

Future Policy and Strategy for Sweden's Film Sector

for

Swedish Film Producers' Association

and

Film i Väst

Final Report

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Table of Contents

Table of Contents

Key Points	4
1. Executive Summary	6
1.1 Introduction.....	6
1.2 The Current Situation.....	6
1.3 A Vision for Sweden's Film Sector.....	7
1.4 Recommendations.....	8
1.5 Methodology.....	9
1.6 About Olsberg SPI.....	9
2. Findings: Policy and Business Infrastructure	10
2.1 The Current Film Agreement	10
2.2 Current Environment for Producers	12
2.3 Funders.....	15
2.4 Typical Financing Plans in Sweden.....	16
2.5 Distribution and Exhibition	16
2.6 Training Provision Across the Sector.....	18
2.7 Piracy/Illegal File Sharing.....	19
2.8 Sector Strategic Direction	21
2.9 Wider Government Policy.....	21
2.10 Sweden's Film Sector – an Impression.....	22
3. Comparator Country Benchmark	24
3.1 Overview.....	24
3.2 Support Analysis.....	24
3.3 Success Factors	27
3.4 Key Lessons in Film Production and Support	34
3.5 Key Lessons - Other Issues.....	37
4. A Vision for Sweden	41
4.1 Embracing the Future.....	41
4.2 Benefits of a Dynamic Film Sector.....	41
4.3 Citizen and Consumer Rights.....	44
4.4 Repositioning Sweden's Film Sector.....	44
4.5 Achieving the Vision – A Key Challenge.....	45
5. Recommendations	46
5.1 Strategic Thinking and Change Management.....	46
5.2 Bringing in New Source of Finance.....	46
5.3 Strengthening the Producer's Position.....	48
5.4 Screen Sweden's Longer Term Role.....	50
5.5 Making the Case to Government.....	52
5.6 Adjusting Terms of Trade for Producers.....	53
5.7 Address the SF Monopoly.....	53
5.8 Engage with Digital Innovation	54
5.9 Combat Piracy and Illegal Downloading.....	55
5.10 Exports.....	55
5.11 Summary of Recommendations.....	57
Appendix 1 Comparator Countries Case Studies	60

A1.1 Australia.....	60
A1.2 Austria.....	68
A1.3 Denmark.....	75
A1.4 France.....	85
A1.5 Ireland.....	94
A1.6 UK.....	101
A2. Sweden Current Landscape	110
A2.1 Key Funders.....	110
A2.2 Talent and Critical Success.....	111
A2.3 Support Mechanisms.....	112
A2.4 Levels of Production.....	113
A2.5 Digital Activity.....	114
A2.6 Key Statistics	115
Appendix 2 Consultation List	117

Key Points

The Challenge:

- Sweden's film sector possesses all the elements needed for success
- Yet the sector appears “stuck” and lacking in confidence
- There are some structural imbalances that inhibit the sectors' growth
- Requiring a series of inter-related adjustments in practices
- To raise the level of successful activity for all participants
- Will a renewed, voluntary Film Agreement be sufficient to meet the challenge?

The Opportunity:

- Film is recognised worldwide as providing a unique range of benefits that add to public value
- These benefits deliver across a number of government agendas – cultural, social and economic
- Sweden's is a mature and accomplished film sector that is primed for growth
- Provided a “whole of sector” strategy is created and delivered
- The ending of the current Film Agreement provides a focus for addressing these opportunities.

The Vision:

- To create a healthy sector which successfully balances commercial films with those of a more challenging nature
- To create and deliver a whole of sector strategy to ensure the sector's growth
- To ensure governments understand the range of benefits that a healthy film sector delivers and that national and regional governments support the new strategy
- To ensure audiences for Swedish films are maximised at home and abroad
- To enable the growth of sustainable, viable film production businesses involved in film production
- To ensure that Swedish creativity, dynamism and innovation are central to the sector's development.

The Solutions – a Range of Recommendations:

- Replace the voluntary Film Agreement with a new film law, the “Film Statute”
- Create Screen Sweden – a re-organised and re-branded Swedish Film Institute charged with creating and delivering a “whole of sector” strategy
- Replace the current cinema levy with a new system that secures similar funding from all distribution formats, including online
- Replace PRS with a new system of automatic funding for “commercial” films based on filmmakers' success with their previous films among audiences across all distribution formats
- Direct an enhanced level of Screen Sweden selective funding into those challenging films that might not otherwise secure automatic support
- Address the fundamental weakness of production companies by encouraging

diversification and improving their terms of trade with regional funders and SVT

- **Combat piracy and illegal downloading through a bolder series of enforced measures**
- **Address the Svensk Filmindustri cinema monopoly with a view to broadening choice for audiences**
- **Screen Sweden to introduce a number of new initiatives including a film sector Forum, a new national training strategy, a series of pilot schemes to encourage digital innovation, a scheme to “hallmark” filmmakers who achieve success with more challenging films and a reinvigorated export strategy**
- **A new stakeholder engagement programme to increase awareness and information and to ensure Government recognises and values the film sector's broad contribution to public value**

1. Executive Summary

1.1 Introduction

Olsberg|SPI (“SPI”) has been retained by the Swedish Film Producer's Association in association with Film i Väst to conduct a strategic review of Sweden's Film Sector in order to make a number of future policy recommendations for the sector (the “Assignment”). This report of the results of the Assignment is designed to inform discussions around the expiration of the current Swedish Film Agreement which ends in 2010.

The findings and opinions expressed in this report are those of SPI, and represent an independent assessment of Sweden's film sector.

1.2 The Current Situation

Our key finding regarding the current situation is that Sweden possesses all the elements required for a successful and dynamic film sector. However, for a variety of reasons, a set of inter-relating adjustments to practices are needed, by most participants in the sector, in order to release the potential for further and sustainable growth. Otherwise the sector will remain “stuck” in what currently feels like a holding pattern, evidenced by weak producers, relatively few successes and a very small selection of financing and distribution sources for independent Swedish films.

1.2.1 Positive Factors

There are many aspects of the situation that provide an excellent platform from which to build a sustainable sector. These include:

- the presence of an established box office levy that provides an excellent and equitable method of diverting funds into the sector
- potential for additional sources to those currently involved in the Film Agreement by bringing some other end-users of film into the funding environment
- a bedrock of current film making talent, particularly directors and actors, with international reputations
- a foundation, or history, of accomplishment in film that is internationally recognised
- strong regional support for the sector which (in the absence of similar support from central government) has enabled production levels to be maintained
- SFI's engaging more with the strategic requirements of the sector, for example with its use of unspent PRS funds
- Sweden's global brand which enjoys a well-regarded profile with several culturally and consumer related successes.

The period leading up to the Film Agreement's term ending also provides a useful opportunity to examine the sector and plan for its future success.

1.2.2 Negative Factors

The impression that the sector is somehow static or stuck emanates from a number of issues that cause concern, such as:

- poor business models for producers, the entrepreneurs on which much depends, who tend to be financially weak and therefore unable to attract private finance
- terms of trade from regional funds and SVT that are difficult for producers and private sector investors and do not sufficiently value or recognise the non-financial benefits that accrue to those entities – contributing to the weakness of producers and lack of private equity finance
- an over-reliance on the SFI consultant system which concentrates decision making among too few persons, reducing the range of projects that obtain funding
- an “unintentional cartel” of funding decision-makers – SFI, regional funds, SVT and also SF and the Nordic Film & TV Fund. This serves to create poor financial positions for producers and also limits the variety of films
- lack of diversification among the production businesses, of which there are too many
- no sense of collective vision or opinions: the sector rarely meets together to discuss and debate issues and solutions
- film schools are not producing professionals that meet the requirements of the marketplace
- an apparent monopoly in the exhibition sector that inhibits several other aspects of the sector, reduces competition and limits audience choice
- too few options in the distribution sector
- illegal downloading of pirated films
- an absence of a whole of sector strategy for the sector, a reflection of central government not interested in fully engaging with the sector and its potential¹.

1.3 A Vision for Sweden's Film Sector

Sweden has a great opportunity to reposition itself in regard to its film sector. All the necessary elements, skills and abilities are evidenced. SPI found that these positives might even be more recognised outside Sweden than within. Sweden has a strong film culture and a variety of global consumer brands and cultural successes that keep it in the forefront of the international creative industries environment.

SPI believes that, with a number of inter-related adjustments to certain conditions and behaviours, the Swedish film sector can overtake the positions recently taken by some of its (perceived as) more successful neighbours.

The vision for Sweden's film sector is one in which:

- there is a **healthy balance** between, on one hand, commercially-oriented films aimed at wider audiences and, on the other, those more challenging² films that provide a diversified range of Swedish stories, viewpoints and experiences
- a whole of sector **strategy** is created from the centre; clearly articulated and understood by all segments involved, and successfully implemented and measured
- Sweden's national and regional **governments** clearly **understand** the range of cultural, social and economic benefits that a successful film sector will provide and support the strategy that will see them delivered

1 Although the Film Agreement has many positive aspects, the fact it is voluntary, and has to be regularly re-invented, is a structural weakness and rare among most countries similar to Sweden.

2 “Challenging” includes a range of films involving (for example) diverse voices, different points of view, non-mainstream stories, new talent, documentary, shorts and children's films that are not obviously candidates for support from the commercial marketplace – yet for which there are important audiences at home and overseas.

- more **robust businesses** emerge that are involved in film production, and other diversified activities, and that are strong enough to both raise capital from the private sector and withstand the inevitable cyclical conditions in the film market
- Swedish creativity, dynamism and **innovation** become more central to the sector's development accompanied by an increase in traditional and digital film making skills among film workers
- **audiences** for Swedish films are maximised both at home, and overseas, whether through traditional cinema “windows” or newer formats and methods of delivery.

With film more securely (and deservedly so) part of government's agenda, it should be possible to create strategies that deliver sustained, long term success for the sector.

1.4 Recommendations

In order to achieve this vision it is necessary to implement an inter-linked series and initiatives, that will require adjustments to behaviour in most segments of the sector, in order to gain the benefits to all that a successful film sector will deliver. These adjustments will be part of an overall strategy for the whole of the sector that currently is missing. It may be that short term discomfort will result for some, but the medium to long term benefits to all will outweigh these concerns.

SPI's main recommendations are briefly summarised below:

- engage with central government to ensure understanding of all the benefits of a healthy film sector - cultural, social and economic
- convert the Film Agreement³ to a legislated (not voluntary) and more permanent system of support measures not subject to regular re-assessment – for the purposes of this report this is termed the new “Film Statute”
- adjust SFI's mandate to become the body responsible for creating and delivering the strategy for the sector, through empowering the sector rather than direct investment decisions
- rebalance SFI's activities in direct, selective production investment by focussing it on more specialised areas of support (for example for new talent, diverse voices, documentaries, shorts and children's films) where SFI's involvement delivers true “additionality”
- in order to reflect the change in SFI's mandate, re-brand it as “Screen Sweden”
- create a new levy designed to embrace all new and existing distribution windows so as to ensure sufficient funds are available in future if box office revenues decrease
- reward successful producers - most production funding generated by what was the Film Agreement should support the automatic funding of future production based on success of previous projects with Swedish audiences (to replace the current PRS) administered by Screen Sweden (these measures may have the effect of reducing the number of production companies, but those remaining will be stronger)
- address the financial weakness of producers by improving their terms of trade with regional funds and SVT
- initiate new and strengthen existing measures to combat piracy and illegal downloading
- engage with SF's perceived monopoly in exhibition in order to create a more competitive environment for the benefit of audiences and the sector
- Screen Sweden to introduce a “hallmarking” scheme for ranking production companies (according to a variety of criteria) with regard to applications for different forms of support

3 Currently renegotiated every 5 years

- Screen Sweden to convene a regular, high level sector forum for discussion of sector issues and initiatives
- Screen Sweden to review the training provision for [professionals and consider future needs and improvements to delivery of training, in conjunction with the sector
- Screen Sweden to run a series of pilot programmes to experiment with opportunities provided by digital innovations along the value chain
- Screen Sweden to reinvent its export promotion policies and give greater support to international distribution and festivals for Swedish films.

Collectively, the implementation of these recommendations will affect most elements of the sector. They should be phased in according to the strategy developed with sector support by Screen Sweden, with input from all stakeholders.

SPI realises some of these suggestions are radical, and might initially affect some entities more than others. However, we believe a more focussed, clearer strategy for the sector will emerge. The result will be an increased level of activity for all segments, and greater successes for Swedish film at home and abroad.

1.5 Methodology

The findings in this report are a result of extensive consultation and research. SPI's approach to this report was as follows

- Initial desk research
- Confidential consultations in Sweden
- High level stakeholder focus group
- Further research
- Further consultations
- International benchmark of comparator countries
- Final analysis and report writing

1.6 About Olsberg | SPI

SPI is a strategy consultancy, based in London, which specialises in the international film, television and related media industries. We have over sixteen years' experience in providing high value strategic advice to clients in the UK, Europe and around the world. SPI has a strong track record in advising on public policy for national and regional media bodies, including studies measuring the economic impact of policy measures. The Team for this Assignment was as follows:

- Jonathan Olsberg (Chairman)
- Richard Miller (Managing Director)
- Dr Libbie McQuillan (Senior Analyst)

2. Findings: Policy and Business Infrastructure

2.1 The Current Film Agreement

2.1.1 The Cinema Levy and Other Funding Sources

Sweden's Film Agreement is a multi-annual policy agreement between the State and certain sector players, in particular broadcasters, to contribute agreed sums of money to be distributed by the Swedish Film Institute ("SFI"). The multi-annual policies which run for a period of five years have been in place since 1963. Importantly, the agreement includes a cinema levy raised from box office takings (which in 2007 generated around SEK 95 million accounting for approximately 29% of funds raised by the Agreement)⁴.

The Film Agreement is remarkable for a number of reasons. First of all, it is a long standing support system. Secondly, it is negotiated and agreed policy between sector players. Lastly the presence of the cinema levy is highly advantageous. A limited number of other countries enjoy the benefits of a levy (France and, recently, Poland being two examples).⁵

In addition to the cinema levy the Agreement also provides important support from Swedish broadcasters but it is not comprehensive, in that there are other elements of the film value chain (or "windows") that are not currently included.

Patterns of film consumption are shifting dramatically with viewers able to access content by a variety of digital means. The film sector is undergoing wholesale change as business models evolve in the digital age. This challenge is posed to the whole of the international film industry. Sweden's next Film Agreement model must take account of these changing realities and needs to re-evaluated in order to re-position Sweden for the future. Revenues from DVD, Video on Demand and other Online Distribution sources should be included in the "net" of the Agreement.

2.1.2 Self-Regulation

The Film Agreement is subject to negotiation between sector players. Its existence is not legislated for. This means that the model of the Film Agreement itself is vulnerable and by no means assured. Whilst the tradition of the Agreement presents the advantage of sector players co-operating together, this form of self-regulation also ultimately means that government is less active and involved in the creation of a overall holistic film policy.

In countries with mature film industries throughout the world government plays an active policy role. This is the case in countries such as Australia, Denmark, France and the UK. The stronger the political will and strategic engagement with the film sector on the part of government the more successful film economies become. Whilst the Swedish State is a major contributor to the Film Agreement (SEK

⁴Source SFI

⁵France's levy is historical and has been in place since 1953. Poland's is relatively new and has been in place since 2006. The levy is a means of ensuring that box office takings from all films, including highly popular Hollywood blockbusters, ultimately contribute towards the production of national product reflecting a country's national heritage and culture. In both France and Poland levies are not restricted to box office but continue to accumulate revenues across a variety of windows.

180m.)⁶ the tradition of the voluntary Agreement has meant that the Swedish government provides funds but does not necessarily wholly engage with the sector, or the strategy for its development.

2.1.3 *Film's Ability to Contribute to Other Strategic Agendas*

Across the Western world there is increasing strategic emphasis on the part of government and policy-makers on the value of the creative industries to the new knowledge economy. This is also the case in Sweden (see Section 2.9) However, to date Swedish film support has largely been carried out under the auspices of the cultural agenda rather than a wider creative industries agenda. This position does not recognise film's potential to contribute to other social and economic agendas. A more balanced approach is needed.

The cultural benefits of film have been long recognised and valued in Sweden, as in many European countries. The economic benefits of film have also (more recently) been recognised by most countries with a mature film sector as well as by many smaller countries looking to develop strategically the growth of film markets. In addition, film is increasingly seen as a key driver of other creative industries.

The traditional cultural benefits of film as a carrier of national languages, as a reflection of heritage, identity and lifestyle should not be underestimated. Indeed, the cultural benefits of film often go naturally and holistically hand in hand with positive economic effects. For example, the case of the benefits presented by film tourism are simultaneously cultural and economic. In the new knowledge economy, inspiring creativity in a country's citizens is importantly linked to the promotion and creation of higher-value knowledge economy jobs.

A healthy film sector can help stimulate creativity, film literacy and growth across all aspects of society and the economy. Many film-related skills (both creative and technical) are transferable to other creative domains. Film is particularly unique among the creative industries since it develops and utilises the skills and services of other key creative industries. This reinforces its position as an engine or hub for activity within the creative economy. Creative industries are increasingly linked to information technologies. As such the creators of content are key to the new global knowledge economy. In particular, film as the most prestigious of all content generators, is at the heart of this changing economy.

The extent to which film can play an important role in delivering the objectives of a knowledge economy have not yet been fully explored by Swedish policy makers. To some extent the mechanism of the Film Agreement and its periodic renewal – and the resultant lessening of engagement on the part of government – has meant that the importance of taking a "wider view" on the value of film investment has until now been a missed opportunity for Swedish policy makers.

2.1.4 *Need for A Strategic Vision*

Currently, there is no holistic⁷, long-term strategic vision for Sweden's film sector. Although the Swedish Film Agreement has been the bedrock of film funding in the country, it has not been substantially rethought in decades. By focussing solely on film as a cultural enterprise, Swedish film support and the larger sector is at risk of stagnation. There needs to be a broad rethink on how to best deliver this long-term vision.

⁶ Although both Denmark and Norway contribute approx. twice the funds contributes to the film sector than Sweden.

⁷ Meaning a strategy that emphasises the health of the whole of the sector rather than the individual parts that make it up.

In an increasingly globalised and connected world both the international film industry (in terms of changing business models) and governments (in terms of strengthening knowledge economies) are coming under new pressures to change behaviour in order to ensure a healthy future. There is therefore a distinct moment of mutual opportunity for both the Swedish government and Sweden's film sector players to operate more strategically and coherently together. The results should include a series of benefits and enhanced public value balanced across the cultural and economic agendas.

2.1.5 Cultural and Economic Concerns

The European Commission's recent clearance of a number of automatic national support schemes (in the UK, Malta, Germany and Hungary) has witnessed the introduction of a number of "cultural tests". Films applying for fiscal support in these countries under the various national fiscal schemes must pass these tests which are effectively nationality tests on content awarding points for the use of local stories and talent. The introduction of these cultural tests has been greeted by some unease around Europe – being interpreted by some industry professionals as a new and tighter focus on culture on the part of the Commission. However, these tests are in line with current European regulation and a consistent form of interpretation of the regulation by the EC itself.

The European Commission's concern is that European countries are using European tax payers' money to attract inward investment principally from the US. Aid to film production can only be justified under the cultural derogation (Article 87(3)(d) of the EC Treaty). Each Member State's right to determine its own culture and the Commission's mission to preserve cultural diversity are enshrined in the Treaty via the right to subsidiarity and Article 151(4) respectively. The right to subsidiarity means that there is no one definition of culture in Europe. The Commission has also in various notices explicitly recognised that film industry is driven both by cultural and economic concerns.⁸ The EC recognises that a degree of economic activity must exist for the production of cultural products specific to a nation.

Support to film production in Sweden to date has very much been orientated towards the creation of nationally specific stories which reflect the culture, heritage and language of Sweden, and likewise to the production of specialised and challenging films. Sweden is not driven by concerns for attracting inward investment. The focus for film sector support in Sweden has been, and will be in the future, on encouraging national films. Therefore new national schemes in Sweden should experience no great difficulty with regard to EC regulation.

2.2 Current Environment for Producers

There are a number of factors which are combining together in order to create a particularly challenging environment for producers in Sweden. In many cases these factors are unique to Sweden and a result of the convergent impact of current policies.

⁸ In the objectives of MEDIA 2007, the Commission too has recognised that desirable economic objectives go hand in hand with the cultural "The audiovisual sector is an essential vector for conveying and developing European cultural values and for creating highly skilled future-oriented jobs. Its creativity is a positive factor for competitiveness and cultural appeal with the public. The programme is intended to strengthen the audiovisual sector economically to enable it to play its cultural roles more effectively by developing an industry with powerful and diversified content and a valuable and accessible heritage and to add value to national support." Decision number 1718/2006/EC of the European Parliament and of the Council of 15 November 2006 concerning the implementation of a programme of support for the European audiovisual sector (MEDIA 2007), Chapter 1, Article 1, point 2 p.3

2.2.1 Over Reliance on Too Few Decision Makers

The balance and emphasis of SFI's funding is on providing “selective” or “discretionary” support, based on choosing individual projects which compete with each other for being selected for investment, according to various pre-determined criteria, by individuals charged with carrying out this function.⁹ In SPI's opinion this long-standing Consultant System has created a situation whereby some producers anticipate the tastes of the Consultants in order to secure funding. Over time this has had the cumulative negative effect. In some cases producers are not always necessarily entrepreneurial and creative enough.

In Sweden there are a limited number of funders. Apart from SFI, the most significant funders in Sweden are the country's most powerful broadcaster, Sveriges Television (“SVT”), Svensk Filmindustri (“SF”) and the regional funds, the largest regional funder being Film i Väst (“FiV”).¹⁰ A lack of diversity of funding sources impacts on the overall creativity of the sector. Again, in SPI's opinion, some producers are anticipating the tastes of potential funders rather than following their own creative vision. Limited numbers of finance sources and therefore decision makers means that ultimately power is taken away from the producers.

2.2.2 Current Terms of Trade

In comparison with other countries (see Section 3.4.5) terms of trade with public financiers seem harsh in Sweden, in particular with the regional funds and SVT. Over time this has inhibited producers' ability to earn profits from the success of their output. Consequently, producers look to fees in the budgets of films to earn their living: there is limited expectation of being able to earn from a film's success with audiences. This de-motivating fact has to some degree resulted in sub-optimal performance of Swedish films with audiences.

The result is also a very uncapitalised production sector which has increased commercial pressures on producers unable to build more sustainable companies. In general, as a result of pressure for funds, films are pushed into production too early and with not enough development. This ultimately impacts on the quality of the product. A film which has a longer development time will likely be one of higher quality.

Deal Terms with Film Support Agencies

SFI requires its audience-related production support and advance support to be repaid as soon as income exceeds the total production investment made by those with a share in income, including a premium of 35% of approved financing. The repayment obligation expires when all the support has been repaid, or five years after the film's release.

SPI's consultations revealed a markedly different perspective, among producers and regional support agencies, concerning the recoupment requirements associated with the agencies' investments. It would certainly appear that Film i Väst and the other regional agencies have a more commercial approach than SFI to their recoupment position. In general, the agencies' wish to have a share of the production's income proportional to their investment. This position is more similar to that sought by private sector

⁹Selective funding accounted for 68% (12,580,00€) of all funds awarded, automatic funds accounted for 32% (5,920,000€) of all funds awarded in 2006. Source European Think Tank Survey 2007.

¹⁰Funding for film at regional level in Sweden is provided by four agencies Film i Väst, Film i Skane, Filmpool Nord and the Gotland Film Fund. Total regional funding is approximately €12million. However the most significant share comes from Film i Väst, which has an €7 million annual budget. Filmpool Nord's annual budget is €3.3 million budget; Film i Skane's is €1.6 million a year.

investment (which is extremely rare in Sweden). In most other countries SPI have surveyed, public sector screen agencies (and public service broadcasters) are prepared to take a “softer” recoupment and profit position in recognition of the range of non-financial benefits (cultural, social and economic) that accrue to the public sector and from which the private investor gains no benefit. For example, in the UK there is a movement towards all of the main public investors allowing the producer to share in their recoupment by virtue of a “corridor” of income from first monies received.

In the case of Swedish regional funding, the agencies point to their inability to be flexible on this matter. There exists regional government legislation that they believe requires them to take the recoupment position that they have to date. However, SPI's consultations reveal a difference of opinion within Sweden on this matter, based on different interpretations of the underlying legislation. Whether the agencies' requirements are legislated or not, the fact is that these deal terms are generally viewed as restricting producers' and (if any) investors' ability to optimise earnings from the performance of their films.

Deal Terms with SVT

There is a general consensus amongst Swedish producers that SVT is too tough in its terms of trade with independent producers, occupying the same recoupment position as the producer. This seriously limits a producer's ability to recoup and thus re-invest his share back into his production business. While the majority of SVT's support of the film sector takes the form of direct investment, rather than the acquisition of rights. This has resulted in a devaluation of secondary and auxiliary rights for producers, instead of forming the basis of their long-term business development strategy. Swedish producers need to maintain rights in order to build value in their companies.

However, hard line financial terms from public sector entities are arguably inappropriate bearing in mind the additional range of indirect benefits (cultural, social and economic) that accrue to them, which are not available to producers and financiers.

2.2.3 Building Sustainable Companies

Most production companies are not diversified enough in their activities to create sustainable companies. There is real potential for both individuals and companies to diversify their skills and business opportunities by embracing synergies between the various sectors that utilize audiovisual content. Until recently, SFI has provided little funding or support for company development, although the 2006 Film Agreement makes provisions for “Development support including greenhouse funding, project-based support for scriptwriters, producers and directors and business support for independent producers.”.

2.2.4 Training

New Entrants

SPI's consultations revealed considerable concern amongst various elements of the sector with regards to the issue of training. In particular, it is felt that the principal film school in Sweden the Dramatiska Institutet is failing both students and industry in its current level of training. It is felt that the school does not possess the links between itself and the sector required for successful training of the next generation of film professionals. The Dramatiska Institutet offers six programmes within the film department (cinematography, editing, sound editing, production, directing and film directing). It is felt

by a number of consultees that the production programme in particular requires enhancement in order to train producers to a level the sector needs.¹¹

Business Development

Producers in Sweden also in need of increased levels of training in business development and long term strategic thinking for their enterprises. There are only weak links between the film schools and the business schools in Sweden, so there are few individuals that have training both in filmmaking and business management. Often creative individuals struggle to access capital necessary to grow their businesses, and may not have had the necessary training to write good business plans. Swedish producers need to be trained not only in basic business skills, but in sector-specific issues, such as rights management and diversifying their production output.

