC Animation Day' in Los Angeles to showcase the breadth and range of B.C.'s creative talent and build relationships with top producers in the industry. The participating B.C. companies included: Arcana, Atomic Cartoons, Big Bad Boo Studios, DHX Media, Bardel Entertainment, Kickstart, Nerd Corps Entertainment, Rainmaker Entertainment, Slap Happy Cartoons, Sequence and Waterproof Studios.

Delna Bhesania, CEO of Bardel Entertainment Inc., one of the main animation studios in North America, identified three main areas restricting growth in the Vancouver animation industry:

- Connectivity infrastructure and locations to set up production: There is a critical need for power and fibre optic infrastructure in buildings. Kelowna, B.C. has the infrastructure but is not yet set up to attract talent to relocate.
- Skilled workforce: Many graduates need extensive additional training to be employable, leaving the industry continuously short of skilled labour.
- Immigration processing applications: A more streamlined process is needed to go through Service Canada's Labour Market Impact Assessment applications to bring in talent from other countries.

PROSPECTS FOR CANADA-ASIA COLLABORATION

Given Canada's shortage of skilled labour, talent from Asia may help solve some of the shortages the Canadian animation industry is facing. Targeting markets in East and Southeast Asia and more specifically some of the labour intensive skills needed in the production phase of the animation process can help draw talent from specific countries such as China, South Korea, Thailand and others in Southeast Asia that are emerging as rising animation markets.

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