2.2.5 Engagement with the Future

As technology advances, the slow but unstoppable revolution in production, distribution and consumption caused by digital technologies and technological convergence – along with the related globalisation of market likewise advances. In SPI's opinion Swedish producers are not sufficiently engaged with new and emerging formats. Currently within the Swedish support system there is very little in way of support in this respect.

2.3 Funders

There are a relatively limited number of separate funding sources in the Swedish film sector: SFI, SVT and regional fund investments added together typically provide close to 60% of the finance for the average Swedish film. Although some of this investment is often referred to as “private”, SPI's view is that these are all essentially investments from public sources, motivated by either public service objectives or the desire to stimulate economic activity.

With such an influence over production financing, it is inevitable that “green light” decisions on most productions in Sweden will be determined by decision makers within these bodies. On some of the more commercially-oriented films, SF could be added to this group.

Although unintentional, this limited number of decision makers effectively forms a "cartel" of funders.

This means that inevitably there is a need for alignment of "tastes" and this could lead to a limited range of Swedish films being made. Certainly, this view was expressed in many of the consultations SPI undertook. Simply put, there are relatively few decision makers determining the output of the Swedish film sector.

In SPI's opinion this unintentional “cartel” of funders has a stifling effect on production, reduces the range of “voices” being expressed, and ultimately reduces the opportunities for Swedish audiences.

¹¹ A report on the current operations of the Dramatiska Institutet was published in 2007 by the Swedish National Authority for Higher Education. Results were largely positive. However the report was not conducted by industry experts.

2.4 Typical Financing Plans in Sweden

SPI did not conduct an exhaustive study of all the film finance plans for Swedish productions over the last few years. This would be difficult to do as there is no current repository of such information, although SFI has access to data on the films in which it invests.

From the many consultations SPI had with Swedish producers and financiers it was possible to create a picture of how a finance plan for an average Swedish film might be structured. Again, it must be stressed this is not derived from a complete quantitative analysis¹². An average plan would appear to be along these lines:

- 58% from public Swedish sources (e.g. SFI, regional funds, SVT)
- 10% from the Nordic Film & TV Fund
- 7% from the Swedish producer (equity)
- 13% from non-Swedish co-producers (public sources, equity)
- 12% from distributors.

Grouping together the Swedish public source finance with Nordic Film & TV Fund investment (which also is a public source of funding) produces a finance share of 68%. It can therefore be assumed the individuals making investment decisions on any given film would number less than a handful. This group would wield considerable power over decisions as to what films got made in Sweden.

It could be also assumed that, say, half the co-producer finance will come substantially from their own public sources, which would be not less than 6%. The resulting share of finance from all public sources would, on this basis, be around 74% of the average budget.

2.5 Distribution and Exhibition

2.5.1 The Distribution and Exhibition Landscape

There are around 20 film distributors active in the Swedish market, with the top ten accounting for over 96% of the market for 2007¹³. P&A costs are relatively high in Sweden. SF Film is the largest distributor of Swedish film, with a 17.8% market share in 2007. SF Bio, the distributor's exhibition partner, dominates the exhibition. In 2007 its market share was 65%. Recently Svenska Bio, a company 49% controlled by SF Bio, took over Astoria, Sweden's major art house circuit exhibitor. This has left close to 80% of the Swedish exhibition market in SF's control.

Distributor	Market Share % 2007
SF Film	17.8
Buena Vista	14.4
Warner	12.5
20 th Century Fox	10.7

12 SPI recommends that a regular analysis along these lines would be useful.

13 Source SFI Statistics.

UIP/Paramount	10.2
Sony Pictures Releasing	8.4
UIP/Universal	6.7
Sandrew Metronome	5.7
Sonet Film	3.8
Nordisk Film	3.2
Others	6.6

Source Swedish Film Institute Statistics 2007

Exhibitor	Market Share % 2007
SF Bio	54.0
Astoria	14.0
Svenska Bio	10.3
Folkets Hus och Parker	2.7
Eurostar	1.6
FHP Sundsvall	1.3
Kalmar Biografer	1.2
Carl-Stefan Ryden	1.1
Biograf Svea	0.8
Facklan Biograf	0.7
Others	12.3

→ SF's effective market share in 2008 78.3%

Source Swedish Film Institute Statistics 2007

2.5.2 Impact of Market Consolidation in the Exhibition and Distribution Sector

The consolidation of the exhibition sector is worrying in that it has the potential to further limit the diversity of cinema offerings in the country. It is naturally alarming for sector players to witness the emergence of this virtual exhibition monopoly of SF. Many sector executives anticipate this dominance will be to the detriment of the sector and to the public. The emergence of SF as the unchallenged market leader is a relatively new situation and therefore the degree to which choice may be limited in the future remains to be seen and depends on SF's future commercial behaviour. However, SPI's consultations revealed that both smaller distributors and exhibitors are already being impacted by the situation.

Smaller exhibitors and distributors such as Folkets Bio and Folkets Hus och Parker are key to the vitality of Sweden's exhibition sector. Smaller operators such as these will most likely feel the impact of market consolidation. Given that there is now one operator with significant market reach and significant commercial bargaining power with the distributors such smaller operators may be limited in the product to which it has access to in the future. Potentially, in the longer-term this may be an issue as the Swedish public are less exposed to new and different voices and varied ideas. At a time when the

Swedish public are disenchanted by the current choice offered, as witnessed by falling box office¹⁴, it is all the more important to ensure a diverse distribution and exhibition ecology.

The ultimate corporate owners of SF Bio – Bonnier Broadcasting and Entertainment - also dominate across other media. This includes its involvement in the key pay television company Canal Plus. This compounds stakeholders current concerns about diversity within Sweden's media industries in the future. It is to be noted that the European Commission is particularly interested in the issue of media pluralism and are currently conducting a major study into corporate ownership in the media throughout Europe.¹⁵ This study may represent an opportunity for Swedish stakeholders to explore the negative impacts of the current situation at a European level.

2.5.3 Digital Infrastructure

The Folkets Hus och Parker network were early movers in equipping cinemas for digital exhibition. From 2000-2003 12 digital houses were created (out of a network of 240 screens). FHP's 12 houses are equipped with projectors from Barco or Digital Projection and completed with EVS servers. After this initial flurry of activity, the installation of digital screens has somewhat stalled in Sweden. Across Europe the installation of digital equipment, which facilitates the exhibition of a range of wider and more diverse films – is very much become a public policy issue with the UK and France in particular leading on the issue.

In the UK UK Film Council has assisted in the roll out of the UK's Digital Screen Network. In exchange for future rights to intervene in programming of films the UK Film Council has made a contribution towards the cost of upgrading screens in art house cinemas across the country. In France the Head of the CNC, Veronique Cayla, has recently made a public announcement to all local authorities (cities, departments and regions) that the CNC can financially assist in the digital refurbishment. The equipping of theaters is at this stage expected to cost €80,000 per screen, €10,000 per establishment and €4000 per projection room. In the French model a total of 20% of these expenses will be borne by the exhibitor. Sweden's nearest neighbours Norway are very much studying the issue at the moment with plans to convert the whole of the market to digital screens by 2010. Norway is currently in a second phase of industry-wide best testing.

A report by Media Salles in 2007 has indicated that Digital cinema has reached an impasse in Europe outside the government-led growth.¹⁶ Given the particular issues facing the Swedish exhibition market the issue of digitalisation in order to ensure that consumers are exposed to new and challenging ideas is clearly very much an issue for public policy consideration.

2.6 Training Provision Across the Sector

As remarked in Section 2.2.4 on specific issues facing producers, SPI's consultations revealed there is currently an under-provision of industry standard training for new entrants into the sector. This is not only true of producers but also true across other sector elements.

14According to SFI's statistics box office has been steadily declining over the last 6 years from gross admissions of 18.1 million in 2001 to 14.9 million in 2007.

15"Indicators for media pluralism in the Member States — towards a risk-based approach" currently being undertaken by Katholieke Universiteit Leuven (in partnership with Ernst & Young, Jönköping Int and CEU Hungary). This study which will be launched in Brussels with a stakeholder workshop is due for completion in February 2009.

16 [See http://cineuropa.org/dossier.aspx?lang=en&treeID=1512&documentID=83362](http://cineuropa.org/dossier.aspx?lang=en&treeID=1512&documentID=83362)

SPI's findings indicate that training for filmmakers in Sweden has encouraged an auteur approach, instead of a more collaborative approach that takes account of a film's creative and commercial potential. Talented individuals may be drawn to parallel industries, such as games or other creative sectors, and away from film. The link between Sweden's film schools and the sector is not sufficiently well-developed, thus there is a perceived lack of fresh talent emerging from the film schools that has the necessary skills or stamina to succeed in the sector. There is also a need to further develop international alliances with key players across Europe.

While some writers, directors and producers may gain experience at SVT or other broadcasters, there is no national strategy for training in the audiovisual sector. The 2006 Film Agreement makes no provision for the funding, policy development or delivery of training in Sweden. The training of the next generation of filmmakers, crew and technicians is vital for Sweden's film sector to meet potential future demand, and for film's continued contribution to Sweden's creative economy.¹⁷ A more joined-up and forward thinking approach between the Swedish Film Institute, Government and education and training establishments is essential.

As with company development issues for producers continued professional training needs to be enhanced for current practitioners in all areas of the film sector.

2.7 Piracy/Illegal File Sharing

2.7.1 Summary of the piracy situation in Sweden

A major concern for content owners in Sweden is the current proliferation of illegal online activities. High profile cases such as the Pirate Bay case typify this problem. The Pirate Bay website has become one of the world's largest and most well known facilitators of online piracy. With more than 25 million users, it has facilitated the illegal swapping of millions of copyrighted movies, costing the international film sector enormous sums.

Today, a Swedish cultural worker or author who falls victim to Internet copyright infringement is considerably less well-protected than his or her colleagues in, for example, Finland, Denmark or Great Britain. For this reason, a Swedish Internet service offering audio books or music is at a distinct disadvantage in any evaluation of opportunities for growth and profitability.

This is primarily due to two tools that Sweden lacks in comparison to many other countries: the EU Enforcement Directive and the empowerment of Internet operators to prevent infringement in cooperation with copyright owners.

The Enforcement Directive was approved by the EU in 2004 and was to be adopted by all EU countries by the spring of 2006. Sweden is currently one of the few countries that have still not adopted the directive, and in May 2008 was convicted of failure to comply by the European Courts of Justice. The government has responded that the Enforcement Directive will be adopted by 1 January 2009; if not, Sweden may be liable to pay a fine to the EU.

¹⁷Denmark, Ireland and the UK have all placed training at the heart of their development strategies for the sector. In Denmark, close links between the DFI and the film school, personified in the directorship of Henning Camre, this strategy resulted in an enhanced international profile for the national film sector. Please see Section 3 and Appendix 1 for further details on training strategies within our benchmarked countries.

The directive states, in short, that an author whose copyright is infringed on the Internet shall be entitled to an evidentiary review in a court of law for the purpose of determining the identity of the perpetrator. If the court finds that an infringement has in fact been perpetrated from a particular IP address, the copyright owner has the right to learn the identity of the IP subscriber from the Internet operator. The copyright owner can thus demand damages from the infringer, in the same manner as copyright infringements occurring in the physical world.

Collaborating with Internet operators to prevent crime is a practice being adopted by more and more European countries. There are often a number of advantages to such solutions: they take personal integrity seriously, they are softer tools than the police and the courts, and they relieve pressure on the judicial system and other governmental resources. Solutions can include forwarding newsletters to subscribers that commit copyright infringement or preventing access to certain major pirate sites. Assigning intermediaries this type of responsibility is quite common in the Swedish legal system; for example, financial operators are liable to report suspicions of money-laundering. The government has initiated “industry discussions” between operators and copyright owners in order to identify collaborative tools that can be implemented in Sweden.

In order for artists to be able to continue professionally producing films, music and other creative works, today’s extensive practice of digital pirate copying must be checked. This is the only way to develop a legal market on the Internet for various services for creative content, one which provides the broad digital supply of films, music, books, TV and computer games on the Internet which is demanded by all.

2.7.2 The Example of Other Countries

In countries such as UK and France there a new policy measures currently being designed in collaboration with internet service providers to curb such illegal activities. (please see Section 3.5.2 for further details). Across Europe there has been a move towards finding practical and actionable solutions forcing internet service providers to assist in policing the activities of their subscribers. It is not surprising that this should be the case in France and the UK. France's longer term cultural policy has traditionally sought to protect the production of French content. The UK is currently at the forefront of leading on research and policy development for the wider creative industries. Both countries are very much looking towards the content industries to help build the countries knowledge and digital economies.

2.7.3 Current Action

SPI's consultations revealed a perception amongst stakeholders that there is a lack of engagement on the matter by authorities as any further tightening of activities on the net would be unpopular with voters. Regardless of the validity of this perception, Sweden is indeed home to a sizeable group who believe the Internet should give people free access to media files. Notably Vänsterpartiet, the Left Party of Sweden¹⁸ and Milijopartiet (the Green Party) have adopted the position that online sharing of copyright material for personal use should be legalised.

It is felt by SPI that as piracy and illegal file sharing has been a notable problem for Sweden in the past that only a tighter introduction of the law will have real impact – sending an important and

¹⁸ Though minority parties, the Left Party and the Green Party garnered 5.85% and 5.25% of the populace respectively in the 2006 parliamentary elections.

unambiguous signal about the importance of safe guarding intellectual property rights in Sweden in the digital age. The vision of a new and dynamic sector in Sweden – maximising the possibilities of digital opportunities – requires that intellectual property is safeguarded. The Enforcement Directive is now on the agenda to be implemented in Sweden.

2.8 Sector Strategic Direction

A key finding of SPI's extensive consultation with the sector is that there is a widespread feeling that there needs to be change within the sector and that change should happen as soon as possible. It is felt that the Swedish film sector lacks overall leadership and strategic direction. In recent times SFI have made moves towards operating more strategically. This is particularly felt in its efforts to become more strategic in its investments. However, there is a wider need for joined up stakeholder action, clear strategic direction, mechanisms for managing change and visible leadership working towards "whole of sector" solutions.

2.9 Wider Government Policy

2.9.1 Film as part of the Creative/Experience Industries

The Swedish Ministry of Education, Research and Culture has stated seven broad objectives for its general cultural policy. These objectives are predominantly focused on promoting cultural diversity and participation, preserving Sweden's substantial cultural heritage, and 'enabling culture to act as a dynamic, challenging, and independent force in society'. These wider non-quantified goals do not explicitly promote the potential wider economic and financial benefits of cultural enterprises as part of the creative or 'experience' industries.

The 2006-2010 Film Agreement promotes the 'rational and efficient' production and distribution of Swedish film in order to establish national film production as a 'dynamic growth sector,'¹⁹ yet provides little in the way of industrial support. Film policy and cultural policy generally, is about preserving and promoting Sweden's historic cultural legacy instead of recognising the wider economic and financial benefits of the creative industries and thinking ahead as to how to sustain its film sector.

2.9.2 The Problem of Political Will

In the parliamentary election of 2006, issues of cultural policy were almost completely absent. In June 2007, the Minister of Culture appointed a committee with a comprehensive mandate to scrutinise the goals and forms of cultural policy at the national level and to propose whatever changes are necessary. It was expected that this investigation would reveal the cultural policy intentions of the new Non-Socialist coalition government. Yet, apart from the assumption that private companies and civil society organisations should be more active in financing culture in the future, there was little in the way of a broader policy rethink. The committee is expected to deliver its proposals in December 2008. There appears to be little political will to generate a new creative industries policy.

¹⁹ *Swedish 2006 Film Agreement.*

2.9.3 *The Creative/Experience Industries in Sweden*

Despite the lack of political will, the creative or ‘experience’ industries do have a substantial economic presence in Sweden. The term ‘experience economy’ is a slightly broader term, used in many Scandinavian countries to encompass the creative industries (film, television, new media, design, publishing) as well as sectors like tourism and gastronomy. A recent study financed by the Swedish Knowledge Foundation (*KK-stiftelsen*) found that the experience industries account for about 5% of Swedish GDP, employing approximately 280,000 people.²⁰ The government estimates that the creative industries in Sweden turn over nearly SEK4000 million annually.

2.9.4 *FUNK Hubs*

The initial Swedish government engagement with this came from the regions, not from national policy. In 2003, the Knowledge Foundation and a number of local/regional councils, following advice from the Swedish Governmental Agency for Innovation Systems (*Vinnova*) and the Swedish Agency for Economic and Regional Growth (*Nutek*), selected five cities to serve as regional hubs, where culture, business, education and research could meet. Trollhättan was selected, along with Karlshamn, Hultsfred, Piteå and Hällefors. The hub in Trollhättan is specifically centred on the film sector, but the model was not a traditional cluster, rather a platform for cross boundary (commercial/cultural, new/traditional media, knowledge/technology) connections. Each hub is intended to focus on a major and a minor sector -- Trollhättan and Film i Väst focus on film, but also on media.

After the selection of a further three hubs in Stockholm, Gothenburg and Malmö in 2005, the Knowledge Foundation and the network of the Swedish Creative industries introduced the FUNK model as a national action plan for the experience industries. The acronym ‘FUNK’ stands for the Swedish words forskning (research), utbildning (education), näring (enterprise) and kultur (culture) and the FUNK model represents a new national strategy for the creative industries, emphasising the interdependence of cultural and commercial enterprises. The plan also addresses critical issues that affect all the sectors of the "experience industry": entrepreneurial training for creative people, cross-disciplinary training and research, how to better link technology and the experience industries.

2.10 *Sweden's Film Sector – an Impression*

The impression SPI has gained is of a film sector in Sweden that is currently hampered, perhaps “stuck”, as a result of various relatively small factors that in combination have the effect of blocking or inhibiting its development and achievements. These factors are all described elsewhere in this report, but a short list of such impressions would include:

- a weak business model for producers
- because of poor terms of trade with financiers
- producers therefore push films into production too early, with poor performance results
- dominance of a few funding decision makers (unintentional “cartel”)
- which limits the variety of product
- and creates a dependency culture among producers which inhibits growth
- audiences experience Swedish films as being too narrow in ambition
- producers often trained as servicing line producers rather than creative entrepreneurs

²⁰ *Funk: a growth model for the experience sector*, June 2006.

- apparent virtual “monopoly” at the exhibition level which reduces choice for distributors and audiences
- illegal downloading of film content
- training for film professionals that does not meet market needs
- legacies of past successes, including the auteur tradition, can become an excuse rather than a reason for the current reality
- no “whole of sector” strategic direction
- lack of central government engagement with film, especially regarding recognising its economic benefits
- having a voluntary film agreement, rather than a legislated one, creates a vacuum in leadership.

Collectively, these negative factors represent a major obstacle to success. SPI believes, however, that the solution lies in making a number of small adjustments to the practises of most participants in the sector, as described in our Recommendations. We expect they would collectively amount to a significant change in prospects and results.

3. Comparator Country Benchmark

3.1 Overview

3.1.1 Benchmark Rational

Together with the Steering Group for the project, SPI identified the following comparator countries to benchmark Sweden's current situation against:

- Australia
- Austria
- Denmark
- France
- Ireland
- UK

Three of these countries (Australia, France and the UK) represent larger more mature film economies than Sweden. The other three countries (Austria, Denmark and Ireland) represent smaller countries who have nevertheless developed strong and distinctive film support systems. Traditionally Sweden has looked to its Nordic neighbours to share both resources and audiences. In this benchmark we have consciously included only one Nordic country in order to look beyond traditional Nordic comparators.

3.1.2 Additional Case Studies

This Section also contains a number of discrete case studies which touch on key issues related to our analysis of the current policy environment in Sweden. Some of these case studies are drawn from countries beyond our chosen benchmarked countries. These case studies are as follows:

- Case Study One – Communications Act 2003 – Terms of Trade for UK Television Producers
- Case Study Two - EU Innovation Policy and the Creative Economy
- Case Study Three – Support to Producers –The Canadian Envelope System
- Case Study Four and Five – Previous Distribution and Exhibition Market Competition Investigations in the UK and Australia

3.2 Support Analysis

The full details of our country by country analysis is contained in the Appendix. In this section we compare features of funding and policy issues across territories.

3.2.1 Public Support for the Film Sector

To protect and exploit the global market which the film sector operates within, and to protect the continued production of culturally-specific local film products, virtually all countries with mature film industries, and even those with comparatively under-developed industries, support their national film sectors. In the European Union alone, government agencies spend approximately €1.43 billion in film support annually.²¹ In addition a large number of countries have regional production incentives in place, and in some cases incentives are offered at the city level.

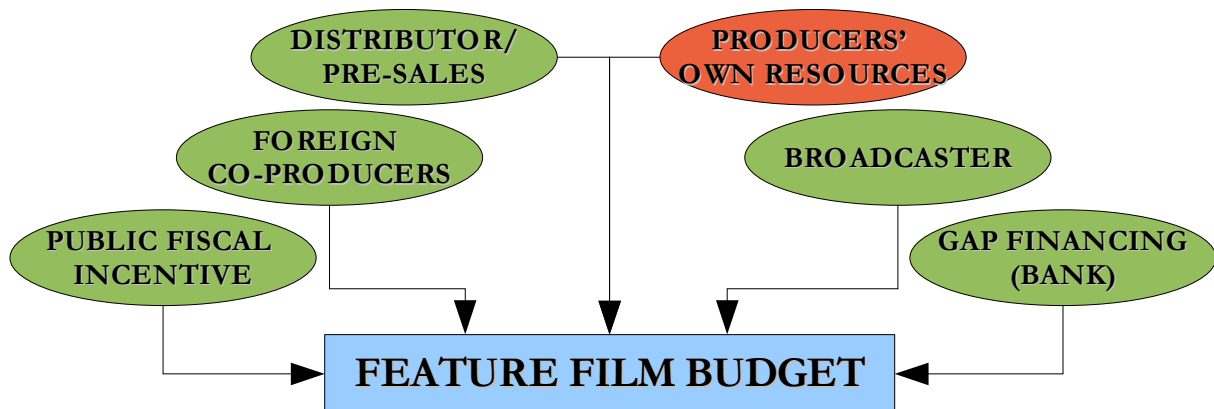
²¹ *Variety Deal Memo* (February 2003), this includes training provisions and archiving, as well as production support.

The only exceptions are two countries where the respective domestic markets are big enough to support filmmaking activity without major public sector intervention. These are, of course, the United States (“Hollywood”) and India (“Bollywood”). Yet even in the United States there are signs that public intervention may be necessary. 2007 and 2008 have seen the proliferation of a number of US state incentives offering a range of production attraction mechanisms to build up their own audiovisual sectors even in states previously not known for high levels of audiovisual production such as Connecticut.

All European films are made with a mixture of public and private money; in fact, it would not be possible to make independent films in Europe without public sector production support. SPI estimates that the typical European film’s budget is composed of approximately 60% from public sources, with the remainder of the funding coming from private sources, such as pre-sales, gap financing from a bank, or a facilities co-producer.

The independent film sector in Europe is highly fragmented, with a considerable number of small companies which tend to work on only a small number of projects at any one time. These projects are seen as extremely high risk – it is widely assumed in the financial world that for every ten films produced, seven will lose money, two will break even and one will be successful enough to pay for the others. Small companies which spend several years developing a single film therefore do not present an attractive investment proposition to the financial sector, since cross-collateralisation between successful and unsuccessful films is not possible. In addition, these small companies are frequently under-capitalised, forcing producers and production companies to agree to unfavourable distribution deals in order to raise production finance.

Public sector investment often triggers other sources of finance. Sources of finance include:



3.2.2 Overview of Benchmark

Larger more mature film economies are of course able to offer higher and more varied forms of support. France has arguably the most developed film economy in Europe. French public funding provides a depth of support mechanisms in order to encourage high production levels. Both the UK's and Australia's support systems combine a range of measures for support for homegrown production alongside national tax incentives principally geared towards driving inward investment. Ireland's film ecology is very much based on attracting inward investment. Denmark represents a strong and successful Nordic film country which despite its size enjoys good international recognition. Funds

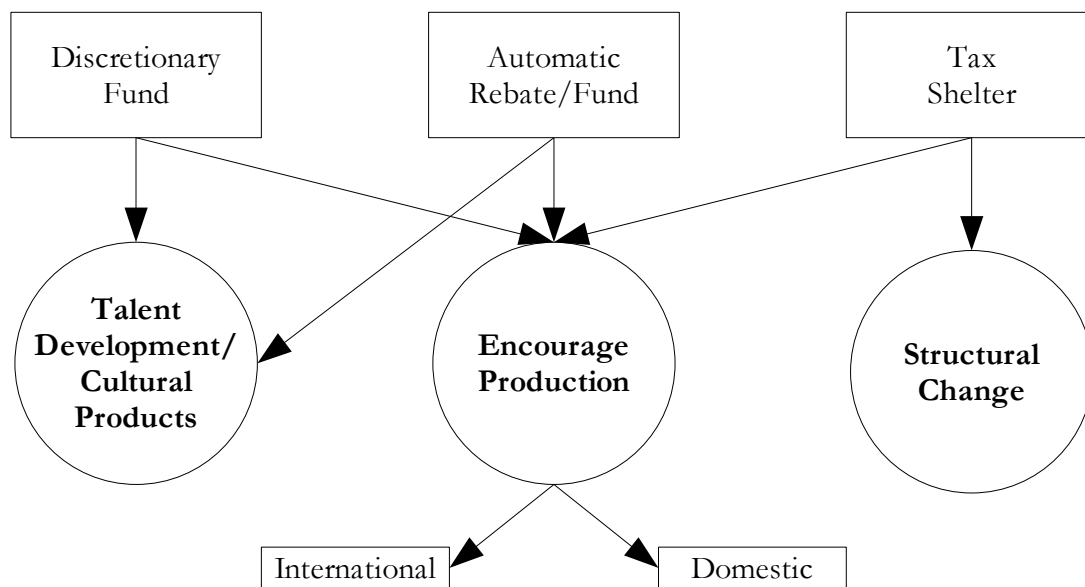
available in Austria are less significant than elsewhere but the country's offer is shored up by the presence of significant regional funding. Only France (36.6%), UK (28%) and Denmark (27%) enjoyed any sizeable share of domestic box office in 2007.

3.2.3 Forms of Support

There are three principal forms of film production namely:

- Selective funds (typically used to support specialised or films by first time filmmakers)
- Automatic funds/rebates (typically used to support films which are likely to be more commercially successful)
- Tax shelters (typically used to fund higher budget international films)

The diagram below indicates the main/typical uses of these forms of support.



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Ireland offers a good example of a country which introduced a tax shelter to encourage structural change (allowing the country to build up a film sector from very little). However, Ireland has a very small domestic market. France's automatic system is very much directed towards supporting national production whereas the UK encourages both international and domestic production. With the exception of Denmark (whose principal support scheme the 60/40 scheme is semi-automatic) all offer some form automatic support.

3.2.4 Tax Incentives

It is often assumed that the healthiest film industries are likely to be those that are not terminally dependent on very substantial support from the public purse. Tax incentives can be one method for addressing this issue. Tax incentives are normally aimed at attracting inward production or be put in place to address structural issues and stimulate a more sophisticated, business-like approach to (in particular) production.

In SPI's experience tax incentives do not always have a history of creating this healthy environment. Their main benefit, from an infrastructure viewpoint, is that they stimulate an increase in the level of production activity and if this reaches a suitable, sustainable critical mass then more films will be made with more chances of meeting audience and critical success. At the same time, the skills base will expand and producers will gain more experience of how to create successful product.

Tax incentives can be structured in a number of ways. One method is to provide tax relief (in fact, a rebate of costs) based on a certain level of minimum spend (such as the new UK tax credit or the Australian Producer's Offset). Another is to encourage private sector finance into the sector. In SPI's experience it is particularly this second form of incentive which is fraught with difficulties. The UK itself moved away from the Sale and Leaseback system which was very much based upon tax avoidance or deferral advantages and was used by high net worth individuals who had no loyalty or interest in the film business. The Sale and Leaseback scheme was subject to both inefficiencies and abuse. In SPI's experience tax incentives that have been designed by governments to attract private investment have almost nowhere actually resulted in the desired long term infrastructure change.

Amongst our other benchmarked countries there is a small tax driven system in France the SOFICA's, but the growth of several studio-style companies as a result of the scheme has much more to do with the government's regulation of the broadcast sector, who are mandated to invest in independent film production by legislation.

SPI believes that Sweden should not necessarily be looking to introduce such a scheme. SPI believes that there are other changes which can be to the Swedish support system in order to deliver increased results. Details of these recommendations are provided in Section 5.

3.3 Success Factors

3.3.1 Australia

Australia is a medium sized country (population 20.9 million) with a considerable domestic screen economy. Australia has recently updated both its support system (offering a package of new targeted filming incentives) and streamlined its funding body system in the form of the new umbrella support organisation Screen Australia which commenced operations in July 2008. Domestic box office share is particularly low at 4% in 2007. Much of Australia's overall strategy is based on attracting inward investment. But within the new package of measures are a number of schemes designed to increase the commercial success of higher quality Australian content.

The Australian Screen Production Incentive scheme has three distinct funding streams:

- for visiting productions (Location Offset – a 15% tax rebate);
- for Australian/co-productions (Producer Offset – a tax rebate worth up to 40%, this scheme requires productions to pass an "Australianness" test)²²
- and for digital effects and post-production (a tax rebate of 15%).

All three of the schemes provide an automatic tax offset. For all of these schemes, qualifying Australian spend includes expenditure on goods and services provided in Australia.

²²Screen Australia assess the following criteria when determining Australian content: the subject matter of the film; location; nationalities/places of residence of key talent (producers, director, screenwriters, composer, actors, director of photograph, production designers, etc.); and production spend.

Screen Australia, offer development and production funding for film and television projects that meet the requirements for Australian content. Screen Australia finance can take the form of direct investment, loans, investment guarantees, loan syndicates as well as through the acquisition of rights. Production finance in 2008/09 is offered through two programming 'doors,' Market Attachment (which ensures a minimum level of private financing is in place prior to Screen Australia's investment) and Evaluation (which makes an offer to productions contingent on the production securing a minimum level of financing from other sources). Projects may be submitted through only one door at a time. Both "doors" encourage a more market driven approach even with regards to selective funding.

Screen Australia also offers company development support in the form of the Screen Businesses Venture Programme and aims to assist audiovisual producers in growing and maintaining sustainable businesses by providing loans and grants as well as business advice, support and mentoring.²³ The range and variety of investments Screen Australia offers demonstrate a sustained and significant public investment in the audiovisual industries.

Australia suffers from low domestic box office. However, the new and very generous domestic incentive will perhaps help re-address this issue. In order to qualify productions must make heavy use of key domestic creative talent. Baz Lurhman's Australia is the first film to access the incentive. Inevitably further Hollywood films staffed with Australian talent will follow in this vein.

Screen Australia is using a mixture of approaches, including tax incentives, selective support and creative methods of business support to build its sector. Domestically Screen Australia has focussed on building stronger Australian production companies. There are general dangers of over-reliance of Hollywood imports. The new government has stated that it wishes to re-think its overall cultural and creative industries policy. There is real potential for Australia to become a global leader in finding ways to support creative industries.

3.3.2 Austria

Austria is a small federal state composed of nine regions. The country has struggled to develop an independent cinematic voice, in the face of market domination from German and American films. In 2006, total audiovisual production volume was about €148.5 million, slightly down on the 2005 figure of €165.5 million. The film sector employs approximately 2,300 people in Austria. Austria produces between 20-30 films a year.

Austria emerges as one of the weaker countries studied. Less significant levels of funding are available centrally in comparison to the other territories. Domestic box office in Austria is low and suffers from the dominance of neighbouring Germany. Nevertheless there is notable talent in Austria. Austrian film *Die Faelscher* (The Counterfeiters), directed by Stefan Ruzowitzky, illustrates the strength and the weaknesses of the Austrian film sector. The film won the Oscar for best foreign picture in 2008, yet prior to the Oscar win, only about 40,000 people had seen the film in its native country.

The support system in Austrian rewards critical success, even when there has been a poor domestic box office performance. The inherent paradox of Austria's continued international acclaim and the country's poor track record in domestic market share is one that funding agencies are trying to redress through their automatic schemes to reward producers with a record of commercial success. Yet, in the

23 Ref to us??

case of the Austrian Film Institute, 'success' for the moment can still mean either domestic box office or critical acclaim. Rather than drawing on both commercial and critical success, the two have been largely separated in policy matters. In the last three years, Austrian production levels have remained steady. Policy-wise, regional funds, and in particular the Vienna Film Fund are a real strength for the sector. At a federal level multiple-stakeholder co-ordination and strategic connectedness is less common.

3.3.3 Denmark

Denmark is a small country of only 5.4 million. The Danish film sector typically produces between 20 and 25 national productions each year, with an average budget of approximately €2.6 million per film. Denmark has long been visible as a smaller film economy with a strong international brand. Underlying Denmark's forward-thinking approach to film is the Danish Film Institute's ("DFI's") willingness to provide schemes that match sector needs and a history of high quality training. This high quality training has helped developed a number of entrepreneurial and creative producers.

The market share of Danish films in Denmark was 27% in 2007 and since 1999, at least 6 of the top 20 films in the country were domestic productions. Danish film also has a high international reputation, with the directors like Lars von Trier and Thomas Vinterberg and the Dogme 95 film movement receiving global critical acclaim.

The national film agency, the DFI, operates under the Ministry of Culture according to the Film Act (1997). In addition, the Nordic Film and Television Fund provides top-up financing to the production of film, television and multimedia projects across the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. Denmark's two broadcasters also play a part. The Media Policy Accord 2002-06 required Denmark's two TV stations DR and TV 2 to invest an average of €9 million a year in film production, either by direct investment or through indirect means. This commitment is met through a combination of license fees and equity. Much like the Swedish Film Agreement levels of funding generated by the Policy Accord are agreed upon by participants. However, the underlying regulation legislates for its existence.

Denmark is not without its vulnerabilities and 2007 saw a downturn in co-productions. This is because as a strong co-producing country Denmark remains vulnerable to changes in other countries legislation and policies as witnessed by the uncertainty surrounding the UK tax credit introduction in 2006 and 2007.

In terms of broader Danish government policy on the creative industries there are moves towards acknowledging the importance of thinking about film and other cultural businesses, as businesses – while not sacrificing cultural merit. Denmark also was ranked as the world's most advanced IT nation in 2008.²⁴

3.3.4 France

In 2007, French film production volume broke the €1 billion mark for the first time; a total of €1.2 billion was spent on production last year. France produces one of the highest number of national productions annually, with 133 in 2007, plus 95 co-productions. The average budget of French

²⁴IDC Information Society Index, 2008. The ISI bases its measurements on four pillars: IT, Communications, the Internet and Education.

productions was a healthy €5.4 million. In terms of film France has long been the "envy" of other European countries – offering the most complete and diverse forms of film support to its national sector from selective support through to tax incentives. The CNC provides the greatest number of support schemes, with a total of 32 national schemes administered by the body. It also administers automatic, non tax related funding.

The country has some of the most restrictive quotas in Europe on French and European content. By law, no more than 40% of films shown in France can be of non-European origin. This and the substantial amounts of public funding for film production go some way to explaining why the country has the strongest European market for domestic films. High audience share and high production volume (indicators of overall success) are the result of the considerable funding. The CNC's total budget in 2007 was €505 million.²⁵

Film in France has long enjoyed strong underlying political will in its support. This is in part because film has been traditionally supported as a major medium helping preserve and protect national language and culture. Historically support was offered to film in order to combat the culture hegemony in Hollywood. Indeed the introduction of the sales levy in 1953 was a means of redirecting revenues generated by popular Hollywood movies in order to fuel the creation of domestic product. Film in France has also traditionally been a form of international cultural promotion. Traditionally support for film in France has been driven by cultural concerns. However the cultural ambitions of France, as in the case of international cultural promotion, are very much inter-linked with its economic ambitions and therefore cannot easily be separated out.

Support to film is legislated for and provided in the annual budget voted by parliament. The fact that the annual budget is legislated for ensures the secure provision of funds each year creates one of the strongest, most integrated national film and audiovisual policies in the world. Despite the fact there is little cross-over activity between the film and television sectors – film producers rarely do television work and vice versa – there is an industrial solidarity within the French audiovisual sector. At the heart of the CNC system is the support from the French broadcasters, both terrestrial and cable channels. The French system not only rewards success, by allowing producers to access increased funding based on previous project's box office and broadcaster revenue, it also allows production companies to build more stability into their businesses. France's distribution support is also exemplary.

Political will and interest has been historically and continues to be important in order to secure the balance of the audiovisual ecology. As France moves towards an advertisement free public service television service – strong political will is enforcing the imposition on a levy on telecom and broadband operators to provide the commercial shortfall despite sector resistance. Likewise, despite sector concerns there are currently policy moves towards opening up the credit d'impôt (France's national tax incentive currently aimed at retaining national rather than attracting international productions) to international productions. The government's speedy adoption of new media support measures and recognition of the importance of digital technology and again demonstrates the importance of political will as a driver for creating stronger and more sustainable creative industries.

3.3.5 Ireland

The Irish film economy is built on co-productions and international location filming, while domestic film production remains low-budget and limited in its national audience. Since the introduction of

²⁵ Total automatic funds for film: €156.5 million Total selective funds for film: €100.4 million Total film funding €256.9 million

Section 481 in 1997 – the tax incentive has been a driver for inward investment. The case of Ireland shows that the introduction of such a mechanism is able to create a film sector from the ground up. However, in the past the initial success of Section 481 was in part due to the proximity to the UK both for the availability of suitably qualified high calibre crew and for the previous UK "sale and leaseback" which was easily combinable with Section 481.

The Irish audiovisual sector has had a tumultuous past few years, underscoring the vulnerability of its sector to outside pressures, such as the introduction of the new UK tax incentive. Despite of the recent uncertainty, the Irish government, support organisations and sector has remained committed to Ireland's film, television and new media support programme and signs of a turnaround may be forthcoming.

Skills training and crew development has been another hallmark of Irish audiovisual policy and was all important in helping Ireland "skill up" thereby lessening the need to import crew from the UK and so thereby driving down costs of shooting in the territory.

There is no strong regional funding body in Ireland but there exists a regional support fund administered by the Irish Film Board ("IFB"). The IFB's Regional Support Fund is designed to act as an incentive for audiovisual productions to shoot outside the Dublin-Wicklow area. Regional Support funding is available only to projects that already have a commitment of production funding from the IFB. This funding is automatic for those projects receiving Irish Production funding or Creative Co-production funding. Support is capped at €250,000 and is typically cash flowed alongside the production funding offered by the IFB.

There is still work to be done in terms of broadcaster support and better terms of trade for independent producers with broadcasters, but some of the strategic groundwork has been done, in particular by the strong producers' association, SPI.

3.3.6 UK

In 2007 UK film production volume totalled £747 million, down slightly from the 2006 figure of £845 million. 117 film productions were shot in the UK in 2007, 28 of which were inward features. These films represented over 70% of UK film production volume in 2007. Since 1997, UK production volume has principally been driven by inward feature productions a key element of the UK film economy. In 2007, there were 60 UK domestic feature productions, with a median budget of around £1.9 million. The total number of national productions has risen in the past three years, though the number of co-productions has fallen every year since 2003.

Since the introduction of the UK Film Council in 2000 the UK has benefited from the presence of an independent executive body charged with driving overall sector strategy. The body represents the needs of the sector to government and represents government on behalf of the sector. Overall here is a high-level of strategic thinking, at the Government level as witnessed by Creative Economy Programme of research being undertaken by the Department of Culture Media since 2005. UK Film Council has also been very active in making the case of the value of film support to government for example providing bi-annual reports since 2005 to the UK Treasury on the economic impact of the sector.

In the past eight years UK Film Council has been successful in creating an innovative and holistic overall approach to supporting the sector. This includes the establishment of nine Regional Screen Agencies in England and three national agencies in Northern Ireland, Scotland and Wales. In the

establishment of the regional and national bodies regional specific tasks have been delegated to these other agencies. The UK's national and regional agencies have also been pioneering in their approach to the sector, using regional development funds to target the film sector's industrial growth. Many of the regional public support bodies, which have consistently looked for new ways to support the film sector through various investment and training programmes.

UK Film Council's current priorities (2007-10) are set out in Film in the Digital Age – a three year strategic plan outlining intended investments for the period - which was created in collaboration and consultation with the sector²⁶. A key element of the UK's overall strategy has been to encourage a high level of inward investment. UK Film Council also prioritises strategies for supporting development and digital exhibition, and has proved willing to partner with other bodies, public and private, to achieve success.

British producers are active and have a strong voice in the sector. The trade body which represents the commercial interests of both television and film producers were for example highly involved in helping to secure the UK's new film tax credit. Likewise the existence of strategic bodies such as the British Screen Advisory Council – grouping together high level industry executives from across film, television and new media – have helped secure favourable policy initiatives for the sector.

Despite these strengths, the British film sector is also hugely dependent on US studio productions and remains vulnerable in this respect. In addition, despite the current presence of a "film friendly" government there are increasing pressures on the UK's network of support agencies. London's 2012 hosting of the Olympics has put increased pressure on National Lottery as well as direct grant in aid funds currently awarded to the UK's screen industries.

3.3.7 Country Comparison

The table below summarises the availability of different forms of funding in the countries considered. Please note there are no comparable statistics of total national funding, as accurate data for automatic and tax incentives are not available for each country.

2006-7	Aus	Austria	Den	Fra	Ire	UK	Swed
Availability of national selective funding	√	√	√	√	√	√	√
Availability of national automatic	√	√ (yes but small)	Semi-automatic 60/40 scheme	√	√	√	√ (PRS)
Fiscal incentive	√	X	X	√	√	√	X
Regional	6 State and 2 Territorial funds, with budgets up to A\$20 million	Total available funds approximately €11 million, Vienna Film Fund €8.8million	Vestdanske Filmpulje (€1.8 million); Film Fyn (€2.2 million)	Total funding from 19 agencies totalling c. €50 million	IFB has Regional Support Fund	3 Nations and 9 English regions with total funding of 51.2€ million	4 agencies Total regional funding is approx - €12m

26 See Film in the Digital Age available at: <http://www.ukfilmcouncil.org.uk/publications?page=1&step=10&viewby=category&value=16959>

Country Comparison SWOT

The table below contains a brief comparative SWOT across each of the benchmarked countries:

	<i>Strengths</i>	<i>Weaknesses</i>
Australia	<ul style="list-style-type: none"> • Strong and varied range of support schemes across all elements of value chain • Wide variety of investment forms • Newly formed overall body Screen Australia • New package of targeted incentives in addition to automatic and selective schemes 	<ul style="list-style-type: none"> • Low domestic box-office • Vulnerability to the vagrancies of inward investment
Austria	<ul style="list-style-type: none"> • Strong additional support from regions • Both automatic and selective aid available at national level 	<ul style="list-style-type: none"> • Low domestic box office (suffers from dominance of Germany and Hollywood) • In fighting amongst producers • Limited funds available for investment
Denmark	<ul style="list-style-type: none"> • Strong international brand • Strong training and teaching tradition in recent years • Number of strong and internationally visible production companies • Strong political will ensuring investment from the media policy accord 	<ul style="list-style-type: none"> • Recent down turn in co-productions
France	<ul style="list-style-type: none"> • Strong and varied range of support schemes across all elements of value chain - indeed most complete ecology of support • Solidarity for film support amongst other media players (broadcaster, ISPs) • Highest European share of domestic box office • High production levels 	<ul style="list-style-type: none"> • Traditionally lack of cross-over between film and television/ wider audiovisual.
Ireland	<ul style="list-style-type: none"> • Presence of Section 481 • Ireland now servicing more international television as UK tax credit only for theatrical 	<ul style="list-style-type: none"> • Irish sector very much geared towards servicing international productions so highly vulnerable to changes in international landscape • Very low domestic output and domestic box office share
UK	<ul style="list-style-type: none"> • Strong and varied range of support schemes across all elements of value chain • Very generous tax credit • Film friendly government • Strong network of regional support • Advanced creative industries policy thinking • Strong and vocal sector trade bodies 	<ul style="list-style-type: none"> • Vulnerability to the vagrancies of inward investment • Currently increased pressure on funding for sector
Sweden	<ul style="list-style-type: none"> • Strong tradition, strong talent base, strong infrastructure • Long standing levy • Willingness of community to work together • Co-production funding (regions) 	<ul style="list-style-type: none"> • Lack of resources for development • Under capitalised producers • Business infrastructure weak • Government less engaged with sector • Anti-piracy regulation • Not enough market input/focus on

	<ul style="list-style-type: none"> • High share of national box office • English language capacity 	<ul style="list-style-type: none"> audiences • Lack of engagement with future – changing business models
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3.4 Key Lessons in Film Production and Support

3.4.1 Engagement by and with Government

A key finding that emerges from our benchmarking work is that the film sector has flourished in countries where there are committed film friendly governments. This commitment is characterised by a wider recognition of the cultural, economic and social benefits of a healthy film sector. This is the case in Australia, Denmark, France, Ireland and the UK. In Denmark, France, the UK and Australia government has put in place a package of measures to allow for the flourishing of national domestic product. Only in Australia does this not translate into a respectable share of domestic box office – and policies are currently in place to address this issue.

Legislation whether in the form of automatic support systems such as the UK tax credit or in the form of France's annual cinematographic budget helps underwrite and protect funding. Overall active political will to strengthen the sector and active engagement in listening to the changing needs and challenges of the sector is also very important.

It is also true that the most successful countries are countries enjoy the presence of a pro-active national support body. The benefit of pro-active support bodies interacting directly with government on the sector's current needs and devising holistic overall strategies can be seen in all countries considered (but to a lesser extent in Austria).

3.4.2 Diverse Support Ecologies

It should come as no surprise that our benchmark concludes that in larger more mature territories producers have access to a depth and variety of funding sources offering automatic support (aimed at market driven product) and selective funding (most often aimed at nurturing new talents and supporting more specialised product).

All of the most successful countries offer some form of automatic support encouraging the creation of market driven product. Even in the case of Denmark where the main scheme – the 60/40 scheme – is semi-automatic there is still a strategic drive to encourage market driven product and to encourage creativity and entrepreneurship amongst producers. Rewarding commercial success is all important. In effectively allowing the market to dictate the distribution of funds in automatic support schemes as in France will naturally lead to the creation of increased levels of market driven product and therefore higher levels of domestic share.

3.4.3 Company Development

Larger territories offer a range of company development support schemes in order to assist producers in working towards more sustainable companies – this is noticeably the case in the UK and Australia. In France the terms of the automatic support scheme allow producers the ability to re-invest in his/her next project aiding longer term growth.

In general the UK and Australia are experimenting with different forms of investment. This is particularly true in the UK regions where regional development funds have offered the Nations and Regions the ability to offer specific regional attraction funds.

3.4.4 Vitality in the Regions

The importance of the vitality of regional support is also evidenced by our research. This is particularly true in the case of Austria where regional funds shore up the countries overall offer and provide welcome additional resources perhaps lacking at a federal level. However it is important that regional funds should be in addition rather than supplementing national funds. In the countries considered, the stronger film countries show that the regions provide additional rather than supplemental funds adding to the overall vitality. This is the case in France and the UK where regional funds add another dimension to the countries' offers. Denmark offers a degree of regional funding but less than in other countries.

3.4.5 Terms of Trade

In all our surveyed countries terms of trade for producers are more generous than in Sweden. This fits with the findings resulting from our consultations, as discussed in Section 2.2.2, financial terms in Sweden for public sector funds appear relatively harsh.

In countries where the producers' voice is stronger (such as Denmark) or where producers benefit from a very strong trade body (France and the UK) many aspects of the terms of trade with public financiers have been negotiated to the benefit of the producer. For example in the UK, after lobbying by the Producers Association, Pact, new deal terms for film investment were agreed in 2007. BBC Films, Film4 and the UK Film Council, the three principal public funders of feature films in the UK, now treat the net value of the UK tax credit (usually 10-18% of the negative cost) as the UK producer's equity share in the film, recouping and participating, wherever possible, on a pro rata pari passu basis with other equity funding.

Case Study One – Communications Act 2003 – Terms of Trade for UK Television Producers

After three years of debate, the Communications Act came into force in the UK in July 2003. The act dissolved the Independent Television Commission, Broadcasting Standards Commission, the Radio Authority, Office of Telecommunications (OFTEL) and the Radiocommunications Agency. All of these bodies were replaced with a new agency, the Office of Communications (Ofcom). Ofcom was charged with the regulation of all of the UK's communications industries from TV and radio, to telecommunications and wireless services.

The act required that public service broadcasters established codes of practice between themselves and independent producers, in order to regulate their terms of trade. The legislation was intended to redress what was perceived as unfair deal terms, which meant few producers were able to hold on to their rights, resulting in a generally weak and undercapitalised sector. The main purpose behind these new deal terms was to give the producer greater control over intellectual property rights.

The Act also established a regional production spend quota, which meant that the terrestrial

broadcasters had to meet minimum spend requirements outside of London. This was designed to boost the representation of the regions and to develop stronger production companies outside of the capital.

The Act also liberalised UK media ownership and made further provisions for the licensing of the broadcasting spectrum.

The consequences of this Act, five years later, has been the substantial commercial growth of the independent television sector. Market reports such as Ofcom's annual television market report and the annual independent sector survey have mapped the size of the sector over the last few years. It is clear from such mapping that the market is increasingly consolidated. Production companies' ability to retain rights has seen the rise of powerful consolidated media companies the so called "super-indies" (companies such as All 3 Media and IMG Media). Companies which were particular specialised in factual entertainment and developed a number of formats which have been sold internationally have been particularly successful.

The introduction of regional production quotas in the UK was a key measure for strengthening the audiovisual sector throughout the UK. In 2011 – 5 departments from the BBC will set up home in the new Media City base in Salford Manchester.²⁷ Also as result of the recently concluded Scottish Broadcasting Commission initiated by the Scottish Nationalist Party – the BBC has recently announced its intent to establish Glasgow as a more significant commissioning centre.

Both the introduction of favourable terms of trade and regional production quotas have done much to grow the television sector throughout the UK. If similar regulation were to be introduced in Sweden (e.g. the introduction of independent production quotas) such regulatory intervention on the market would no doubt have a positive effect on the sector. However, the exact nature of this potential quota system and its potential reach has not been determined in this current study, whose focus has been films for the cinema.

3.4.6 Active Engagement from Broadcasters

SPI's benchmark also reveals the importance of actively engaged broadcasters working with the production sector in order to enhance national film industries. This has been the case with deal terms for film investment were agreed in 2007 in the UK by UK broadcasters (see above). At the heart of the CNC system is the support from the French broadcasters, both terrestrial and cable channels. Not only does the levy on broadcasters directly feed into funding for distributors and producers, but French broadcasters are also actively committed to the promotion of national cinema. As with the regional funds increasing Austria's overall film funds so too funds from broadcasting are all important for supplementing lower sources of federal funding. ORF, the Austrian public-service broadcaster provides around €5.9 million and the Austrian television fund provides an estimated €8m.

²⁷Five BBC London-based departments, including two TV channels and two radio stations, will move to mediacity:uk in Salford in 2011. They are BBC Children's (including CBBC and CBeebies); BBC Formal Learning; BBC Future Media & Technology (including Research & Development); BBC Radio 5 Live (including 5 Live Sports Extra); and BBC Sport.

3.4.7 Training

Denmark is perhaps the most well known European example of successful producer training leading to the emergence of a successful national production sector – encouraging the emergence of a generation of creative, dynamic and internationally recognised producers. Training and skills building, particularly in the case of physical production, has also been an underlying reason driving the success of the film sector in Ireland.

3.5 Key Lessons - Other Issues

3.5.1 Recognising the Benefits of the Creative Industries

In line with many countries in the Western world most our benchmarked countries are giving renewed policy focus to the importance of the role of the creative industries in helping to build and drive new knowledge economies. This is particularly true in the UK where a great deal of policy making time has been devoted by the Department of Culture Media and Sport has been spent on both understanding the creative industries and developing overall strategies for their support. Recent research both in the UK and by the European Commission empirically demonstrate that the creative industries are a source of employment, a driver of wealth in Western economies.²⁸ It is also being recognised that being known internationally for investment in the creative industries does much to contribute to the vitality and brand of a country. As an international activity, film has an important role to play in this respect.

Case Study Two - EU Innovation Policy and the Creative Economy

The European Commission, via initiatives like the Lisbon Agenda, is promoting the high importance of Europe's knowledge economies with the goal by 2010 for Europe to become the world's leading knowledge economy. The creative industries – encompassing not only film but advertising, architecture, arts and antiques, crafts, design, fashion, games, software and electronic publishing, music, media, visual and performing arts and publishing – are therefore key to the Lisbon agenda, as developers of new content and delivery platforms. The Commission's own funding programmes, like the ongoing Framework initiatives and the Lisbon Agenda, support the intersection of the creative and technology industries; while the move of the MEDIA Programme and audiovisual industry issues from DG Culture to DG Information Society, also indicates the fact that the Commission see the ties between these industries. European Governments have realised the importance of the creative industries as environmentally friendly and high-growth areas and have responded by supporting these industries in a number of ways. Traditional SME and business support services are offered to the sector, as well as cultural funding to support diversity and creativity. Regional development funding has also been used in countries like the UK and Denmark to support creative cluster development as well as through the provision of risk capital.²⁹

3.5.2 Safeguarding Intellectual Property

The traditional business models of film have been based on the recoupment of revenues from time-limited windows of opportunity to view content. The internet has of course challenged these models

²⁸ See for example The Economy of Culture 2007, Kern European Affairs

²⁹ The Commission has approved such schemes under the Regional Aid Guidelines, as well as the Risk Capital Guidelines, rather than under the Cultural Exemption.

giving rise to new ways of consuming content and the proliferation of piracy and illegal file sharing. In most of the countries under consideration there has recently been new moves to safe guard intellectual property on line. These new measures draw a compromise between content owners directly suing their customer base and reaching new agreements with ISPs with regards to their responsibility for policing internet traffic. New schemes such as France's new "3 strikes and out" and the UK's recently memorandum of understanding with the major ISP's to deliver warning letters to subscribers showing high levels of illegal activity.³⁰ Australia's recent review in 2006 Copyright bill and Denmark's closure of Swedish site Pirate Bay (currently contested) are also further evidence towards finding new solutions to resolve intellectual property issues.

3.5.3 Automatic Support – Rewarding Success and Growing Production Companies

SPI conducted the following case study with regards to the Canadian Envelope System for filmmakers which evolved from a similar envelope system for broadcasters. SPI's interest in conducting this case study was that the Canadian Film Fund offers an example of a fund which rewards commercial success without the level of commercial success being too onerous and how a degree of automatic awarding can encourage growth for production companies.

Case Study Three - The Canadian Envelope System

The Canadian Television Fund

In 2004/5 the Canadian Television Fund (CTF) significantly altered its application process. Previously, producers would submit their applications, then wait to see if their projects were selected to receive money from the typically oversubscribed fund. The new system distributes CTF funding through 'broadcaster envelopes,' pre-determined amounts of funding assigned each year to each broadcaster. Producers still apply to the fund, but only for projects already preselected for CTF funding by a broadcaster. The system was designed to limit oversubscription and to bring predictability to the process. While some specialist language and cultural projects are still funded outside of the envelope system, the majority of funds are now awarded through the new system. Individual envelopes for specific genres (such as English language drama) have also been introduced. CTF calculates the amount of funds in each broadcaster envelope through an annual review which weighs a broadcaster's historic access to the CTF, the amount of regional production a broadcaster licenses, the extent to which a broadcaster's licence fees exceed the average and audience success.

The Canadian Film Fund

In the autumn of 2006, the Canadian Film Fund (CFF) announced an 'envelope' system for their English language film development and productions support. The system was designed to support filmmakers who have been successful at the box office, but may not yet meet requirements for Telefilm Canada's performance-based funding stream. The top 15% of Canadian films which reach at least C\$500,000 million in box office returns may access the envelopes. Telefilm, in introducing the system, attended to redress the poor performance of English language Canadian films in Canadian cinemas. The minimum value of the production envelope is set at C\$750,000, and the development envelope offers C\$150,000. Producers who have received envelope funding are discouraged from applying to Telefilm's selective funds for 'top-up' resources. The scheme is intended to provide

30 Following negotiations facilitated by the Department for Business, Enterprise and Regulatory Reform (BERR), a Memorandum of Understanding (MOU), has been signed with the UK's six largest internet service providers. The UK film sector and BERR have also signed. Informative letters will be sent by participating ISPs to customers whose accounts have been identified by as being used illegally. In addition, under the auspices of Ofcom, the signatories will work together to identify effective mechanisms to deal with repeat offenders.

successful companies with a greater predictability of financial support, decision-making autonomy and greater flexibility in using resources. The system has come under criticism however, as recently two producers specialising in mounting Hollywood productions in Canada have qualified for these envelopes.

3.5.4 Distribution and Exhibition Consolidation

Given the particular issue with regards to future concerns arising from the result of market consolidation within the Swedish exhibition sector, SPI conducted a review of previous formal complaints about distribution and exhibition sector in our benchmarked countries. Two cases were found. One in the UK and one in Australia. Both complaints were made at a national level and were resolved by national regulators. The results are provided below:

Case Study Four – Distribution and Exhibition Regulation Complaint in the UK

In September 2005 the national UK Competition Commission undertook an investigation into Vue Entertainment's acquisition of A3 cinema. This acquisition was felt to be to the detriment of UK consumers representing a substantial lessening of competition within UK exhibition likely to result in higher cinema ticket prices. After formal investigations and consultations with interested parties and stakeholders the Commission returned a verdict in February 2006 that obliged the chain to secure the divestment of one cinema in Basingstoke to another cinema operator with sufficient resources to ensure its operation as a multiplex cinema showing mainstream films.³¹

Case Study Five – Distribution and Exhibition Regulation Complaint in Australia

In 1997 the national Australian Competition Commission, Australian Competition and Consumer Commission, undertook an investigation into the distribution and exhibition dynamics in Australia at the time. Previously in 1998 the nullification of a previous law known as the the 1948 Paramount Decree (preventing large film distribution companies from monopolising the cinema industry through self-serving film distribution strategies) had led to a series of corporate mergers allowing the majors to control most of the market. The basic complaint was that the new ecology of the market was strangulating independent exhibition.

At the time there was very little competition between the four main exhibitors (The Greater Union Group, the Village Roadshow Group and Hoyts Cinemas, Birch, Carroll and Coyle (a wholly owned subsidiary of Greater Union). Greater Union was also the second largest shareholder in Village Roadshow while a joint venture between Greater Union, Village Roadshow and the US studio, Warner Bros.

Distribution of films for cinema exhibition in Australia was dominated by four large firms and was highly concentrated.³² The four largest distributors, UIP, Roadshow, Columbia, Tristar and Twentieth Century Fox, generally held in excess of 90% of the Australian market. Enquiries also revealed that there were several potential barriers to the entry of new film distributors. The most important are

31 <http://www.competition-commission.org.uk/Inquiries/ref2005/vue/index.htm>

32 These were Roadshow Distributors (Roadshow) -50% owned by the Village cinema group and 50% by Greater Union and has agreements with two of the major US studios, Warner Bros and Disney to distribute their films theatrically in Australia- United International Pictures (UIP), Columbia Tristar Film Distributors (Columbia) and Twentieth Century Fox Film Distributors (Fox).

access to product and access to finance.

The Australian Competition and Consumer Commission conducted a sector-wide report into national film distribution and exhibition practices and eventually conceded that:

The establishment of two major distributors, controlling the output of more than one major US studio, has led to film distribution in Australia being a tightly oligopolistic market

The final result of the investigation was the introduction of a voluntary code to provide mediation between parties in the cinema industry, the Code of Conduct for Film Distribution and Exhibition which was launched in August 1998. This voluntary code is subject to review and was reviewed and amended again in 2001.³³

Nevertheless, according to The Australian Film Commission, the total number of Australian exhibition outlets plummeted from 162 in June of 1994 to just 99 at the end of June 2000.

³³<http://www.accc.gov.au/content/index.phtml/itemId/87867/fromItemId/378012>

4. A Vision for Sweden

4.1 Embracing the Future

Sweden enjoys a long and illustrious history of film making which is appreciated by audiences at home and abroad. Of particular importance has been world beating Swedish talent, both in front of and behind the camera, such as historical greats Ingmar Bergman and Greta Garbo, and modern stars like Stellan Skarsgård.

Recognition of Sweden's film making "brand" mirrors other achievements in the export of brand Sweden, for example in creative areas such as music and computer games development. Sweden is also well recognised throughout the world for consumer and cultural brands like IKEA, Ericsson, Volvo, Saab and the Nobel Prize.

The strength of brand Sweden, and accomplishments of the film sector in the past, presents an ideal platform on which to build a strong and sustainable film sector for the future. Too much looking back on Sweden's film achievements of the past should be discouraged, as a backward focus can distract from the opportunities that face the sector today.

What is perhaps lacking, however, is a central government strategy which aims to maximise the growth of and benefits to be derived from a healthy and thriving film sector. Much of the past focus has been limited to the generation of funding (through the Film Agreement and direct support) for production and other limited objectives. The fact that the Film Agreement is voluntary, and its measures not mandated by law, is indicative of the relatively low importance it seems is attached to the sector by government. This is different from just about every other country with which Sweden might normally compare itself, all of whom have central strategies, of varying complexity, to support film activity.

4.2 Benefits of a Dynamic Film Sector

To date the principal motivating forces of investment in Sweden film have been cultural. This policy has secured the Swedish Film Agreement and other benefits. However, film should be on national policy maker's agendas for many other reasons. Arguments must be made to demonstrate the importance of public investment in film and its utility to a wider range of government cultural, social and economic agendas. This would allow the Swedish film sector to come in to line with other mature film economies and to likely increase the availability of funds currently offered.

In many countries with advanced film economies, economic impact studies have been conducted in order to calculate the impact and return on such public investment. The spend associated with high levels of film production is much sought after economic phenomenon as witnessed by the proliferation of fiscal incentives both in Europe and the US.

Economic benefits which public investment in film have shown to generate include, but are not limited to, the following:

- Local, secondary and tertiary spend
- Economic multipliers
- Employment

- Direct investment return
- Inward investment
- Export earnings
- Encouraging sustainability of local companies
- Enhanced tourism

Less tangible, but nevertheless real, economic benefits include benefits such as increased recognition abroad of a country's reputation for creativity and innovation or increased development and awareness of a country's international brand. Indeed given its international reach film plays a unique role in promoting the dynamism of a country abroad. As such film is a highly visible flag ship and international ambassador for the promotion of a nation's economic vitality and reputation abroad.

Film also contributes across a number of social agendas and delivers recognised benefits such as:

- Representing diversity
- Providing public access to quality material
- Consumer choice
- Widening access
- Skills development

Film's ability to deliver on social agendas has been recognised in the past in Swedish policy making for example the increased emphasis on supporting and encouraging female activity in the sector is a key element of the current Film Agreement. Particularly important at this time of falling box office and increased exhibition monopoly is the importance of ensuring consumer choice. Better and more strategic investment and increased policy focus on social benefits would increase the sector's ability to deliver quality films which audiences chose to see.

Public investment delivers a number of cultural benefits which have long been recognised. However, cultural benefits which are less readily recognised include the following:

- Encouraging creativity in other sectors
- Encouraging creativity in the public
- Developing sector talent
- Media literacy
- Enhancing the regions image and profile

All of the above cultural benefits also stimulate economic ones. Encouraging the over spill from the output of the creative industries into the wider economy and to the general public have been key motivators for policy makers in countries which are keen to assist the development and growth of the creative industries.

Public investment in film unleashes all these economic, social and cultural benefits and more still. The following table summarises these benefits and indicates the various categories of entities who benefit. We have indicated four levels of beneficiaries as a starting point:

- Swedish film sector as a whole;
- Sweden as a country;
- Audiences
- Creative industries as a whole

		Recipients			
		The Swedish film sector as a whole	Sweden as a country	Audiences	Creative industries as a whole
BENEFITS	Direct benefit to the Swedish Film Industry				
	Vitality / resonance of the sector	√	√	√	√
	Promoting excellence within the sector	√	√	√	√
	Exporting Swedish films	√	√		√
	Promoting innovation	√			
	Building audiences, in the Sweden and abroad	√	√	√	
	Cultural Benefits				
	Encouraging creativity in other sectors			√	√
	Encouraging creativity in the public			√	√
	Developing industry talent	√	√		
	Film literacy		√	√	
	Enhancing Sweden's image and profile	√	√		√
	Economic Benefits				
	Local, secondary, tertiary spend	√	√	√	√
	Economic multipliers				
	Employment	√	√		√
	Leveraging public and private investment	√	√		√
	Inward investment	√	√		√
	Export revenues	√	√		√
	Direct investment return				
	Enhanced tourism		√		√
	Encouraging sustainability of companies	√	√		√
	Social Benefits				
	Representing diversity			√	
	Widening access	√	√		√
	Skills development	√	√		√

The table indicates the impact of these benefits is widespread and is by no means limited to the film sector.

4.3 Citizen and Consumer Rights

The distinction between engaging with the public as consumers and citizens is also useful with regard to film policy.³⁴ There is of course market failure in European film. Without appropriate levels of public

³⁴ In the UK the 2003 Communications Act established a new regulatory body and competition authority in the UK for the communications industries: telecommunications, wireless communication services broadcasting (television and radio). In order to respond to its wide remit, Ofcom has articulated its engagement with the UK public as engagement with the interests of the public as consumer and citizen. this distinction allows Ofcom to address the dual nature of its remit. Ofcom is the watchdog body for both the standards of content and competition matters. In terms of competition issues, other than resolving commercial disputes Ofcom's aim is to ensure that regulatory conditions are such that market forces continue to

subsidy available throughout Europe there would be no meaningful independent film sector of which to speak. In particular, challenging, non-mainstream films that would find it very difficult to be heard if not for public support. In the Swedish context, such films deliver enormous benefit to citizens and audiences who might not be otherwise able to experience Swedish stories told from unusual viewpoints and in different ways. One might say that these more specialised films have hitherto been the bedrock upon which much of Sweden's filmmaking talent has emerged.

A healthy and successful national sector will be one in which a balance exists between the more commercially driven and successful films on the one hand and a number of quality, specialised and more challenging films on the other. Providing this range of content not only makes for a healthy and vibrant sector for the benefit of the consumer, but also exposing audiences to new and challenging ideas is to the benefit of the citizen.

Public investment in film support delivers a range of economic, cultural and social benefits as discussed above. These investments also deliver benefits to the consumer (choice, quality) as well as to the citizen (access, learning, media literacy and taking part in society). SPI believes that new directions for Swedish film policy should prioritise the Swedish public as citizen and consumer. The aim of any new policies should be to increase the flow of benefits emanating from support, to increase the quality and choice of output, and to work towards creating a more sustainable sector to secure benefits for all longer term.

4.4 Repositioning Sweden's Film Sector

Elsewhere in this report we refer to the Swedish film sector as being rather blocked or stuck because of a variety of relatively small obstacles that, collectively, have inhibited growth. In the following section, we also set out a series of recommended actions that would serve to remedy the situation. But the objective is not merely to gain equivalence to competitor countries, like perhaps Denmark and Norway, which might currently have a more visible film profile. To only seek parity would be to fall short of the opportunity facing Sweden.

As a country with proven competence in film making, and with a national brand much more widely known than other Scandinavian countries, the objective should be to overtake the achievements of others, not merely match them. This would apply to not only levels of production but also audience share at home and film exports.

The objectives for a repositioned film sector in Sweden should include:

- to be perceived as dynamic, creative and innovative
- to create sustainable and financially robust production businesses (the engines of the film sector)
- to increase domestic market share of film audiences to a level among the highest in Europe (30%+)
- to grow exports of Swedish films and have increased successes at international festivals
- to attract a greater level of private finance into the production of films

be dynamic resulting in savings for consumers. Ofcom also regulates such that services which would not normally be provided by the market itself but that are of interest to the public should be provided throughout the UK. one example of this is public service broadcasting, other examples include universal access to phone coverage, digital television coverage. In the future the question of which services should be provided on an universal basis will become increasingly complex. It is with such issues that Ofcom engages with the citizen.

- to empower film companies to succeed through their own actions rather than via a dependency on public film bodies
- to stimulate a permanent increase in production levels of Swedish films that reach audiences wherever they may be found along the emerging distribution chain
- to anticipate and embrace technological change all along the value chain
- to ensure all governments in Sweden understand the range of benefits to citizens and the economy that are generated by a thriving film sector
- to link film with other creative economy sectors
- to develop an improved skills and talent base that serves the needs of the sector

4.5 Achieving the Vision – A Key Challenge

SPI's review of the sector concludes that Sweden already possess many of the elements for achieving a healthy and vibrant film sector. SPI's key overall finding is that the various elements of sector need to be better structured in order to achieve this greater success. The particular challenge facing all elements in the sector is to work more cohesively together in the mutual interest of all. This means that from public funders and commercial entities to the production sector itself, all participants need to re-asses and modify current practices to the mutual benefit of all.

The following chapter outlines our recommendations in order to achieve this culture change. In our recommendations we have privileged the need for structural and behavioural change over immediate calls for short term release of further funding. Although in the near and longer term we believe there is a need for ensuring new sources of finance the immediate and most urgent need is for the sector to be better organised.

In SPI's opinion securing this new structure for the sector will provide greater longer term benefit, health and sustainability in years to come. Ultimately it is this change of direction which will reposition Sweden more securely in the future.

5. Recommendations

5.1 Strategic Thinking and Change Management

5.1.1 The Opportunity

SPI has consulted widely with all elements of the value chain and sector stakeholders. A key theme that has emerged from this study is that there is a wide, cross-sector desire to address current sector problems. However, overall, there is a lack of direction as to what needs to be done and how it should be implemented. A real opportunity to change the future direction of film in Sweden currently presents itself. The focus provided by both this study and the concurrently run government sponsored report should act as a catalyst for change. In order to capitalise on this current and very real moment of opportunity there is a need for a quick and effective response mechanism.

5.1.2 The Role of Screen Sweden/Working Group

SPI believes in the first instance this mechanism should be a cross-sector working group representative of all elements of the sector and its stakeholders. This working group, which will be tasked with managing change, should include appropriately high level representatives and should be chaired by Screen Sweden. This group should consider the recommendations of this and other current research to drive a path forward for the future. Screen Sweden's chairing of the working group will ensure neutrality and be a conduit to government in order to action change. SPI believes that Screen Sweden's brief should be widened in the near term (see recommendation 5.4 for further details) to adopt a more strategic leadership role for the sector.

5.1.3 Benefits of Co-operation

A collateral advantage of the working group will be to immediately forge closer sector relationships and to connect the sector in common goals. One of SPI's key findings is that all elements of the Swedish film sector need to slightly modify their current behaviour to the mutual benefit of all. This will of course necessitate cross-sector co-operation and mutual understanding of other parties' positions. The working group will provide a rare opportunity for all parties to meet and collaborate, and immediately foster the necessary links required to create common goals.

5.2 Bringing in New Source of Finance

5.2.1 A Changing Landscape for Film Consumption

There is a longer term need to draw in new sources of "distribution" finance to the sector. New formats and delivery systems for film content should contribute alongside current Film Agreement participants, thus increasing opportunities for the whole of the sector "to raise its game". Not only would new sources of finance create new opportunity, it is likely to become a very real necessity in the very near future. Box office revenues are diminishing and this trend will be set to continue as the enormous paradigm shift of entertainment consumption takes place. In this respect, current Film Agreement funds would also diminish.

The Film Agreement is and has been a remarkable corner stone in the Swedish film landscape but one that it is no longer adapted to modern world. For the Film Agreement to be renewed as it stands would signal a death knell for the sector. For Sweden to emerge after 2010 with the same arrangements in place, in face of the changing film distribution and consumption patterns which will have accelerated by that point, will mean that Sweden will be in a position from which it will be difficult to recover. This means that the up coming renewal of the Film Agreement in 2010 must face the future now.

5.2.2 Extending the Cinema Levy

The renewal (in whatever form it takes) of the Agreement in 2010 must reflect the changing distribution landscape and recognise the increasing importance of all distribution “windows”. This will include DVD, VoD and all forms of telecoms players in the future. As a near term ambition the levy must therefore be extended to carry across all windows. This of course will require negotiation and, most likely, legislation to take effect.

It will be unlikely that the extension of the levy will be universally welcomed by new participants. This has been the experience of France with the introduction of new reforms with regards to public service broadcasting (see Section A1.4.2) and one that has required strong political will in order to “future proof” public service broadcasting in France against the diminishing returns of broadcasting advertising. However, it is also a measure which has been relatively quickly pushed forward regardless of sector reaction. Likewise Poland has been able in very recent years to introduce a wide reaching levy in order to finance the film sector providing a level of financing commensurate with national ambitions for the industry.

Both the examples of France and Poland indicate a high level of political will is needed in order to secure such far reaching reforms. In this respect the task to reform the levy is one that will require strong advocacy for the sector in government. It is important that the negative results of not extending the levy are therefore well understood and demonstrated. Reforming the levy will require a high degree of concentrated effort.

5.2.3 Making the Case for the Extension

The case should be made to show that broadening the levy will be to the benefit of the Swedish public as citizens and consumers. Extending the funding base will secure and enhance the future of the film sector and its ability to deliver, to the Swedish public, quality commercial and specialised films.

Arguments should be advanced to government with regard to how Telecom operators commercially benefit from the carriage of Swedish content, and should therefore be included. Telecom operators are able to sell long term subscriptions to its services partly on the basis of the increased ability to consume content on line and for entertainment purposes. Telecom operators benefit from the public's appetite for accessing material online at times convenient to themselves. They are now extremely significant players in the film ecology. It is therefore natural that they should participate in securing the future of that content both for the benefit of themselves and the future of the film sector. The longer term of engagement of Telecoms in the levy agreement will encourage cross-sector collaboration and cross-platform developments.

In addition to this, DVD distributors should be subject to the levy. The continued support of broadcasters is also essential. The working group under Screen Sweden should determine the precise contributions to be made by each segment.

5.2.4 Implementing Change

Although extending the levy beyond cinema ticket sales is a sizeable task it is one that must be enacted in the near term in order to secure the near and longer term future of the sector. It may be that as a means forward it may be necessary to timetable a phase in of new participants in/contributors to the agreement. That is to say it may not be necessary for all new participants to start contributing at the same time. Nevertheless, the overall goal of including all revenue windows and the Telecom players in the agreement is a necessary objective to be completed in the near term.

5.3 Strengthening the Producer's Position

An overwhelming impression gained by SPI during the research for this study is the weakness of the Swedish producer segment. SPI's research revealed that some elements of the sector felt producers lacked a sense of commercial realities in the marketplace, and were making films with limited scope that audiences were not interested in³⁵. Others believed producers lacked financial strength and skills and were unable to bring private investment into the sector. Still others felt there was insufficient training for producers and no barriers to entry into the profession, leading to a lack of quality control.

The weakness of producers should be seen as a problem for the sector as a whole, for if the production segment is weak, it follows that films are unlikely to be of sufficient quality and the whole of the sector will suffer. It is SPI's observation that perhaps Sweden would benefit from stronger production companies even if at the same time this meant fewer producers.

5.3.1 Changing the Business Model

The fact is, in SPI's opinion, that the business model under which most producers currently operate cannot sustain much success. There are too few financing sources. Some of those from the public sector (such as SVT and the regional funds) demand terms of trade more akin to those sought by private funders. This makes it difficult for producers to build sustainable businesses from film production alone. It also inhibits genuine private investment, which cannot see where the returns will come from. It also is illogical, since it ignores the several benefits accruing to public funders which are of no value to the private investor.

The financial position and earning power of the producer is squeezed. There are insufficient funds and time for full development of projects and they are put into production too soon - partly in order that the producer can earn a fee, as profits for them are often non-existent.

Funding from the public sector is predominantly selective, and so producers tend to develop projects they think will find favour with those few decision makers who control funding. This discourages experimentation and variety and inhibits growth. Similarly, the position of some industry players is too dominant (for example SF) and successful independent producers have been absorbed into them.

³⁵ Apart from a narrow range of crime dramas having television value.

The answers can be found in a new strategic direction for producers. One in which:

- support systems are more strategic, and encourage the emergence of stronger (although possibly fewer) production companies
- companies are encouraged to diversify their activities across and along the value chain
- producers are able to access public funding for commercially focussed films through a new automatic system that recognise success in Sweden rather than through the commissioning editor structure that currently applies
- producers of more challenging films continue to gain support from selective public sources
- improving the terms of trade for producers (and private investors) by encouraging public investors to take a less aggressive recoupment and profit position³⁶.

5.3.2 Backing “Winners”

SPI has not calculated the specific amount of funds likely to be derived under the new Film Statute arrangements. Neither is it SPI's role to determine how much of the funds are directed to which support programmes. These decisions will emerge as the replacement for the Film Agreement is planned in greater detail, as part of the whole of sector strategy that we have recommended.

Nevertheless, and obviously, some of the new funds generated by the extension of the levy should continue to be used in selective funding for challenging films. However, we believe the majority should be allocated to funding a new automatic support scheme (in style of France's fonds soutien) based on previous commercial success in Sweden of films of the producer. The success should be measured across all ways in which audiences consume films – not just box office but also television ratings, DVD sales and online distribution results.

In this way, and in relation to these automatic funds only, the market decides which film makers receive support – rewarding success and creating a stronger business structure for producers who consistently provide successful films.

For example, thresholds of performance would be set depending upon which delivery format is selected. In cinema terms, it could be based upon a minimum level of admissions or for online distribution, the number of sale-induced downloads. The producer of any films exceeded a threshold would receive funding (on a sliding scale of performance) for their next project.³⁷

The system will naturally support this producers who prove adept at making films that consumers want to see (or “winners” in SPI's terminology). The scheme should be administered by Screen Sweden on behalf of the producer.

A number of more successful, financially stronger producer businesses, and project finance models, should emerge. These will be of greater interest to private equity investors, who are notably absent from the current Swedish film sector.

36 This may require separate legislation at the regional fund level.

37 The equivalent Federal system in Germany permits such funds to be used for a wider range of purposes, including corporate growth such as entering new field of business. At this point SPI is not proposing such a wide range of uses, because growing the level of successful film production is the major goal for these funds.

5.3.3 “Hallmarking”

In relation to its selective project investments, and other support schemes it operates, Screen Sweden should arrange a “hallmarking” of production companies, based on a series of criteria that includes box office success, but also less tangible matters such as festival prizes, successful use of digital innovations and export profile. Screen Sweden's provision of support across a number of agendas should apply the hallmarking measure as part of the assessment process. Without the designation, producers would have a lower chance of obtaining support.

For example, the “hallmarking” could include a producer of a culturally successful but more challenging film, that perhaps does not generate large Swedish audiences but does garner strong reviews and festival prizes. Ranking high, according to the “hallmarking” criteria, would therefore qualify this producer to benefit from Screen Sweden support schemes.

Producers themselves must be prepared to shift gear. There should be more diversification of activities (television drama, corporate, commercial work, new distribution methods) in order to create more sustainable companies.

5.3.4 More Challenging Films, New Voices and Diversity

One area where selective production funding is essential is in the traditional area of support for more challenging films from as wide a range of filmmakers as possible. These specialised films will not necessarily have obvious audience appeal – although commercial success and cultural value are by no means mutually exclusive.

An important function of Screen Sweden will be to continue its work in selecting and supporting challenging films of this type³⁸. The tradition of filmmaking in most European countries is based upon freedom of expression, including freedom from the constraints of the marketplace which might otherwise unintentionally act to pre-determine what films will be made and seen.

5.4 Screen Sweden's Longer Term Role

5.4.1 Driving Overall Strategy

In order to strategically manage changes within the sector in both the near and the longer term, SPI believes there is a need to widen SFI's current structure in order to become a more strategic, dynamic and active support body.

Most mature film sectors in the world (with the exception of the US and India) have a national film organisation – either a separate body or a department of government – which undertakes strategic functions. This body usually serves to represent government to the sector and the sector to government. In general the strategic body tends to be larger and better resourced than SFI, as a means

38 “Challenging” includes a range of films involving (for example) diverse voices, different points of view, non-mainstream stories, new talent, documentary, shorts and children's films that are not obviously candidates for support from the commercial marketplace – yet for which there are important audiences at home and overseas.

of delivering greater and further-reaching support to the sector. Whereas SFI has been a lead body in this respect to date, given the current difficulties facing the sector there is a need to enhance the emphasis on longer term strategy. It is natural that Screen Sweden should take on this role and be the body responsible for developing and delivering a cohesive strategy. Realisation of this recommendation will help drive all other recommendations.

5.4.2 Reforming Support Systems

SFI's current support system already offers a degree of automatic support in the form of the Performance Related Support system (SEK 75million per annum). The PRS system was first introduced in 2000 initially with insufficient funds which were quickly used up causing a stalling of production at the time. The funding system has since been improved and an additional SEK 100m from the PRS budget has been offered on a one-off basis Market-Orientated Production fund. There is therefore already recognition within the SFI that further automatic funds should be released to producers. These are described above and would essentially replace the current PRS system. Automatic support and automatic reward for success encourages the production of market driven films which respond to public tastes

SPI believes that the current SFI support system is overly reliant on the Consultant System. SPI believes that all funding administered by SFI should be reviewed and recalibrated in order to create a more suitable relationship between automatic support and selective funding, which should be redirected towards more challenging films that might otherwise not be made.

This recommendation of course calls for a major overhaul of current strategy. It is therefore a recommendation that requires time to implement but should be implemented in the near term.

5.4.3 Reforming Training Provision

Finally amongst Screen Sweden's new strategic functions should be added the responsibility for reforming training provision. This includes ensuring change within the Dramatiska Institutet and professional development for sector professionals.

SPI's consultations revealed a high degree of sector concern regarding current training provision within the Dramatiska Institutet and its lack of connection to sector needs. SPI therefore recommends in the short term that in order to further analyse the situation and to immediately begin to create closer links between the Film School and wider sector a dedicated working group (headed by Screen Sweden) of concerned sector stakeholders should be set up to manage this particular issue. SPI's consultations revealed that stakeholders would be willing to give of their time in order to address such an issue.

In the near term Screen Sweden should work towards an overall training policy which encompasses longer term strategy for the Institute and longer term planning for further continuous professional training with courses developed which will address the need for business development training for producers.

5.4.4 Managing Change within Screen Sweden

The recommended increased responsibilities and additional functions of Screen Sweden indicated above will of course have cost and operational implications to the body. SPI believes that it will

probably be necessary to review the organisation and staffing of Screen Sweden in order for it to be able to take on its new range of responsibilities.

5.4.5. Other Issues

There are a number of particularly pressing issues emerging from SPI's research and consultations that a new strategically enhanced Screen Sweden should engage with in order better the prospects of the Swedish film sector. These issues include working actively to engage with government, with SF, with other public funders, piracy and new business models. Further details of these particular issues are provided in subsequent recommendations in this Section.

5.5 Making the Case to Government

5.5.1. Recognising All the Benefits

Sweden's support for its film sector has traditionally been rooted in the cultural agenda. In comparison with other countries, including those benchmarked in this report, the economic benefits to Sweden of public investment in film has been under-articulated and are generally, therefore, not recognised. This is true particularly regarding central government. Regional governments have previously recognised the economic and industrial benefits as well, although the requirements of their current investments serve to unbalance the terms of trade for producers and other private sector sources

Led by Screen Sweden, together with the new sector forum, the sector should be engaging the current government as well as the opposition in order to prepare the ground for change. Presentations to government must clearly outline the range of benefits to Sweden's economy and cultural life of a healthy, vibrant film sector. This approach will serve to expand the reasons for supporting film from the purely cultural agenda to a more balanced approach.

5.5.2. From Voluntary to Legislated Regulation

A weakness of the Film Agreement is that it relies upon voluntary, negotiated agreement among the participants. This often results in the "lowest common denominator" effect, namely that the resulting agreement once negotiations have ended often reflects the least amount of change that all are willing to accept. The negotiating parties, inevitably, have different levels of power and influence and so the final agreement is not always optimal for the sector as a whole.

Another problem with a time limit on the Agreement is that there is constant awareness that circumstances might change when it ends, with attendant uncertainty, and yet during the term of the Agreement there is insufficient flexibility to adjust to changes in the film environment.

A further concern is that having a voluntary agreement possibly reflects or implies the state's unwillingness to engage with a strategic solution for the sector. Perhaps this is because the sector is not regarded as sufficiently important across enough government agendas (cultural, social and economic). There is a perception that (unlike its competitors) the Swedish government is unwilling, or insufficiently interested, to engage with or prioritise the sector.

Consequently, SPI recommends that the Agreement should be replaced by a “Film Statute”, incorporated in law, that would have more power and permanence and would reflect a higher level of interest and recognition from central government.

5.6 Adjusting Terms of Trade for Producers

As discussed elsewhere in this report, the current disadvantageous deal terms for producers impacts on the sector as a whole. The situation is particularly noticeable with regard to investment from the regional funds and from SVT.

Restrictive deal terms curtail producers' ability to thrive commercially (which should be possible providing they run their businesses on a more commercially-focussed basis) will eventually have longer term impacts on the sector. Weak producers are not be able to devote sufficient time and finance in the development stage. This results in poorly developed projects that are put into production prematurely and lack the quality and appeal that works in the marketplace.

Additionally, financially weak producers are unable to attract corporate investment to provide a bedrock for their growth and sustainability.

To this end, public sector funders must be encouraged to reconsider their own deal terms in order to advance the sector as a whole. Public investment must recognise its greater range of benefits compared to the private sector. Governments in most mature film industries around the world³⁹ have accepted these benefits as reasons to provide investment and support.

Public service broadcasters, whose remit is nationally defined, entrusted and proportionally funded in order to deliver its public service remit, should prioritise public service aspects of their deal making in order to recalibrate the position of the producer. This would also draw Sweden in line with other European countries.

5.7 Address the SF Monopoly

The current situation of SF market dominance needs to be resolved. There is no easy or obvious solution to this problem and it requires direct negotiation with SF with regards to the future on the part of relevant authorities. Negotiations should encourage SF to consider the advancement of the sector as a whole.

The Konkurrensverket, Swedish Competition Authority, has in the past already shown its concern with regards to market concentration in the exhibition market when it stopped SF Bio's acquisition of the Sandrews cinema chain in 2005. At the time the Competition Authority maintained that the transaction, if completed, would have a highly detrimental effect on the range of films offered, on ticket prices and on the overall number of cinemas. The markets for film distribution and Swedish film production would also be adversely affected. Consequently, the Competition Authority asked the Stockholm City Court to prohibit the deal.

This takeover has now happened as a result of commercial circumstances. SPI believes that as the overall representative of the sector Screen Sweden should actively engage in talks with

³⁹ Excluding the US and India, whose industries have been able to thrive on the back of huge domestic markets.

Konkurrensverket with regards to the situation. SPI believes that Screen Sweden should encourage Konkurrensverket draw up a form of memorandum of understanding between Konkurrensverket and the commercial behaviour with SF in the future. This memorandum should outline Konkurrensverket's concerns and hopes for the future and potentially outline certain guidelines for the future as well as likely sanctions for any uncompetitive behaviour that could arise. SF could be forced via this agreement not only to abide by certain guidelines but to act positively in the future for example increasing its commitment to showing specialised film and ensuring other exhibitors access to prints even when it is marginally commercially determinable to their market dominance.

In addition to this "watching brief" Screen Sweden may also wish to encourage the Konkurrensverket to carry out a specific study to monitor the situation over a specified period of time long enough to determine whether there is any evidence of uncompetitive behaviour as the situation evolves. This action of negotiating with the Konkurrensverket should be taken in the near term.

Naturally, devising a commercial incentive to reward SF if modifies its behaviour would naturally encourage SF to review its position. However the degree to which the market is being impacted remains to be properly quantified and analysed. In order to explore such commercial incentives and to devise a proportional economic response the situation would need to be properly analysed and evidenced over a period of time by the relevant authorities.

In SPI's opinion believes that the matter can and should be resolved on a national basis. This will allow the Swedish authorities most flexibility in designing solutions. However, negotiations failing, there may be grounds for a complaint to DG Competition under the anti-trust rules. Any company which has acquired a sector monopoly must not abuse that position under Article 82 of EC Treaty.

This option needs to be treated with a high degree of caution as once initiated the Commission will pursue the matter as it is obliged to consider any complaint that comes to its attention. In the event of the pursuit of this option it is to be noted that the Commission prefers an evidence base for action. Competition complaints should be substantiated as far as possible. Although the Commission will conduct its own investigation it will consider any evidence brought to bear in the matter.

5.8 Engage with Digital Innovation

SPI's vision for Sweden is to reposition Sweden to allow it to "leapfrog" other competitor countries and to achieve a greater level of more successful activity. A key means to achieving this will be to embrace future technologies. The impact of digital technologies means that we can no longer assume a monolithic and unchangeable definition of what we actually even mean by the word "film". In order to re-position itself the Swedish film sector must actively engage with new forms of distribution, new financing models and new formats.

To this end Screen Sweden should head up the establishment and administration of a number of new pilot programmes to embrace opportunities of digital innovation. These pilots should invite public and private stakeholders to both fund and participate in the pilot schemes. These pilot schemes will not only benefit the film sector but will encourage the cross fertilisation of creativity and ideas from other sectors to the mutual benefit of all.

Suggested pilot schemes include but are not limited to:

- New investment models
- Diversification of production companies' activities
- Bringing advertisers into financing
- Bringing games talent into development and production
- Bringing in other Swedish platform providers
- Bringing producers together
- Pre-selling direct to the consumer in return for some degree of exclusivity
- Experiment with what is meant by film – traditional long feature format or new models?
- Internationalising (beyond Scandinavia/Nordic areas) the profile and ambition of Swedish film

Throughout its consultations SPI found widespread support amongst stakeholders for such ventures. These pilot schemes should take place in the short and near term with the learning gathered from the exercises being implemented in the longer term.

5.9 Combat Piracy and Illegal Downloading

The Swedish government needs to implement The Enforcement Directive that is being implemented in the rest of Europe.

Broadband operators have a role in terms of countering illegal download activity, such as sending out warning letters, then taking further action if the situation is not rectified.. The government has initiated talks within the industry to achieve this, but there has been a resistance from the ISPs to take action against their clients, unless there is unanimous effort from all ISP's. The government should increase pressure to ensure this happens.

Both of these actions are needed to support all the new initiatives taken to distribute films on the Internet legally.

5.10 Exports

SPI's research and consultations revealed a high degree of awareness internationally of Sweden as a brand. In particular, Swedish films are recognisable and well regarded, particularly among avid specialised film audiences and festivals. This is perhaps not always recognised by Swedish producers themselves – some of whom may lack confidence in the international arena. However, with a number of recent international festival successes this is changing for the better.

Traditionally Sweden has combined brand strengths and financial resources with other Nordic neighbours in the form of Scandinavian Films umbrella stands at major international festivals. This has enabled the countries to have a strong and visible presence to date.

It is felt by SPI, however, that in addition to this combined approach, SFI should also be encouraging a number of Sweden-specific events presented with the official backing of the Swedish government. A stronger, more direct connection between the Swedish government and promotional events will set out a new signal to the wider international industry. Activities in this respect could include official invitations by the Swedish government to the international industry to events, as well as the presence of government officials at high profile international film occasions. Any government's clear backing of its

nation's film activities signals to the world that the country is “film friendly” and values the film sectors' contributions. More generally for a country to be more widely associated with film is to enhance its reputation abroad as creative and dynamic. Of all creative industries both the glamour of film and its international reach mean that film is an ideal platform for the promotion of a country's cultural, social and economic ambitions to the world.

5.11 Summary of Recommendations

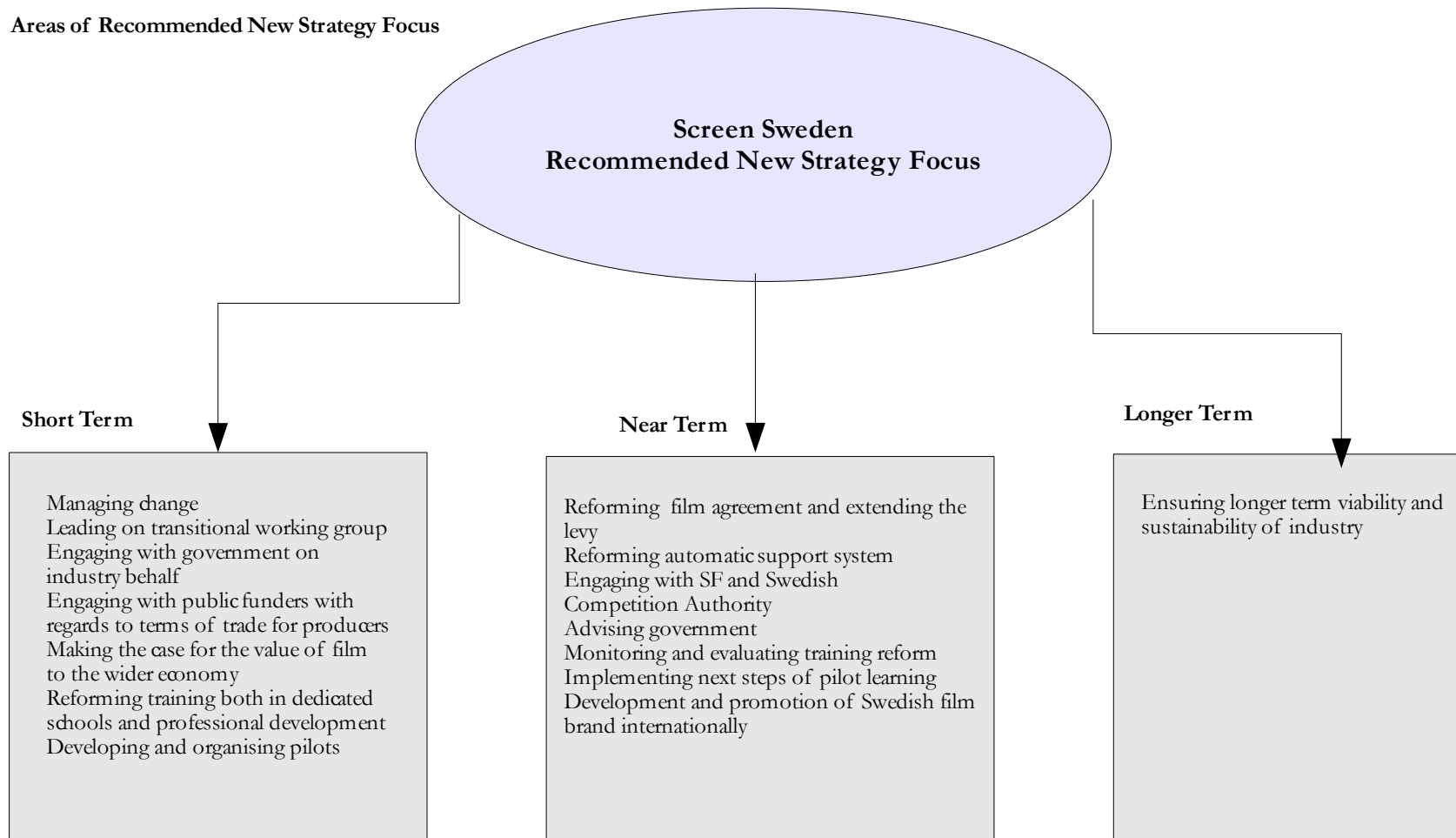
The table below provides a summary of recommendations indicating their timing in terms of short, near and long term implementation. The table also indicates the anticipated outcomes and benefits arising from the implementation of the recommendations

	Recommendation	Action	Implementation	Outcomes
1	Increased strategic thinking	Create sector working group chaired by Screen Sweden	Short term	Ensure and manage change. Forge closer cross-sector relationships
2	Extension of the levy	Engage with stakeholders to initiate change	Near term	Ensuring future sources of funding for film sector in changing digital world
3	Addressing the producers' position:			
	Increased automatic support	Screen Sweden to recalibrate balance of automatic and selective support	Near term	Greater sustainability of production companies and increased share of domestic market
	Step change in production community	Producers to diversify activities	Near term	Greater sustainability of production companies
	Introduce hallmarking designation scheme	Screen Sweden to develop terms of scheme	Near term	Greater sustainability of production companies
4	Screen Sweden to lead on driving sector strategy	Various – see chart	Near and longer term	Encourage robust and successful sector at home and abroad
5	Making case to government for support of sector	Lobby and widen the debate regarding benefits; replace the Agreement with a new Film Statute	Short and near term	Greater sustainability of sector
6	Engage with funders to encourage them to reconsider own deal terms	Make the case for wide public benefits arising from investment	Short and near term	Access to more production finance from public and private sources

7	Address the SF monopoly	Screen Sweden to engage with competition authorities	Near and longer term	Ensure continued diversity of film ecology
8	Engage with digital future	Screen Sweden to lead on cross-sector pilot schemes	Short, near and longer terms	Anticipating and embracing technological change
9	Combat piracy and illegal downloading	Increased government and ISP commitment to effective counter measures	Short, near and longer terms	Increased revenues and fairer market operation
10	Encourage exports	Increased Sweden specific events – increased link between Swedish government and international promotional events	Short and near term	Greater success in exports and promotion of international brand

The diagram below displays the areas of recommended strategy focus for the future. The diagram also shows the relationship between the enhanced strategic role of Screen Sweden and the overall package of recommendations provided in this Section:

Areas of Recommended New Strategy Focus



Appendix 1 Comparator Countries Case Studies

A1.1 Australia

AUSTRALIA										
Population: 20.9 million Broadband penetration: 15.8%										
<i>Year</i>	<i>National Funds</i>	<i>Regional Funds</i>	<i>Automatic Funds</i>	<i>Broadcast Funds</i>	<i>New Film makers Fund</i>	<i>Distribution & Exhibition Support</i>	<i>How many local films were produced?</i>	<i>No. of Co-productions</i>	<i>Value of Inward Investment</i>	<i>Market share of local films at box office*</i>
2004/5	FFC: A\$44.6 million invested in film AFC: A\$11.6 million film development and production	6 State and 2 Territorial funds, with budgets up to A\$10 million	-	-	Some state schemes		24	3	A\$285m	2.8%
2005/6	FFC: A\$38.8 million invested in film AFC: A\$12.1 million film development and production	6 State and 2 Territorial funds, with budgets up to A\$15 million	-	-	Some state schemes		29	3	A\$46m	4.6%
2006/7	FFC: A\$37.8 million invested in film AFC: A\$13.1 million film development and production	6 State and 2 Territorial funds, with budgets up to A\$20 million	-	-	Some state schemes	AFC funding totalling A\$1.4 million.	24	3	A\$121m	4.0%
2007/8	FFC total budget A \$70.5 million	6 State and 2 Territorial funds, with budgets up to A\$20 million	Location, Producer and PDV Offsets	-	Some state schemes					

A1.1.1 Overview

A medium sized country composed of 6 states and 2 territories, Australia has a considerable domestic screen economy. Australian film does not have the brand identity of French or even Danish film abroad, however, a number of Australian actors have become Hollywood stars -- Mel Gibson, Cate Blanchett, Nicole Kidman and Russell Crowe are just a few of the Australian names recognised throughout the world. The Australian Broadcasting Corporation (ABC) is the public service broadcaster and broadband penetration is 15.8%.

A1.1.2 Film Landscape

Production

Australia's feature film production volume has been somewhat volatile in recent years, despite the fact that roughly the same number of national films have been produced annually since 2004. One of the reasons for this apparent fluctuation is the importance of foreign film location shoots in Australia – 9 in 2004/5, 4 in 2005/6 and 6 in 2006/7. While total production volume in 2006/07 of Australian national films totalled A\$ 218 million, co-production and foreign feature productions spent A\$121 million in the country over the same period. In the seven years since 2000/01, foreign features have accounted for just over 50 per cent of feature production spending in Australia and has ranged from a high of 74 per cent in 2004/05 to a low of 17 per cent in 2005/06. High-profile Hollywood productions like *Charlotte's Web*, *Fool's Gold*, *Peter Pan*, *Star Wars – Episode III*, and *Superman Returns* all were shot partially in Australia. 2004/05 was the high-water mark for this type of incoming production, with A\$285 million spent by foreign and co-productions in the country that year. Whereas the average Australian film budget is A\$9 million, co-productions have an average budget of A\$17 million and incoming features have an average budget of A\$44 million. Government support accounted for 17% of the finance invested in national films and Australian co-productions. The screen industry in Australia is mostly composed of small and micro-enterprises.

Distribution and Exhibition

The Australian distribution sector is dominated by Hollywood majors – Roadshow, the Australian division of Warner Bros, had the highest market share with 24%. Other majors, including Paramount, Fox, Walt Disney, Sony and Universal dominate the rest of the market with only 14% of the distribution market covered by other distributors. Australian distributors typically handle Australian films, rather than the studios, led by the distributors Palace and Roadshow. The exhibition sector has a stronger domestic market share, with Australian exhibitors BBC, GU, Hoyts and Village accounting for 52% of Australia's screens. Australia also has two significant art house brands: Palace Cinemas and Dendy Cinemas. Dendy is owned by the international Icon Group.

Digital

ABC VOD is the national broadcasters online VOD service and is the largest provider of streamed and downloadable TV content in Australia. ABC, in collaboration with the Australian Film Commission has also launched a fund to produce documentaries for online and mobile consumption. This cross-media initiative is branded *jtv* and is aimed at younger audiences. There are also a number of online VOD services in the country, including VOLT, EzyDVD and Big Pond.

A1.1.3 Audiovisual Funding and Support

Australia's film support system used to be very complex, with a number of national, regional and municipal support agencies. Some of this complexity has been resolved with the formation of Screen Australia, which unites the previous functions of the Film Finance Corporation Australia (FFC) and Film Australia Limited, as well as most of the functions of the Australian Film Commission (AFC).

Screen Australia

Screen Australia is the new umbrella support organisation for film and audiovisual production in Australia. Established under the Screen Australia Act 2008, under the auspices of the Department of the Environment, Water, Heritage and the Arts, the body commenced operation in July 2008, after being passed by the Australian Senate's Standing Committee on Economics. Screen Australia aims to support the development of the Australian screen production sector and to promote the domestic and international consumption of Australian screen content. The organisation provides development and production funding, professional development support for content producers as well as providing services facilities for the independent production sector.

Automatic Funding - The Australian Screen Production Incentive Scheme

The Australian Screen Production Incentive scheme has three distinct funding streams: for visiting productions (Location Offset), for Australian/co-productions (Producer Offset) and for digital effects and post-production. All three of the schemes provide an automatic tax offset. For all of these schemes, qualifying Australian spend includes expenditure on goods and services provided in Australia, as well as expenditure incurred overseas for goods or services provided by Australian residents (during principal photography only). Travel and freight costs to Australia may also meet the definition of qualifying local spend, as do pre- and post-production costs incurred in Australia or paid to Australian residents. Australian above-the-line costs are calculated as part of qualifying Australian spend only up to 20% of the film's total production budget.

- The Location Offset offers a 15% tax rebate on qualifying Australian production expenditure for which spend a minimum of A\$15 million. Productions with between A\$15 and \$50 million in qualifying Australian spend must also spend 70% of their total production spend in Australia, and the applicant company must be the company responsible for the world-wide making of the film. For projects with a qualifying Australian spend over A\$50 million, there is no proportional requirement for Australian spend and the applicant must only be responsible for the filmmaking in Australia. These provisions are aimed at attracting big-budget US studio productions to Australia.
- The Producer Offset is aimed at domestic productions. The scheme offers a tax rebate worth up to 40% of the qualifying Australian spend, for Australian productions with a minimum qualifying Australian spend of A\$1 million. Documentaries and television productions that meet varying minimum spend requirements qualify for a 20% rebate of qualifying Australian spend. To qualify as an Australian production, projects must be deemed to have Significant Australian Content (SAC), based on the film's subject matter of the film, location, nationality of key talent and production spend.
- The new Post, Digital and Visual (PDV) Offset is intended specifically to support the indigenous visual effects and post-production industry in Australia. 16 incoming productions used PDV facilities in Australia in 2006/7. Productions must spend at least A\$5 million on PDV production in Australia to qualify for the 15% rebate. These productions do not have to be shot in Australia. PDV production is broadly defined and includes animation, digital compositing, digital, visual and audio effects, green-screen photography, film lab services, restoration work, graphics, titles and credits and other post-production and/or digital services. The specific incentive available to post (the PDV Offset) is mutually exclusive with both the Location and the Producers Offset.

Selective Funding

Screen Australia's precursor, the FFC, was the primary vehicle for selective funds in Australia. The FFC was funded by the Government on a triennial basis, with \$70.5 million committed annually to 2007/08. The FFC, and now Screen Australia, offer development and production funding for film and television projects that meet the requirements for Australian content. Screen Australia finance can take the form of direct investment, loans, investment guarantees, loan syndicates as well as through the acquisition of rights. Production finance in 2008/09 is offered through two programming 'doors,' Market Attachment and Evaluation. Projects may be submitted through only one door at a time.

- The Market Attachment scheme requires a minimum of 25% of the budget to be guaranteed by the market. This may take the form of distribution advances, pre-sales from broadcasters or sales agents and bank gap financing. Australian theatrical distribution must be guaranteed, an international sales agent must be attached to the project and there must be some guarantee of international distribution. Screen Australia's investment is usually capped at 45% of the budget for national productions and 30% for co-productions.
- The Evaluation scheme assesses projects for creative, commercial and audience potential, as well as the track record of key talent. This evaluation is undertaken by Screen Australia specialist staff. The scheme is not open to co-productions. Once selected, projects will receive a letter of intent setting out the minimum levels of distribution and co-finance that will trigger Screen Australia's investment – these vary project to project. Screen Australia is prepared to invest up to A\$10 million per year in a single, high-budget feature film.

Screen Business Venture Programme (SBVP)

The SBVP replaces the AFC's General Development Investment programme and aims to assist audiovisual producers in growing and maintaining sustainable businesses by providing loans and grants, as well as business advice, support, mentoring and training where appropriate. The SBVP is broken into two funding strands: Business Support and Business Growth. These funds are managed by Screen Australia's Business Innovation manager, who also provides advice to supported companies.

- The Business Support offers funds (40% recoupable interest-free loan, 60% grant) between A\$40,000 and A\$80,000 for both early-stage and experienced producers to develop new enterprises and expand their range of business activities. Screen Australia may require security for its loan, such as a copyright interest in projects being developed currently or in the future by the applicants and/or such other security which, in Screen Australia's opinion, is appropriate to the business venture. Funding is available for producers working on new media platforms.
- The Business Growth strand is only open to experienced producers looking to strategically develop and expand their company in terms of turnover, range and number of projects and/or the range of business activities undertaken to enhance the company's sustainability. 50% of funding is offered as a grant and the other 50% as a recoupable interest-free loan, worth between A\$80,000 and A\$180,000.

Regional Funding

Each of the six Australian states and two territories is home to an audiovisual support agency. The largest funders are:

- Film Victoria offers two production incentives, the Production Investment Attraction Fund and the Regional Location Assistance Fund, as well as slate funding, business development

funds, as well as digital media support. The agency's total budget in 2006/07 was A\$17.9 million.

- The New South Wales Film and Television Office invested over A\$4 million into film production 2006/07, through its Production Fund and Regional Filming Fund. The FTO also has a successful screenwriting development programme, Aurora, which focuses on marketing and finance strategies.
- Pacific Film and Television Commission invested A\$10.45 million in the audiovisual sector in 2006/07, after emergency funds were extended to the agency from the state government to attract Baz Luhrmann's new project *Australia*.
- ScreenWest had a 2006/07 budget of A\$9.3 million, allocated to production and development funding, training and business development schemes.
- South Australian Film Corporation supports the development and production of films and videos, promotes the South Australian film sector and its services, develops the creative talent base, as well as operating production and sound mixing facilities. South Australia offers a payroll tax exemption based on the economic benefit to the state.

A1.1.4 Success Factors

A Diverse Support System

Australia has created a number of support measures designed to invest in the future of the Australian film sector. Focussing on domestic production as well as attracting incoming big budget foreign productions, the tax offset system intends to support the development of a key skills base in the country. Targeted support measures like the PDV offset, help Australia build upon its international reputation for digital and post-production work. Alongside these automatic tax offset regimes, selective funds support national and co-productions. Australian development schemes at the national and state level have targeted not only the creative screenwriting process, but the wider development of a slate of projects so that audiovisual production companies can better plan for the future. Australian audiovisual support bodies are strategic, forward-thinking and innovative. The move to synchronize national funding programmes under the new Screen Australia umbrella is indicative of a wider embrace of the audiovisual sector and a more clear-headed, direct approach to sector support.

Building Regional Production Centres

Over the last decade, the various Australian state governments have invested heavily in the audiovisual sector, building studios, bringing in tax incentives and production funds. This has resulted in a diversified Australian production base, with centres in Sydney, Melbourne, Adelaide and Brisbane. Post-production and digital technology facilities development has been key to this strategy. Over the past decade, 60% of film production took place in New South Wales, with 20% taking place in Queensland, 14% in Victoria and 4% in South Australia. Gradually, the centre of the Australian film sector is moving away from Sydney in New South Wales, in favour of a more evenly distributed production activity.

Business Support Initiatives

At the state and federal level, film support agencies in Australia have taken a broad-based business support outlook to the screen industries. Screen Australia's Screen Business Venture Programme

provides long-term funding not only for development slates, but for more ambitious business expansions. By providing the funding in the form of mixture of grant and loan form, businesses are given increased freedom to explore new and innovative business practices, such as moving into new media platforms. At the state level, there are further business development schemes, such as Film Victoria's support mechanism for cross-platform development between the traditional and new media sectors in fields such as animation and games.

A1.1.5 Business Environment for Producers

Screen Australia Deal Terms

For investments made under the Market Attachment scheme, Screen Australia will share the funds it recoups with the producer, from the first dollar. The producer's share is calculated on a sliding scale that remunerates producers for bringing non-Screen Australia finance to the project. Where Screen Australia is an equity investor in an Evaluation film, it will offer Australian producers a share of its revenue once the agency has recouped 30% of its investment. The revenue entitlement will be 15% (10% for co-productions) and will be treated as an advance against the producer's profit share. Screen Australia prefers producers to retain sequel, remake, series and spin-off rights and ancillary rights for Screen Australia funded projects. Screen Australia will require a share of copyright commensurate with its investment and will be entitled to revenues in perpetuity. Where it puts up a distribution guarantee, Screen Australia will require a copyright share of at least 1% but the agency does not require a share of copyright for P&A loans.

For equity investments, profit participation is a matter for negotiation between the producer and Screen Australia but it is typically 50% to the investors and 50% to the producer. Third party creative participations in profit shall be met from the producer's share. Where Screen Australia provides a distribution guarantee and sits in first position in terms of recoupment, it will not expect to participate in profits. Upon expiry of the sales agent's/distributor's initial licence terms, Screen Australia will allow producers with the appropriate expertise to take over exploitation of the rights at the same level of commission as the previous licensee.

Screen Producers' Association

SPAA represents television, feature film, animation, documentary, TV commercial and interactive media production companies. SPAA also represents services and facilities companies, such as post-production, finance, distribution and legal companies. It consults with members to identify key economic, technological, policy and cultural issues and advocates its members' views to government and the media. Through its annual SPAA conference, the organisation brings together key sector players - financing bodies, broadcasters, distributors, sales agents, advertising agencies, service providers, writers, directors, actors, producers, from Australia and abroad.

A1.1.6 Policy Issues

Innovation as a driver of the Creative Industries

The recently-elected Labour government of Australia has prioritised the innovation agenda. A key initiative is the A\$200 million Enterprise Connect network, aimed at connecting businesses to new ideas and new technologies, including a dedicated Creative Industries Innovation Centre. Mapping of

the creative industries sector, The government is also committed to investing A\$4.7 billion to establish a National Broadband Network in partnership with the private sector. The state governments have all recognised the importance of the creative industries to their economies. The government of Queensland estimated that creative industries businesses were worth A\$3.4 billion to the state economy.

Towards a Creative Australia

In April 2008, the Australian Government held a wide-ranging summit entitled Australia 2020. One of the dedicated topics for the summit was titled 'Towards a Creative Australia.' The sessions, chaired by Cate Blanchett and Dr. Julianne Schultz, brought together sector representatives, government officials and researchers to discuss the ways the government may better support the creative economy in Australia. Some of the proposed ideas from the two-day session included the establishment of a Ministry for Creative Economy and Arts, to reach across all sectors and areas of government, dramatic increases of Australian content on television, increased investment in arts education and training and increased funding for film development and distribution.

Film Piracy

At the end of 2006, Australia adopted the Copyright Amendment Bill. The legislation was amended significantly by the Attorney General after a storm of complaints about facets of the law, which included proposals to issue on-the-spot fines of A\$1320 for copyright infringement. The legislation strengthened anti-circumvention laws, for the first time making it illegal in Australia to circumvent technical measures used by copyright owners to protect access to their works. The Act also introduced a series of exceptions to existing copyright law, allowing people to "format-shift" their music from CDs to computers and music players though making copies for others to use is not allowed. The Act also expanded the provisions concerning criminal copyright infringement. Even before the new legislation, Australia had initiated judicial motions against ISPs and services like KaZaa that allowed file-sharing online.

A1.1.7 Analysis

Australian audiovisual policy has utilised a mixture of approaches, including tax incentives, selective support and creative methods of business support to build its industry. There are dangers in over reliance on big-budget Hollywood imports, but the Australian support sector is looking to find as many ways as possible to bring these studio productions in and use them to build their considerable skills and facilities base, in particular the digital and post-production sub-sectors. This strategy intends to maintain high levels of foreign production through the appeal of world-class infrastructure and facilities. But there is still the risk of a boom-bust cycle until domestic production budgets can rise to a level to offset the vagaries of attracting studio imports.

Simultaneously, Screen Australia has focussed on building stronger Australian production companies. By providing finance to companies looking to expand their development portfolios and/or diversify their business interests, Screen Australia and the state support agencies aim to create an innovative indigenous sector with stability and growth potential. Screen Australia's deal terms allow producers to enjoy recoupment at an early stage, which means they have more funding available to plough back into their

companies. This approach aims to deliver consistency both to Australian companies' finances and to their production schedule.

With the new government's stated commitment to re-think cultural policy and creative industries support, there is real potential for Australia to become a global leader in finding ways to support creative industries. But it is early days, and the outcomes of strategic summits like the 'Towards a Creative Australia' are not yet known. Since the summer of 2007, the government has already united Australia's existing support measures under the Screen Australia banner, and introduced the tax offset system. The results of these measures are not yet clear.

A1.2 Austria

AUSTRIA										
Population: 8.3 million										
Broadband penetration: 19%										
<i>Year</i>	<i>National Funds</i>	<i>Regional Funds</i>	<i>Automatic Funds</i>	<i>Broadcast Funds</i>	<i>New Film makers Fund</i>	<i>Distribution & Exhibition Support</i>	<i>How many local films were produced?</i>	<i>No. of Co-productions</i>	<i>Value of Inward Investment</i>	<i>Market share of local films at box office</i>
2005	AFI (total budet €9.6 million); Austrian TV Film Fund (€7.5 million); Chancellery funds	Total available funds approximately €11 million, Vienna Film Fund €8.8million	AFI 'reference film' production support	€5.9 million	-	AFI, Vienna Film Fund	17	7 majority, 6 minority	N/A	-
2006	AFI (total budet €9.6 million); Austrian TV Film Fund (€7.5 million); Chancellery funds	Total available funds approximately €11 million, Vienna Film Fund €8.8million	Vienna Film Fund, AFI 'reference film' production support	€5.9 million	-	AFI, Vienna Film Fund	21	12 majority	N/A	2.6%
2007	AFI (total budet €9.6 million); Austrian TV Film Fund (€7.5 million); Chancellery funds	Total available funds approximately €11 million, Vienna Film Fund €8.8million	Vienna Film Fund, AFI 'reference film' production support	€5.9 million	-	AFI, Vienna Film Fund	20	5 minority 7 majority	N/A	1.8%
2008	AFI (total budet €9.6 million); Austrian TV Film Fund (€7.5 million); Chancellery funds	Total available funds approximately €11 million, Vienna Film Fund €8.8million	Vienna Film Fund, AFI 'reference film' production support		-	AFI, Chancellery 'Kino Initiative'				

A1.2.1 Overview

Austria is a small federal state composed of nine regions. The country has struggled to develop an independent cinematic voice, in the face of market domination from German and American films. Austrian films have one of the lowest national box-office market shares in Europe. Despite these problems, there have been a few domestic successes in recent years, including the films *Hinterholz8* and *Poppitz*. There are a couple larger Austrian production companies; Dor-Film and Allegro produce at least two films annually and have a commercial focus. There is a high esteem for festival success amongst funders and production companies. Michael Haneke, arguably Austria's most internationally recognised director, has received critical acclaim for films like *Die Klavierspielerin* and *Caché*

A1.2.2 Landscape

Production

In 2006, total audiovisual production volume was about €148.5 million, slightly down on the 2005 figure of €165.5 million. The film industry employs approximately 2,300 people in Austria. Austria produces between 20-30 films a year. Inward investment figures are not collected by Austrian national authorities, though regional film funds look for a considerable local spend. Austria's leading co-production partners are her neighbours, Germany and Switzerland, where linguistic ties are strongest. Haneke's last few films have been large-scale French co-productions. Most of Austria's film businesses are small, even micro-enterprises. Film distribution is dominated by US-majors, Austrian distributors hold a total market share of 25%. By far the largest Austrian distributor is Constantin who controls native market share.

Distribution

Of the approximately 20 film distribution and rental companies which exist in Austria, the largest are subsidiaries of major foreign companies: Buena Vista, Centfox, UIP, Warner and Sony Pictures. The largest Austrian distributor is also the largest cinema operator in the country, Konstantin Film. This concentration may in some way account for the low market share of Austrian film domestically.

Digital

Broadband penetration in Austria is roughly comparable to the EU average. VOD take-up in Austria has begun, but it is hampered by the fact that the standard blocking period for online distribution of film is 12 months after theatrical release, though this may be adjusted. TV on demand is more successful, with German company On Demand Deutschland recently entering the market.

A1.2.3 Audiovisual Funding and Support

Audiovisual funding in Austria derives from three main sources: the Österreichisches Filminstitut (Austrian Film Institute, AFI), Fernsehfonds Austria (Austrian Television Fund) and regional funders. Of the regional bodies, by far the largest is the Vienna Film Fund, whose budget is very nearly equal to the AFI's. Regional funding accounts for a third of available public support for the film sector. The

Austrian film sector received total funding commitments of just under €35.4 million euros in 2006, and 83% of these funds went towards production support.⁴⁰

AFI

In 2006, the Film Institute has an annual budget of €9.6 million. This funding was determined by the Film Subsidies Act (Filmförderungsgesetz) and is annually renewed by the federal government as part of the Federal Finance Act. The AFI also receives some funding from ORF, the national public broadcaster. The AFI provides funding for production, development and distribution. The AFI's strategic aims are to support the international recognition of Austrian film, to increase the economic success and quality of domestic productions, to strengthen the links between the film and television industries and to strengthen the Austrian audiovisual sector. Funding decisions are made by the Director and a panel of four sector experts, who must have recent experience as film professionals.

Development Funds

The AFI will provide funding up to €15,000 for scriptwriting and €36,400 for project development up to pre-production.

Production Support

The AFI offers production funding in two streams: automatic funding based on previous successful film projects and selective production investment. Typical annual budgets for each scheme are €1-€1.5 million. To receive automatic production support on a performance basis, the lead producer must have produced a 'reference film' that has achieved artistic or economic success. Success is measured either by critical acclaim (festival participation or high-profile awards) or by a minimum Austrian admissions figure. The AFI spent €6.8 million on production support in 2007.

Distribution Support

The AFI offers grants up to €40,000 and soft loans of up to €50,000 to support distribution of Austrian films. Total development support totalled approximately €550,000 in 2007. The AFI also provides support for dubbing and sub-titling, as well as international festival and market support. In total, these measures had a budget of close to €1 million.

ORF Support

ORF, the Austrian public-service broadcaster provided €5.9 million in funding to the film sector. ORF also sponsor an annual festival, the Diagonale. ORF is also a crucial co-production partner for the majority of Austrian film. The broadcaster has been criticised in recent years for its commercialism in its choice of commissioning/co-producing projects. For example, Austrian films that have garnered international press have been given their domestic television premiere in the middle of the night. Given the fact that ORF often controls domestic television rights for projects it has invested in, this commercialism has been seen as stifling by some producers.

⁴⁰ Funds come from a variety of sources. The largest funds are the AFI itself (9.6m€), Vienna Film Fund (8m€), the Austrian Television fund (8m€)

The Austrian Television Fund

Established in 2004 by the Austrian Regulatory Authority for Broadcasting and Telecommunications (RTR) by amendment to the nation's communications law, the Austrian Television Fund receives €7.5 million annually. This budget is drawn from the license fee. Funding is offered towards a maximum of 20% of the production budget, with various funding ceilings, depending on genre. Films may receive up to €700,000. Funds are awarded in the form of non-repayable grants. The aim of the Fund is to improve the quality of Austrian television production, as well as the production capacity and industrial strength of the Austrian film sector. Award decisions are made by the managing director of RTR, who is advised by a review board of five members with experience in the film sector.

Austrian Chancellery Funding

As part of the budget of the Federal Minister for Arts, Education and Culture, there are funds for the support of scriptwriting, development, production and distribution. Scriptwriting and development awards are up to €10,000; distribution support may reach €20,000. Production funds take the form of grants or soft loans and single awards may reach a maximum of €100,000. Artistic criteria is the primary means of assessment. The Chancellery also provides some funding for distribution and exhibition through its "Kino-Initiative."

Regional Funding

There are a number of smaller funds associated with the various Austrian Lande, however their budgets are rarely over €500,000. Such funds can be found, for example, in Burgenland, Karnten, Oberosterreich and Steiermark. This funding typically focuses on production that either has a strong link to regional culture or will have a positive business impact on the region and is administered by the regional government. Some of the larger funds, outside of the Vienna Film Fund, include:

- Since 2004, Cine Styria has supported production and distribution of film, multimedia and television projects. Different funding is available to cultural and commercial projects. The total budget of the fund is € 1.5 million, and funding is made available up to 20% of the total production budget.
- Cine Tirol, an initiative of the regional government and tourist board, was created in 1998. The agency has an annual budget of approximately €1 million. Regional spend is the primary funding criteria and funding is offered in support of production and script development.

The Vienna Film Fund

The Vienna City Council provides €8.8 million annually to the Film Fund. This funding is targeted at project-development (including script-writing), production, distribution and taking part in film festivals. The stated aims of the fund are to consolidate Vienna's position as a film and audiovisual media city, and to subsidize culture, economy and employment in the Viennese and Austrian film sector. Funding decisions are made by a jury of four international film professionals (currently including a festival director, television executive and Hollywood producer) as well as the managing director of the Fund. This jury weighs the cultural, economic and artistic merits of the project; the so-called "Vienna Effect" the regional spend on employment, goods and services, is a key factor. The Vienna Fund also has a dual

production fund system, whereby producers with a track record of success are entitled to non-repayable grants up to twice the amount they have repaid from previous investments made by the Fund. Production investment is capped at €350,000 and development funding at €50,000.

A1.2.4 Success Factors

Rewarding Critical Success, yet Facing Poor Domestic Audiences

The example of the 2007 Austrian film *Die Fälscher* (The Counterfeiters), directed by Stefan Ruzowitzky, illustrates the strength and the weaknesses of the Austrian film sector. The film won the Oscar for best foreign picture in 2008, yet prior to the Oscar win, only about 40,000 people had seen the film in its native country. The support system in Austria rewards critical success, even when there has been a poor domestic box office performance. The inherent paradox of Austria's continued international acclaim and the country's poor track record in domestic market share is one that funding agencies are trying to redress through their automatic schemes to reward producers with a record of commercial success. Yet, in the case of the AFI, 'success' can mean either domestic box office or critical acclaim.

Supporting Local Film Economies

Both the AFI and the Vienna Film Fund have an active strategy of supporting local film economies, skills development and employment. The Vienna Film Fund, in assessing projects' 'local effect,' has learned a lesson from the larger German regional funds. Austria's other regional governments have made strides to follow suit, in some cases enlisting the support of the local tourist boards. The involvement of regional and municipal governments and tourist boards attests to Austria's recognition of the economic potential of the audiovisual sector. This kind of support may account for the consistent levels of film production in the country, as well as the business development of a few Austrian production companies into sustainable enterprises, capable of putting out a couple films a year.

A1.2.5 Business Environment for Producers

Deal Terms with Public Financers

Most of the AFI's supported projects also receive funding from ORF. An agreement between the Film Institute and the broadcaster has been in place since 1981. According to this agreement, the ORF funding is provided in exchange for domestic terrestrial TV rights for Austria, and the Austria-to-Satellite rights. Rights from broadcaster co-financiers must be returned to the producer no later than 7 years after theatrical release, though in some cases the AFI will allow this to be extended to 10 years. The broadcaster also insists on various holdback periods for various release windows (6 months after theatrical release for video, 12 months for VOD, 18 months for pay-per-view and 2 years for terrestrial television). These holdback times may be reduced, depending on the producer's individual application.

Infighting amongst producers

Recently Austria's Association of Film Producers (AAFP) has witnessed intense fights between larger production companies and their smaller fellows. Helmut Grasser, president of the AAFP and head of

Allegro Film resigned in 2007 and in protest a number of larger production outfits left the organisation. The dispute had broken out because of an internal paper, produced by Grasser, proposing reform in Austrian film funding to reward company's with a track record of commercial success proportionally more than other companies. After the departure of Grasser, the remaining small producers of the association issued a statement for a "diverse" national cinema committed to adventurous and uncommercial filmmaking. Large production companies Dor-Film and Allegro have not rejoined the association, and thus its powers are considerably diminished as an sector representative.

A1.2.6 Policy Issues

An Emerging Sense of the Creative Industries

The Austrian creative industries have only recently become a subject of government research. In 2003, the Austrian Institute for SME Research released the "First Austrian Report on Creative Industries" in 2003, which was followed by a second report in 2006. The objective of these studies was to analyse the economic contribution and potential of the creative industries. Because cultural institutions are highly valued by the Austrian government, the definition of creative industries used in the country includes non-profits and public sector institutions, such as opera houses, museums and theatres, as well as arts associations and foundations. Software, technology and games companies have not traditionally been incorporated in government strategy and policy on the creative industries. In 2004, according to mapping studies conducted by the Government, there were 28,700 creative industries businesses operating in the sector, accounting for 10% of the economy and employing over 100,000.

Private enterprises in the sector tend to be micro-enterprises and Austrian strategy for the creative industries has recognised the need to build better business skills and improve these enterprises' access to capital. However, there has been little coordinated activity to meet these demands. While film and audiovisual production is very much at the heart of Austrian definitions of the creative industries, there is little co-ordination between stakeholders. In many way, an economic approach to film support, as piloted by the Vienna Film Fund and the other regional funds, has lead to a more joined-up approach, but there is not a lot of direction coming from the federal government.

Piracy: a Cross-Border Problem

Austria has been a recent advocate for pan-European regulation against online piracy. The Austrian government claims that given the fact the country shares a language with their much larger neighbour, Germany, that piracy in Austria is typically a cross-border, with servers and users on both sides of the border.

A1.2.7 Analysis

In the last three years, Austrian production levels have remained steady. Policy-wise, regional funds, and in particular the Vienna Film Fund are a real strength for the sector. Particularly promising is the involvement of economic support agencies and tourist bodies in audiovisual support. At the federal level, though this kind of multiple-stakeholder involvement is less common, there are some signs that a more integral strategy for the audiovisual sector may emerge with time. Audiovisual activity is firmly placed at the centre of Austria's definition of the creative industries and the government has realised the scale of the challenges facing the sector.

The producer situation in Austria is less hopeful. With the effective splitting of the Producer's Association, there is a real divide between the have's and the have-not's in Austria's film sector. A minority of production companies are able to take advantage of automatic funding, like that offered by the AFI and by the Vienna Film Fund, and to negotiate more powerfully with broadcasters over rights acquisition. But they have left the smaller producers behind.

The two-tiered nature of the Austrian production sector is even enshrined in the support systems, which define success as either commercial or cultural. While rewarding success is no doubt a valid motivation for the funding bodies, there is a risk that given the already divided nature of the Austrian production sector that two separate film industries will emerge in Austria: a more commercially-driven production model and a smaller 'art-house' sector. While the larger companies can access international co-producing partners and an increased global market, smaller companies may be limited to an already poor domestic theatrical and broadcast market. Rather than drawing on both commercial and critical success, the two have been largely separated by the infighting of the Austrian production sector, as well as by the funding bodies.

A1.3 Denmark

DENMARK										
Population: 5.5million										
Broadband penetration: 35%										
<i>Year</i>	<i>National Funds</i>	<i>Regional Funds</i>	<i>Semi-Automatic Funds</i>	<i>Broadcast Funds</i>	<i>New Film makers Fund</i>	<i>Distribution & Exhibition Support</i>	<i>How many local films were produced?</i>	<i>No. of Co-productions</i>	<i>Value of Inward Investment</i>	<i>Market share of local films at box office</i>
2005	DFI (€51 million total budget): 1. Consultant Scheme 2. 60/40 scheme 3. New Danish Screen	Vestdanske Filmpulje (€1.8 million); Film Fyn (€2.2 million)	DFI: 60/40 scheme	€9 million		DFI: Audience & marketing grants	17	14	N/A	32%
2006	DFI(€49 million total budget): 1. Consultant Scheme 2. 60/40 scheme 3. New Danish Screen	Vestdanske Filmpulje (€1.8 million); Film Fyn (€2.2 million)	DFI: 60/40 scheme	€9 million		DFI: Audience & marketing grants	20	14	N/A	25%
2007	DFI (€54 million total budget): 1. Consultant Scheme 2. 60/40 scheme 3. New Danish Screen	Vestdanske Filmpulje (€1.8 million); Film Fyn (€2.2 million)	DFI: 60/40 scheme	€9 million		DFI: Audience & marketing grants	17	9	N/A	27%
2008	DFI : 1. Consultant Scheme 2. 60/40 scheme 3. New Danish Screen 4. New Pilot Fund (Rå Film)	Vestdanske Filmpulje (€1.8 million) Film Fyn (€2.2 million) Copenhagen Fund (€5.5 million)	DFI: 60/40 scheme	€9 million	DFI: New Pilot Fund (Rå Film) for low-budget film €2m	DFI: Audience & marketing grants				

The above chart analyses the different funding mechanisms and levels of funding available over the last three years. Also included are the number of local films and co-productions produced between 2005 – 2007. The final column details the overall share of the box office for local films.

A1.3.1 Overview

Although a small country of only 5.4 million, the Danish film sector has a strong film culture and an international reputation. The state-supported broadcasting industry comprises of two main national broadcasters: Danmarks Radio (DR), which is public and TV2 Danmark which was privatised in 2003, but is still subject to public service obligations. Analogue switch-off is scheduled for 2009. With a high-level of broadband penetration, Denmark also was ranked as the world's most advanced IT nation in 2008.⁴¹

A1.3.2 Landscape

Production

The Danish film sector typically produces between 20 and 25 national productions each year, with an average budget of approximately €2.6 million per film. In the last three years, production levels have dipped slightly, particularly international co-productions. Danish producers largely work with Nordic neighbours but are interested in opportunities outside their own borders. In 2005, Danish producers were involved in 25 co-productions (11 majority and 14 minority), the most frequent co-producing partners being Norway, Sweden, Finland and the UK. In 2006, there were 20 international co-productions (8 majority, 12 minority), several with France, including smash hit *Asterix and the Vikings*, and the British-Danish co-production *Red Road*. But in 2007 Denmark was involved in only 9 co-productions (5 majority, 4 minority), the vast majority with Sweden. The decrease in co-production outside of its immediate neighbours may be due to predominately external factors: France introducing incentives for its filmmakers to shoot locally, the UK changing its tax credit system and increased competition from Eastern Europe countries.

Digital

There are several VOD operators already in service in Denmark, including TV2 Sputnik, the on-demand service of the national broadcaster TV2. In 2007, Buena Vista International signed a deal with TV2 to provide content for download on the subscription service up to seven days prior to broadcast. The deal marked Disney's first agreement in Scandinavia for VOD rights to its network services. Other Danish VOD suppliers include Film2Home and SF Anytime. One of the newest VOD services is Movieurope (www.movieurope.dk), a Scandinavian co-operative owned by several hundred filmmakers and venture capitalists. It has around 5,000 titles in its catalogue and is available in 13 countries. Originally launched in Danish, the service will be launching its English version in September 2008 and in 10 additional European languages in 2009. Movieurope is run by Filmmakers' Independent Digital Distribution (FIDD), who also run the TV channel Skandinavia, and their aim is to enable filmmakers to exploit their rights directly via online distribution channels with the ambition is to become the largest distributor of European films. By 2013, the aim is to present 50.000 European films in 27 languages.

A1.3.3 Audiovisual Funding and Support

Public support for the audiovisual sector in Denmark derives from the Ministry of Culture according to the Film Act of 1997. Since 1999, the Danish Parliament outlines a new financial framework and policy objectives, the Film Policy Accords, every four years. Public funding is largely centralised though the

41 IDC Information Society Index, 2008. The ISI bases its measurements on four pillars: IT, Communications, the Internet and Education.

Danish Film Institute (DFI), which has an annual budget of approximately €50 million, though additional film funding comes from the national television broadcasters and from regional funds. Over 80% of film funding in Denmark comes from the DFI and broadcasters, with only a minority of funds originating in the regions. At least 25% of state film support is earmarked for children and youth films.

DFI

The DFI has a variety of funding schemes. In addition to those outlined below, approximately €5 million is spent annually supporting the development, production and marketing of short films and documentaries.

The Consultant Scheme

This is primarily aimed at feature films with an artistic and experimental potential. It is a selective scheme decided by a commissioning Editor with sole responsibility for approving funds and green-lighting projects. Funds are usually awarded at script stage. In 2007, €5.6 million was awarded to 12 films as part of the consultant scheme. Consultant scheme funds may account for up to 60% of the total production budget, though the average award is closer to 35%.

The 60/40 Scheme

This scheme is primarily aimed at feature films with commercial potential for example children's films which are part of an established series. Box-office potential is the primary factor in funding decisions. It is a semi-automatic scheme based on a comparison points system. The fund has submission deadlines throughout the year: A producer comes to the Institute with 60% of the funding in place; all projects submissions are compared and the final decision to award the production the remaining 40% funding is made by a committee. In 2007, €5.6 million was awarded as a part of the 60/40 scheme. Danish producers, like their counterparts across Europe, prefer the automatic scheme as no one single person is able to determine whether their films get made.

The New Pilot Fund - Rå|Film

This initiative is a selective scheme aimed at low-budget projects. The maximum budget for projects applying for funding under this scheme is €1.35 million, and each project can receive up to €400,000. Funding decisions are made by a five-person editorial committee comprising film DFI consultants and two external evaluators – professionals with commercial insight into the market. The central aim is to promote diversity in Danish cinema, and stimulating the sector to try out new forms of storytelling as well as production. Films eligible for subsidy must have an original approach and artistic ambition but at the same time reflect the demands of the market, with a clear target group and a potential audience of at least 75,000 moviegoers. The Danish Film Institute has allocated €2 million to the Rå|Film scheme and expects to subsidise five to seven new features in 2008.

New Danish Screen

This is a selective talent development scheme for the development and production of low-budget fiction and documentary films in various formats. It is a collaboration between the Danish Film

Institute and the national broadcasters DR and TV2. The goal is to support and inspire the development of the film idiom and narrative technique, thus maintaining and furthering the dynamics and diversity of Danish film. The fund is open to emerging professional-grade talents and more experienced professionals and prioritises personal expression and creative risk over commercial success. €14 million was earmarked for the project over an initial four-year period with DFI putting up €10 million, and DR and TV2 contributing a combined €4 million. 100% of a film's budget may be supported under the scheme.

Co-production Fund

The DFI may award funding to between 5 and 7 foreign language films every year. In 2008, these subsidies amount to €1.1 million. Funding criteria include artistic quality, distribution opportunities, a Danish share in the creative, financial and technical partnership of the project. Local spend, employment of Danish personnel and distribution deals are all considered. Danish distribution in cinemas or on television must be secured prior to application to this fund.

New Platforms

In a new sector innovation, the Danish Film Institute has allocated about €80,000 for production of mini features for mobile phones. This marks the first large scale public funding for the mobile format, with shorts earmarked to run 90 seconds to three minutes.

Support for Exhibition and Distribution

The DFI has subsidy schemes for promotion, marketing and exhibition. The unit's mission is to further the distribution and promotion of Danish films, domestically and internationally, to as large an audience as possible. This is accomplished through the administration of subsidy schemes for promoting and marketing feature films at home and abroad, for making prints of films, for renovating, establishing and re-establishing cinemas, and for Danish festivals. A total of €4.3 million was spent in 2007 in this area.

Regional Funding

Although the regions account for a small proportion of Danish audiovisual support, there have been recent moves to expand the impact of regional funds in Denmark.

Copenhagen Fund

This €5.5 million fund was launched in 2007 with the purpose of attracting international production to the Greater Copenhagen region. The film fund draws its endowment from Copenhagen Capacity, the official investment agency for the regional government. This fund represents the first major step in attempting to reverse the decline in international co-production over the past three years. The fund aims to support projects with significant local spend, thus developing local infrastructure and skills.

Film Fyn

Film Fyn, on the island of Funen can provide local, inward investment and co-productions with production support, studio, locations and crew and invest up to 50% of spend in the region. The fund was created in 2003 with a budget of €2.2 million to be allocated to approximately 3 feature films per year. 60% of Film Fyn's budget comes from regional government, with the rest coming from the Danish Producers' Association, the local bank Amstsparekassen Fyn's, and the national broadcasters TV2 and DR. Thus far they have not played host to any international production, however, they are starting to talk to European producers in Germany and the UK.

Vestdanske Filmpulje

Vestdanske Filmpulje was established in 2001 to support the development of the local film sector through targeted investment. It had a budget of €1.8 million in 2004, deriving from the regional authority Århus Kommune.

Production Company Schemes

- Nimbus Film Company is partnering with the Danish broadcaster TV 2 to produce a series of low-budget films at around €1.5m. The main goal is to bring new filmmakers and new stories to the screen, while contributing to continued innovation in Danish cinema. As a requirement for each new film, two of the principal functions – director, writer, producer, cast, DP or editor – must be filled by people who are making their first feature.
- Filmfabrikken is a low-budget production company formed in partnership between Regner Grasten Film and Zentropa, aiming to kick new energy into Danish cinema by making edgy and off-beat films with broad audience appeal. The budget framework is €0.5m to €1.2m a film, in addition to marketing costs. All films will be lavishly marketed and promoted. The goal is to release three to four films a year, with admissions of at least 100,000.
- Zentropa recently launched a new pan-European production initiative 'Young Europeans' with the aim of making eight films over a two year period. Budgets of each film will be in the €1.5m range. The partners include IDTV in Holland, Slot Machine in France, uj Budapest in Hungary, Ripple World Pictures in Ireland, heimatfilm in Germany, STI Studio in Poland and Sigma Film in Scotland. The rights will be divided between the companies. The films will be shown separately in the theatres but the aim is to distribute all eight as a series to several broadcasters round Europe.
- Zentropa has started a new fund to give up to \$1.2m (Euros 800,000) to challenging local film projects.

TV Funding

The Media Policy Accord 2002-06 required Denmark's two TV stations DR and TV 2 to invest an average of €9 million a year in film production, either by direct investment or via another funding agency. This commitment is met through a combination of license fees and equity.

A1.3.4 Success Factors

Balancing Commercial Success and Critical Acclaim

The DFI's 60/40 scheme demonstrates a fairly commercially-minded film support scheme that has resulted in considerable success. The market share of Danish films in Denmark was 27% in 2007 and since 1999, at least 6 of the top 20 films in the country were domestic productions. Danish film also has a high international reputation, with the directors like Lars von Trier and Thomas Vinterberg and the Dogme 95 film movement receiving global critical acclaim. The commercial success and high critical reputation of Danish film has assisted producers in raising private investment and the DFI has managed to reduce the average level of support from around 60% of film production budgets ten years ago, to around 38%.

Talent

Danish filmmakers have found success and continuity through an open-minded, collaborative, innovative and international approach. One of Denmark's success stories is Zentropa, a prolific powerhouse founded by Lars von Trier and Peter Aalbaek Jensen. Scandinavian major Nordisk Film recently acquired 50% of the shares in Zentropa - backing that will enable the company to expand internationally. Zentropa already makes most of its money abroad and has always tried to handle art house film in an industrial and business-like way. It has its own sales arm and facilities. Zentropa is working closely with Scottish production company Sigma on the Advance Party trilogy. This initiative requires the film-makers to follow a selection of characters and narrative rules established by Thomas Anders Jensen and Lone Scherfig. Characters appear in all three films but may alternate from leading roles to supporting presences. All the films are set in Scotland. The first of the trilogy, *Red Road*, won the Prix Du Jury at Cannes in 2006. This year Zentropa Entertainments will co-produce local and international features with Swedish regional film centre, Film i Väst in Trollhattan, with a total production volume of €70.5 million.

Other successes include:

Danish director Lone Scherfig, who works internationally, most recently on UK production *An Education* written by bestselling UK novelist Nick Hornby.

Nicolas Winding Refn is shooting *Valhalla Rising* with support from the Danish Film Institute.

Ole Christian Madsen directed *Flame & Citron* starring Mads Mikkelsen and Thure Lindhart. The film is one of Denmark's largest productions ever, budgeted at €8 million, and has been a box-office hit, with more than 640,000 admissions.

- Nordisk Film Company. Founded in 1906, this vertically integrated operation has been involved in film production and exhibition for over a century. It now employs 1200 people in developing, producing and distributing films in the Nordic countries. Profits are channeled into the Nordisk Film Foundation, providing aid for various purposes within media and film.

Training

Training is central to Denmark's film policy and a number of training schemes and institutions provide an entry into the audiovisual sector. The prominence of training in the Danish film sector was confirmed in 1998 when Henning Camre, former head of the National Film School of Denmark, was appointed head of the DFI. Camre is now head of Think Tank on European Film and Film Policy.

The National Film School of Denmark

Founded in 1966 this is a state school, financially supported by the Danish Ministry of Cultural Affairs. It houses around 90 students on 4 year programmes with a staff of around 50. Famous alumni include Bille August, Lars Von Trier, Thomas Vinterberg, Susanne Bier, Christoffer Boe, Ole Christian Madsen and Pernille Fischer Christensen. Many now internationally renowned names in Danish film today had their talents and associations fostered at the Film School under the leadership of Henning Camre. Lars von Trier, Peter Aalbæk Jensen, Susanne Bier, Lone Scherfig, Per Fly, Thomas Vinterberg, Anthony Dod Mantle, Bo Erhardt and Birgitte Hald are just some of those whose training was subject to Camre's ambitious outlook. As part of a deliberate, forward-thinking strategy to change the Danish film sector, Camre introduced students to leading film professionals from all over the globe. Camre broadened the curriculum to include dedicated production, editing and scriptwriting lines. He also appointed key permanent staff who continue to have influence in the school today, including the gifted scriptwriting teacher Mogens Rukov whom many graduates have regarded as a professional mentor and whose "natural story" method has been fundamental to the school's scriptwriting programme. Camre stressed the importance of respectful, creative teamwork in film production. Production companies Zentropa and Nimbus were established as a result of friendships and introductions made at the School. The success of the Danish Film School under Camre led him to be appointed Director of the UK's National Film and Television School (NFTS) in 1992. The 2007-2010 Film Accord awarded a substantial budget increase to the school, in recognition of its role in the success of Danish film of the last decade.

Other Training Institutions

- Super 16 is a community of young filmmakers in Copenhagen which has formed an alternative film school. The members, 8 directors and 8 producers, coordinate and fund their own education with help and goodwill from the sector. The educators are often professional filmmakers who teach on specific subjects.
- Super 8 is like Super 16 but based in Århus and focuses on talent from the western part of Denmark. 4 directors and 4 producers plan and fund their own education with help from The Århus Film Workshop and the sector.
- Filmproducerdk is a 14-month film producer education located in Århus. It is targeted at people already in the film business or people with a relevant education like journalism, business school or aesthetic university areas.
- The Copenhagen Business School has hosted events and conferences devoted to the film industry. The Business School has a history of approaching the creative industries with an economic focus.
- The International Danish Entrepreneur Academy held a five-week summer school in 2006 with Zentropa Workz. Course participants were part of eight interdisciplinary teams working with eight innovative companies on new business idea development and the leisure economy.

A1.3.5 Business Environment for Producers

DFI Deal Terms

Producers in receipt of DFI funding must repay DFI investment when the private investment in the film has been recouped with a yield of 50 per cent. This does not include pre-sales, minimum guarantees or any other regional funding. When DR or TV has also invested in a project, DFI is not repaid until the broadcaster's investment has been recouped.

Broadcaster Deal Terms

Recently the industry developed a standard contract to secure greater income for the producers. The total investment in Danish film is now distributed between investment and the acquisition of broadcasting rights. DR and TV 2 now devote no more than one-third of the financial stake in a given film as an investment in the film and at least two-thirds to the acquisition of broadcasting rights. Repayment to the broadcaster does not start until the producers' equity has generated a return of 15%. The period of repayment to the broadcasters is calculated at five years from delivery of the film. However, repayment will cease once DR/TV 2's investment has generated a return of over 50%.

Producer Association

The Danish Producers Association (DPA) is a trade and employers' association for Danish film and TV producers and is a key player in Denmark's film sector. It works to improve production conditions and expand the market. As a trade association it seeks to gain political influence and promote members' interests in regard to copyright organizations, public institutions and TV stations that play a part in determining production conditions for film and TV producers. As an employers' association, the DPA negotiates agreements with the various employee groups in the industry.

A1.3.6 Policy Issues

Film and the Creative Industries in Government Policy

Denmark is seen by many to be in the forefront of the Nordic countries when it comes to official adoption and implementation of national strategies and policy concerning the creative industries. In 2000, Denmark produced its first national action-plan "Denmark's Creative Potential," which was succeeded by the 2003 report "Denmark in the Culture- and Experience Economy" and the 2005 document "Denmark must win on Creativity." The Ministries of Culture, of Economic and Business Affairs and of Science, Technology and Development have produced individual and cross-government measures to support the wider creative industries, which includes the audiovisual sector. These proposals range from education, business support, cluster initiatives and direct investment. More than 60% of the 98 Danish municipalities prioritised the "experience economy," (creative industries, tourism and gastronomy) within their future growth strategies. Five of the six regions have action plans targeting the cultural industries and this "experience economy."

The export value of films, games, media and design is strongly appreciated by the Danish Trade Council a division of the Foreign Ministry, which estimates that Denmark's cultural exports are valued at €2.1 billion annually. The Council has responded by initiating a new export programme, Born

Creative, which focuses specifically on providing export support to the on the Danish culture and experience industries.

Helping Creative Businesses

Mapping the Economic Potential of the Industry

The Copenhagen Business School, with the support of the Tuborg Foundation, has embarked upon the first mapping and economic performance analysis of the Danish creative industries, “Creativity, Competence and Competitiveness in the Danish experience economy.” This three-year project, which began in 2005, aims to explore the economic potential of these industries, as well as exploring the barriers to growth in the sector, areas of future potential and the development of new managerial practices in the creative industries.

Venture Capital

Vækstfonden is a publicly funded venture capital initiative that focuses investment in innovative Danish SMEs. With a capital base of €300 million Vækstfonden is one of the largest *Danish* VC players. Although Vækstfonden has no sector-specific focus, the entertainment industry has been highlighted as one of the fund’s targeted sectors. Recently the fund invested 5 million DKK in Campfire, an animation studio and developer of direct-to-mobile interactive rich media content, small games and custom made software applications for mobile devices.

Other Initiatives

- The Ministry of Culture has established a forum, entitled NyX for business leaders and cultural enterprises to exchange ideas, develop new products and business models.
- Louiz is a business incubator resource in Copenhagen, aiming to assist small independent cultural entrepreneurs in Denmark. Louiz is a meeting place as well as a place creative industries business managers can receive advice and guidance in the development of their business ideas, gain access to capital and receive basic business skills training.
- Learning Lab Denmark is a research institution connected to the Danish University of Education and their objective is to document and research national and international trends regarding the interplay between culture and business.
- Since 2005, Roskilde University has provided a Masters degree in experience management, educating people from the culture and experience business to meet the challenges of the experience economy.

Piracy

The Pirate Bay Case

In February 2008, the Danish ISP Tele2 was ordered by the Danish court to block its user’s access to the Swedish site Pirate Bay, which was allowing users to share audiovisual material outside of copyright. Tele2, after conversation with other ISP providers, have appealed the decision. Further complicating

matters, Pirate Bay have indicated they may now sue the International Federation of the Phonographic Industry, who brought the original suit, for compensation because of the imposed shut-down. The outcome of this case has profound implications not only for Denmark, but for European copyright and censorship law.

Anti-Piracy Group

Denmark's Anti-Piracy Group works to fight the illegal copying and distribution of music and film. Since 2002, Anti-Piracy Group (APG) has been tracking the activities of Danish users of file-sharing networks, and then contacting the appropriate Internet service providers demanding users' names and addresses. Thus far, the APG has won damages from over 1,300 anti-piracy cases. In 2006, the group set up a charitable trust, allocating around €100,000 of the funds won thus far to artistic projects.

A1.3.7 Analysis

Denmark has long had a forward-thinking approach to film as evidenced by the DFI's willingness to provide schemes that match sector needs. The automatic 60/40 scheme demonstrates an engagement with commercial aspects of the sector. Broader Danish government policy on the creative industries also acknowledges the importance of thinking about film and other cultural businesses, as businesses – while not sacrificing cultural merit. The DFI, and other government investors like the venture capital fund Vækstfonden, have embraced digital innovation and new platforms. Various arms of the government have provided business support to the creative industries and have recognised the audiovisual sector's role.

Danish producers have developed business acumen, negotiating more beneficial terms of trade with broadcasters. Producers in Denmark have also become more savvy about the exploitation of digital rights, and particular, video-on-demand potential. The combination of critical success and commercial skills has led to the reduction of the proportion of government subsidy in Danish films. In the meantime, Denmark has seen the rise of a successful, vertically integrated audiovisual company like Nordisk, or the powerful production company Zentropa. These companies have benefited from the high standards of training provided at the National Film School, as well as from broader business training measures.

Despite this success, the Danish audiovisual sector is not immune to challenges. The recent slip in domestic productions and in particular international co-productions, indicate that Denmark, like many European territories, is operating in a more competitive environment for co-production. Regional funds, like the Copenhagen Film Fund, may help give Denmark back a competitive edge. Government support for diverse media, such as audiovisual productions for mobiles or internet consumption, may also help secure new areas of income for Danish audiovisual companies. In recognising these areas, Danish audiovisual policy is helping to reward innovation and diversification.

A1.4 France

FRANCE										
Population: 61.5 million										
Broadband penetration: 23.4%										
Year	National Funds	Regional Funds	Automatic Funds	Broadcast Funds	New Film makers Fund	Distribution & Exhibition Support	How many local films were produced?	No. of Co-productions	Value of Inward Investment	Market share of local films at box office
2005	CNC total budget €491 million Total funding for film: €267 million	Total funding from 19 agencies totalling c. €48 million	Automatic film and TV production, distribution, exhibition	3.2% of terrestrial broadcaster turnover	Several available funds through CNC, regional funds and Ministère des Affaires étrangères	CNC fund for Independent Distributors, other selective funds	126	61 majority, 53 minority	N/A	36.8%
2006	CNC total budget €496 million Total automatic funds for film: €153 million Total selective funds for film: €98.6 million Total film funding €251.6 million	Total funding from 19 agencies totalling c. €48 million	CDI tax incentive, automatic film and TV production, distribution, exhibition	3.2% of terrestrial broadcaster turnover	Several available funds through CNC, regional funds and Ministère des Affaires étrangères	CNC fund for Independent Distributors, other selective funds	128	36 majority, 39 minority	N/A	44.7%
2007	CNC total budget €505 million: Total automatic funds for film: €156.5 million Total selective funds for film: €100.4 million Total film funding €256.9 million	Total funding from 19 agencies totalling c. €50 million	CDI tax incentive, automatic film and TV production, distribution, exhibition	3.2% of terrestrial broadcaster turnover	Several available funds through CNC, regional funds and Ministère des Affaires étrangères	CNC fund for Independent Distributors, other selective funds	133	52 majority, 43 minority	N/A	36.6%
2008			CDI tax incentive, automatic film and TV production, distribution, exhibition	3.2% of terrestrial broadcaster turnover	Several available funds through CNC, regional funds and Ministère des Affaires étrangères	CNC fund for Independent Distributors, other selective funds				

A1.4.1 Overview

Film culture in France is arguably the most established, sophisticated and well-funded in Europe and French film has had a worldwide impact from the very beginning of the medium. France also has one of the most consistently high domestic market share for its films, outside Hollywood or Bollywood. France' public broadcaster, France Television, as well as the cable operator Canal Plus, are required to support the film and audiovisual sector. The French broadcaster sector is the largest funding source for film support. France is divided into 26 administrative regions, including four overseas territories.

A1.4.2 Landscape

Production

In 2007, French film production volume broke the €1 billion mark for the first time; a total of €1.2 billion was spent on production last year. France typically produces one of the highest number of national productions annually, with 133 in 2007, plus 95 co-productions. The average budget of French productions was a healthy €5.4 million. Important co-production partners for France include Germany and the UK, though France co-produces with a number of European and non-European countries. 2006 saw a dip in co-production levels, though in the past three years the domestic film production levels have grown slowly but steadily.

Distribution

The French distribution market is competitive. The leading distributor, my market share in 2007 was Gaumont with 12% of the domestic market. The next three largest distributors, 20th Century Fox, Mars and Warner Bros, each held 10%.

Digital

France is one of the leading European providers of VOD services, with 32 active services accessible via 40 platforms. The country's above-average broadband penetration helps drive digital growth. Despite the fact that France was the last large European country to launch digital terrestrial television, the country has a strong IPTV (Internet Protocol Television) presence, with 28% of French households predicted to be subscribers by 2010. The market conditions in France make it an attractive market for IPTV provision, with cable penetration relatively low and strict conditions surrounding the installation of satellite dishes on buildings. Both private and public French broadcasters offer programmes for download off of their respective websites.

Changes to the Broadcasting System

In June 2008, the French president Nicolas Sarkozy revealed massive changes to the funding of the public broadcasting system in France. From 2009, public channels will be forbidden from showing advertisements after 8 p.m.; by the end of 2011 all adverts will be banned. The missing finance will be met by a new tax on telecoms operators and internet service providers, worth 0.9% of their annual turnover, and a 3% levy on commercial broadcasters. Thus far, the proposed changes to the system have met with considerable sector resistance. Furthermore, the French president will now appoint the head of France Television, to be ratified by Parliament.

A1.4.3 Audiovisual Funding and Support

France has arguably one of the most sophisticated and comprehensive film funding networks in Europe, which enables it to produce a large number of high-quality films. In general, French film support, like much of French government support systems, traditionally operates via legislation rather than via stated policy objectives. Support for the audiovisual sector is highly centralised, with nearly 90% of funding coming from the CNC. That said, there has been a more concerted effort on behalf of the regions, led by the Ile-de-France, to increase regional sources of funding.

Centre National du Cinéma (CNC)

The CNC is active in all sectors: production (film, television, new media), distribution and exhibition. It runs automatic and selective support programs, and has branches for regulatory affairs, research and policy, and international promotion. A special CNC program, the COSIP, funds television production. The CNC remains under the official authority of the Ministry of Culture but is financially independent. The CNC is funded by a levy on cinema tickets (23% of the total budget) and levies on video/DVD distribution (7%), the CNC also collects other revenue from broadcasters (70% of the “compte de soutien”). It also benefits from grants from the Ministry of Culture for specific funding programmes. This funding is determined via the annual budgetary law for French cinema, which is passed via the National Assembly. The state’s funding of the primary cinematographic body has increased consistently since 2002 and in 2007, the CNC had a budget of €505.5 million disbursed through 33 funding schemes. As a result of its established regulatory nature, the CNC enjoys substantial independence with regard to policy-setting and regulation of sector activities⁴².

Automatic Funding

In 2007, the CNC awarded €72 million in automatic production funding for film. France’s automatic production scheme is only available to projects qualifying as French according to a point system awarded according to a film’s various artistic and technical aspects. The scheme puts a premium emphasis on cultural content in terms of talent and crew. This is not restricted to the use of national talent or crew, rather points are awarded for use of European talent and crew. A minimum of 25 out of 100 points must be met to secure funding. Automatic funding is based on the performance of the producer’s previous movie at the box office, on television and on video/DVD. This funding can be used for repaying previous loans, development and production. Typically 85% is spent directly on production.

The Advance Revenue System

The “avance sur recettes” (“advance against revenue”) system was first introduced in 1959 and takes the form of an interest-free loan repayable from any automatic aid granted to a film. 70 pre-production agreements for a total value of €19.8 million and 17 postproduction agreements for a total value of €1.9 million were dispersed in 2007. The selection procedure is carried out by the Commission d’Avance sur

42 See “C’est ainsi qu’après avoir investi le CNC d’un pouvoir réglementaire autonome dont le champ d’application est extrêmement large, la loi du 25 octobre 1946 ajoute que celui-ci est également chargé « d’arbitrer, éventuellement, les conflits nés de cette réglementation à l’exception des conflits du travail proprement dits »” *La Lettre du CNC*, No. 37, September 2006

Recettes and funding is usually dispersed at script stage, with a certain number of much smaller advances made after a film has been completed.

CNC Selective Funds

In 2007, the CNC awarded €100.4 million in discretionary funding to the film sector. This selective aid is in the form of a subsidy or an interest free loan repayable either from the film's income or through future automatic aid. Films that receive selected aid must meet the same points-based test as automatic funding. Funds are available for scriptwriting, development, pre-production, production, distribution, exhibition and export promotion. There are a number of schemes aimed at first-time filmmakers.

Distribution and Exhibition Support

The CNC has always supported distribution and exhibition, support for these areas is near to that on production support. There is an automatic support scheme for distributors, awarded on the basis of the box-office receipts for the French and French co-produced films they have distributed in the previous year. €19.4 million was awarded to distributors automatically in 2007. Automatic aid to exhibitors is similar, but is based on a sliding scale, designed to favour SMEs. €57.6 million in automatic support was given by the CNC to exhibitors. Automatic funding can either take the form of a direct payment or a loan; is to be spent on equipment and modernisation.

There is also selective funding offered to distributors, with the aim of promoting programming diversity. These funds can be used to support a company's overall activities; to help a particular programme of releases; to support children's films, or to encourage distributors to handle films from countries whose cinema is less well-known in France. Discretionary funding to exhibitors can be used to modernise cinemas in economically disadvantaged areas; to promote projects in France's overseas territories; to promote travelling movie shows; and to enable extra prints to be made for regional distribution.

Crédit d'Impôt (CDI) Tax Incentive

The CDI was introduced in January 2004 and revised in 2006. The original motivation for the credit system was to prevent French producers from shooting overseas. Under the terms of the tax credit, a production may reclaim up to 20% of below the line costs for work done in the country, up to a maximum of €1 million. Though producers need not be French, qualifying productions must be shot in French. This selective mechanism is based on criteria including cultural contribution and use of French facilities and talent. The CDI offers an incentive for productions of French origin (both majority co-productions and national films) to remain within France. However, minority co-productions have not been harmed via its introduction. French minority co-productions have risen from 29 in 2003, to 36 in 2004 and 53 in 2005. In 2006, 119 films qualified for the CDI, receiving a total of €62 million in credit.

Earlier this year it was announced that the credit d'impot may in the future be open to non French productions. This move points towards France's new interest in attracting inward investment. However, interest is likely to come from smaller European productions than elsewhere as the cap on the award would render the credit less interesting to Hollywood productions.

There is a similar tax credit system in place for television production, which exempts the producers of a CNC certified TV work from paying tax on 20% of certain eligible production expenses, up to €1,150 per minute for a drama or documentary, or €1,200 per minute for an animation.

Sofica Funds

Introduced in 1985, Soficas are private companies that act as the middleman in film financing, offering tax write-offs to investors and investing the money generated into film and television projects through the provision of interest-bearing loans. Individuals and companies invest in Soficas to access tax deductions. Soficas then select film and TV projects for investment, and take a negotiated recoupment position. All productions receiving Sofica investment must gain CNC approval before funds can be released. In 2006, a total of €32.8 million was raised through Soficas.

Regional Bodies

Despite the heavily centralised nature of French audiovisual support, the economic benefits of film are equally well-recognised at the regional level. France has a large number (40+) of regional funding schemes administered by a variety of local-level funding bodies. French regions are increasingly at the forefront of film financing, notably since the CNC signed agreements with 17 regions in 2004 whereby the government pledged one Euro of funding for every two invested by the regions themselves, up to a maximum of €1 million per region and €10 million a year. The two largest regional funds are for the regions of Ile-de-France and Rhône-Alpes.

- Ile-de-France has the largest regional film funds in its Fonds de Soutien aux Industries Techniques, Cinématographiques et Audiovisuelles. The Fund had a budget of €14 million in 2005 and was established by the regional government in 2001 with the explicit aim of supporting the local film sector. The Film Commission requires applicants to shoot at least 50% of the production in Ile-de-France, with a minimum of 20 days' shooting in the region. Applicants are also required to employ Ile-de-France technical services, and expend a minimum of 80% of the corresponding technical budget in the region. Both French and majority foreign co-productions are eligible to receive funding, although the application must be submitted by the French co-producer.
- Rhône-Alpes Cinema is the second largest regional fund in France in terms of activity and available funding. In 2004 it provided €3.6 million in funding. Rhône-Alpes Cinema has several different missions, notably including the development of cinematographic activity in the Rhône-Alpes region, through employment and economic impact. The body also seeks to promote the region on an international level in order to reap the benefits of film-related tourism. In order to receive funding, productions must have a professional ID card issued by the CNC, and must locate a significant proportion of shooting in the Rhône-Alpes region, among other criteria. Productions are also subject to the CNC's approval.

A1.4.4 Success Factors

Supporting the Domestic Market For French Audiovisual Content

The benefits of the French audiovisual support model are made evident by the consistently high level of domestic market share garnered by French films, between 36-40% in the last three years. Another success factor has been the high quantity of films produced by the domestic production sector each year. Film is a central element of French cultural policy and there is real solidarity amongst stakeholders

in the audiovisual and multimedia sector. For example, France Telecom, the nations telecoms operator and the leading internet service provider, is a film co-producer. ISPs and telecoms providers have also agreed to accept a holdback window for VOD rights (3 months after DVD release). Broadcasters not only are the biggest contributor financially to French film support, they also support French film through their scheduling. 60% of films shown on French television channels must be European and 40% must be in French, as mandated by strict quotas. Over 30% of feature film finance in France comes through pre-sales and TV co-productions. The broadcast quotas continue the CNC's distribution and exhibition support right through the value chain, supporting the consumption of domestic audiovisual product.

Leading the Way in the Support of New Media

One of the principal aims of the French Ministry of Culture and Communication is to build bridges between cultural industries and new information technologies. As a result, CNC has been a sector leader in its embrace of new technologies, amending its funding support measures to include new media. In 2005, €14.5 million was allocated to support multimedia and technical infrastructure by the CNC. One of the most important CNC programmes is the Multimedia Publishing Support Fund (Fonds d'Aide à l'Édition Multimédia - FAEM), which is an initiative of the Ministry of Industry managed by the CNC. FAEM supports games, CD and DVD-ROMs, and interactive content for the Internet. In 2004, FAEM was one of the first support measures to fund content production for mobile telephones and its 2007 budget was €4 million.

France was one of the first country's to recognise the games sector as an industry of strategic importance, at the crossroads of new media, traditional art and high technology. Moves to create a unified games strategy were helped along by strong political commitment and industry participation. Prime Minister Jospin encouraged video game studios to gather strength by forming a specific trade group. APOM, the Association des Producteurs d'Oeuvres Multiméda was established in 2001 to make policy proposals to government, including a long-term financing system for game development. In 2003, the French government created the École Nationale du Jeu Vidéo et des Médias Interactifs, a national school for training game development executives, as well as announcing the creation of FAEM. The latest support measure for the games sector was announced at the end of 2007, a tax credit for video game production and development.

Supporting the Regions

Despite the fact that French audiovisual support is highly centralised, the regional support structure in France is gaining momentum. As part of a larger government move towards decentralisation, the CNC introduced the '€1 for €2' programme which matches every €2 of regional funding for the audiovisual sector with €1 from the CNC, subject to films being accredited by the CNC or television productions receiving funding from the CNC fund COSIP. Although the CNC has limited financial intervention to €2 million per year, per regional agreement, the programme has led to considerable increases in the amount of regional funding available in France. In 2007, the amount of money committed by 25 regions/municipalities was €75.2 million, up 11% more than in 2006, of which €24.2 million was used for the production of feature films (€18.8 million from local authorities and €5.4 million from the CNC). Regional funding derived from the CNC has more than doubled since 2004, from €10.1 million to €21.8 million in 2007

A1.4.5 Business Environment for Producers

French Deal Terms

Because French producers can draw funds from the *compte du soutien* during pre-production, they are not under pressure to sell off rights in order to cash flow this stage of the film. Productions receive funding equal to 10% of the first television sale up to €250,000 and 5% of the value thereafter. This means that producers of a moderately successful films with a typical television deal can draw on a significant amount of funds be invested in their next project. Because French TV broadcasters have such a high quota for French film, securing a TV deal is less difficult than in other countries.

Producers Associations

There are also a number of audiovisual content producer associations in France. Perhaps the largest body is the AFPF, the Association for film and audiovisual producers established in 1972. The AFPF has regional bureau chiefs to direct regional policy and also produces unified responses to government initiatives. The ARP represents film directors and producers. The APF represents producers of TV fiction. There are regional TV producer's associations like APAL the Association of Audiovisual Producers in Lorraine, or APAA, a similar body in Alsace. Traditionally however, French film producers prefer to be identified apart from TV or stage producers. Cross-over between media is very unusual.

In 2007, the Association des Producteurs de Cinéma (APC) was created, a new syndicate of producer associations with the aim of strengthening and unifying representation of the sector. The APC produces policy documents and direct communiques to the French government on a range of audiovisual issues. Despite the fact that membership in the APC is limited to film producers, there is considerable solidarity with television producers and a high level of interest in broadcasting issues. Recently, the APC produced a document responding to the reform of the French public service broadcasting. The APC participates in a number of cross-sector policy groups and committees including: CLIC (Comité de Liaison des Industries Culturelles – a creative industries group); ALPA, an anti-piracy group; and CSPLA, a council concerned with literary and artistic rights.

A1.4.6 Policy Issues

French Creative Industries Policies

While each 'creative industry' has its own government body, like the CNC for film, television and new media, there are also several transverse structures in place to support the spectrum of the creative industries. For example, there is a strategic analysis group, as well as a statistical and data collection observatory for the creative industries (the Groupe d'analyses stratégiques des industries culturelles and the Observatoire des usages numériques culturels installed at the Département des études, de la prospective et des statistiques [DEPS]).

Decentralisation is a politically important part of French creative industries policy and wider government strategy. The development of creative 'clusters' is one of the government's policy objectives – in order to stimulate growth and employment, while also increasing French competitiveness in a global market. CNC's regional funding initiatives are part of a larger push to sustain creative industries outside Paris. Local authorities are responsible for maintaining cultural

infrastructure under their control, as well as developing the local and international dimensions of creative activity.

Digitalisation is another key plank of France's creative industries agenda. One of the Ministry of Culture and Communication's key objectives is to link culture and new information technologies. Innovation is considered a crucial component for the sustained competitiveness of the French creative industries.

Using VAT rates to Encourage Consumption of Culture

In France there are varying rates of VAT, or value added tax. The normal rate of VAT is 19.6%, which applies to the sale of most goods and services. However, this rate is reduced to 5.5% for everyday items like food, as well certain cultural products like books, cinema tickets, DVDs and other digital media. The VAT rate drops to 2.1% for magazines and newspapers and for the first 140 stage performances of new theatrical work.

Combating Piracy

France's new copyright enforcement law, to be implemented from 2009, will force ISPs to heavily monitor Internet traffic for illegal downloading and file-sharing activity. Enforcement will be overseen by a new government agency, the High Authority for Copyright Protection and Dissemination of Works on the Internet (HADOPI). The law has been dubbed a 'three-strikes' system, with ISPs stopping the Internet access of those who are caught sharing copyrighted material three times. The first two incidents would result in progressively firmer warnings and access could be cut off for a year. The law was hammered out between the government, ISPs and representatives of the film and music industries. The French law has led UK and Australian lawmakers to consider similar proposals.

A1.4.7 Analysis

France has one of the strongest, most integrated national film and audiovisual policies in the world. Despite the fact there is little cross-over activity between the film and television sectors – film producers rarely do TV work and vice versa – there is an industrial solidarity within the French audiovisual sector. This extends even to new media producers, who benefit from CNC funding alongside more traditional content producers.

At the heart of the CNC system is the support from the French broadcasters, both terrestrial and cable channels. Not only does the levy on broadcasters directly feed into funding for distributors and producers, but French broadcasters are also committed to the promotion of national cinema. The French system not only rewards success, by allowing producers to access increased funding based on previous project's box office and broadcaster revenue, it also allows production companies to build more stability into their businesses. Having funding available at a crucial early stage in production, through the *avance de recettes* system, means French producers are in a stronger position in regards to rights management.

France's distribution support is also exemplary. The cinema ticket levy channels some of the profits from Hollywood blockbusters and domestic productions alike into supporting French domestic distribution, providing these companies with capital for acquiring rights and mounting campaigns. Exhibi-

tion support means that there are a variety of cinemas operating in the country, catering to diverse audiences and putting on a range of programming options. By supporting distribution and exhibition, the CNC is ensuring that French films continue to find their audience and continue their strong domestic performance.

France, like other European countries, has felt that its producers were increasingly tempted to shoot outside of national borders and the government reacted by providing another level of support, the tax credit. The French government has proved its willingness to meet the rising challenges of the sector. The government's speedy adoption of new media support measures and recognition of the importance of digital technology is further proof of how quickly support measures and strategic, forward thinking about the audiovisual sector has been adopted in France.

A1.5 Ireland

IRELAND										
Population: 4.1 million Broadband penetration: 16.8 %										
Year	National Funds	Regional Funds	Automatic Funds	Broadcast Funds	New Film makers Fund	Distribution & Exhibition Support	How many local films were produced?	No. of Co-productions	Value of Inward Investment	Market share of local films at box office
2005	IFB: €12.7 million invested in production and development	None. IFB has Regional Support Fund	Section 481	-	-	Distribution loans totalling €191,000	Total of 12 films	-	€9.1m	N/A
2006	IFB: €15.2 million invested in production and development	None. IFB has Regional Support Fund	Section 481 (revised 2006)	-	-	Distribution loans totalling €176,000	Total of 17 films	-	€16.5m	4.8%
2007	IFB: Total budget €19.7 million	None. IFB has Regional Support Fund	Section 481	-	€1 million towards 3 short film schemes to support newcomers to sector	Distribution support just under €1 million	Total of 14 films	-	-	1.2%
2008	IFB: Total budget €21.7 million	None. IFB has Regional Support Fund	Section 481 (extended to 2012, under review)	-	€1 million towards 3 short film schemes to support newcomers to sector	Distribution support just under €1 million				

A1.5.1 Overview

In the past decade, Ireland has experienced tremendous economic growth and today has one of Europe's highest levels of GDP per capita. The creative industries have been part of this expansion in trade. The public service broadcaster is RTÉ, is funded by a combination of TV licenses and advertising. Recently, a portion of the Irish TV license fee has been used to assist other broadcaster that produce Irish programming, such as TV3. TG4 is an independent Irish-language broadcaster, which is funded by government subsidy and is an offshoot of RTÉ. Broadband penetration in Ireland is below the EU average, at 16.8% per capita.

A1.5.2 Landscape

Production

The Irish film sector produces between 12-20 films per year. While the last three years have witnessed growth in the television and animation production volume, feature film production has been experiencing major challenges in Ireland. Though full production volume information has not yet been published for 2007 by the Irish Film Board, it is anticipated to reveal a major downturn in production volume. Since 2005, the average Irish film production budget has dropped to roughly €1.5 million, down nearly a third of the average budget of 2004.

In large part, this is due to the 2006 changes in the UK's film tax incentive system, which can no longer be applied to costs incurred in Ireland for UK-Irish co-productions. Because the UK is a major co-producing partner for Ireland, these changes have had significant impact not only on co-production levels but on the wider film production landscape. After the introduction of the new UK tax system in June 2006, incoming production levels in the second half of the year fell to 1/7th of what the first six month's total production value. The UK and Irish systems, instead of being viewed as lending themselves to collaboration are seen as competitive with one another. This has resulted in a drop in the number of foreign feature productions being shot in Ireland, though foreign television production (such as the US cable series *The Tudors*) is still coming to the country. Incoming foreign features and co-productions had represented a crucial source of audiovisual activity and employment for Irish crews and facilities. The threat to the Irish film industry posed by the downturn in production has not escaped the Government who are now investigating ways to improve the 481 system, particularly with regards to the new UK film tax incentive regime.

Distribution

Because Ireland is included with the UK as a single territory for most international sales and distribution companies, the distribution market in Ireland is dominated by major Hollywood or UK distributors. The most significant Irish indigenous distribution company, is Eclipse Pictures who have established partnerships with the UK independent distributor Verve as well as the Icon and Tartan Films Group. There are just two smaller Irish distributors in operation.

Digital

With broadband penetration still below much of Western Europe, Ireland is a relative newcomer in online VOD provision. In December 2007, The Irish Next Generation Network (NGN) developer HomeVision signed an agreement with BBC Worldwide to launch an on-demand service for Dublin HomeVision TV subscribers, offering 350 hours of VOD programmes (130 provided by the UK's BBC) and 120 TV movies. RTÉ launched its online television archive in March 2007, with simulcasts of news and current affairs programming. In June 2008, RTÉ extended its digital service to include an internet-based news channel, RTÉ News Now, which may see a rollout on mobile phone networks in the coming months.

A1.5.3 Audiovisual Funding and Support

Public support for film in Ireland is administered by the Irish Revenue Commission, who is responsible for the Section 481 tax incentive, and by the Irish Film Board, who is the main agency charged with

support to the sector. There is no significant source of regional funding in Ireland. It has been estimated that Section 481 finance was worth nearly a third of the total production budgets of all Irish production in 2006.

Section 481

Section 481 was first introduced over ten years ago and is a familiar incentive to foreign and domestic producers. Under this system, private investors make tax-advantaged investments in individual audiovisual productions. Investors can invest up to €31,750 in a film being produced in Ireland and write off 80 per cent of their investment against tax. Unlike many other tax incentives, it is open both to film and television investment. Films that benefit from Section 481 investment must first be certified by the Revenue Commissioners and the Department of Arts, Sport and Tourism. Projects are evaluated on a mix of cultural and industrial factors. To access Section 481 investment, an Irish producer must be involved with the project. A maximum of up to 20% of the total budget can be raised via the tax system, up to €50 million per project. In reality, after Irish producer fees and other administrative costs, 15-18% of the total budget can be raised. Unlike other tax-based film incentive systems, under Section 481 financing is closed at the commencement of principal photography, so funds are available from day one of shooting. Section 481 was one of the primary factors behind an 11% increase in the annual number of productions completed in Ireland from 1989-2004. It is estimated that Section 481 costs the exchequer €37 million per annum.

Though Section 481 has certainly benefited Ireland's production industry, changes in the UK incentive system have affected the impact of the Irish incentive. This has led to Irish Government to review the terms of Section 481, though the legislation has already been extended to 2012. The Irish Film Board has recommended amending the current system by increasing the individual write off to 100%, raising the individual investor cap to €150,000 and expanding the definition of eligible expenditure to include payments to non-EU personnel working in Ireland.

Irish Film Board

The annual budget for the Irish Film Board (IFB) is decided by Dáil Éireann (the Irish House of Representatives) and has a total budget of €21 million in 2008. The IFB is under the aegis of Department of Arts, Sport and Tourism. The IFB's budget is divided in two streams: the capital budget and the distribution budget. Production and development funding is allocated from the capital budget, spending approximately €15 million on production support and €3m on development. The IFB provides loans and equity investments in projects. The IFB currently supports the slate development of multiple projects for ten production companies through its Multiple Project Development Fund. The maximum amount of IFB development funding that can be provided to any one project is €100,000 and if development funding towards a single project is over €50,000 than this funding must be matched by other financing.

Production funding is divided into three streams: Irish production, Creative Co-production and International Production funds. The International Production Fund was launched in 2005 in order to reinvigorate the Irish incoming production sector. There are also funds to support animation, documentary and short film production. For Irish productions with budgets between €100,000 and €1.5 million, IFB funding is capped at 65% of the budget; for projects with budgets between €1.5 and €5 million, IFB can provide up to €1 million, or 40% of the budget, whichever is greater; and for production budgets over €5 million, IFB investment is capped at €2 million, or 25% of the budget,

whichever is greater. The IFB can fund 100% of Irish production with budgets under €100,000. For Co-productions and International Productions, the IFB can provide up to €750,000, or 25% of the budget, whichever is greater. In the case of co-productions, the IFB's funding will not exceed project's expenditure on Irish personnel, goods and services. The IFB assesses projects on four principles: additionality, cultural/industrial priorities, making cinema (this is a provision that the IFB should direct a substantial amount of its funds to film projects) and originality. Funding decisions are taken by a Project Group comprising all members of the IFB Production and Development teams, members of the Legal & Business Affairs team and, on an *ad hoc* basis, consultants drawn from the sector.

There is also a distribution/exhibition support fund with a total annual budget close to €1 million to fund prints provision and support towards P&A costs. The IFB is currently investigating new ways to support the distribution and exhibition sector. Training support offered by the IFB in 2007 totals approximately €3 million, with €1.35 million being delivered via a grant to Screen Training Ireland (see below).

Regional Funding

There is no strong regional funding body in Ireland. The IFB's Regional Support Fund is designed to act as an incentive for audiovisual productions to shoot outside the Dublin-Wicklow area. Regional Support funding is available only to projects that already have a commitment of production funding from the IFB. This funding is automatic for those projects receiving Irish Production funding or Creative Co-production funding. Support is capped at €250,000 and is typically cash flowed alongside the production funding offered by the IFB.

A1.5.4 Success Factors

Responding to Challenges

Ireland has built its domestic audiovisual production sector up from nothing. A sector that was practically non-existent in the 1980s was given tremendous support through the innovative Section 481 tax system, which in many ways led to a complete reconsideration of audiovisual support through incentivising investment. However, the more competitive landscape for film funding, in part initiated by Section 481, has now taken its toll on the Irish production sector. Yet the Irish government, the industry and Irish Film Board are willing to continue to re-think and re-develop audiovisual support in the country as the landscape changes. When the impact of UK tax incentive changes were realised, roughly 6 months after the launch of the new UK tax regime, the Irish government allocated more funding to the IFB. In 2005, when the vulnerability of the Irish film sector was realised as uncertainties about the new UK tax system led to depressed levels of production in Ireland, the government responded with the creation of the International Production Fund. The latest revision to Section 481, just last year, has shown how quickly the Irish government can respond to sector changes.

Building Skills through Training

Founded in 1995, Screen Training Ireland (STI) is a state-funded training provider for the audiovisual industries. STI's training programmes are offered to professionals at work in the screen industries as well as companies in the film, television, animation and digital media sectors. STI is funded by The Irish National Training and Employment Authority, the IFB and through fees paid for its courses. The

STI's trainers are all experts in their field, with extensive professional experience in the audiovisual sector. For the past five years, STI has had a partnership with the University of California, Los Angeles, resulting in a unique international certification agreement. STI Programmes include:

- business and enterprise training in business management and strategy development;
- master classes in development, directing and producing;
- short-term, focused courses to update and transfer skills for technical professionals, as well as traineeships;
- a bursary scheme to enable experienced professionals to participate in training opportunities abroad.

Supporting Diverse Companies

The lead support agency for the film sector in Ireland, the IFB has recognised the importance of diversity of production in independent production companies. Television production is not just a stepping-stone for Irish film producers, but provides a source of business activity for the most successful Irish production companies. The IFB acknowledges the importance of a mix of television drama and film production to the business model of ambitious and successful companies. IFB support therefore is aimed at both film and television productions and through initiatives like the MPD fund, it can fund a company's entire cross-platform development slate. Equally, the importance of the animation and post-production sectors to the overall health of the indigenous production sector, has also been recognized by the IFB and by the STI, who both provide funding and training to these areas,

A1.5.5 Business Environment for Producers

Deal Terms with IFB

IFB's development loans are advanced on a phased payment basis. The producer of the project must repay this loan on the first day of photography. Production loans are interest-free and the Irish producer of a IFB-supported project is entitled to an internal corridor of 50%, which means that half of the IFB investment is considered as money invested by the producer and up to the point of recoupment, returns on the investment are shared equally between the IFB and the producer. The IFB is deemed to have recouped when it has earned back half of its investment, the other half having been received by the producer. This internal corridor does not apply to net profits, where the IFB's share will be based on its entire investment, while the producer's share will be as traditionally agreed – 50% of 100% as a basic rule, or however the financing structure allows. The IFB also aims to secure a *pro rata pari passu* position for the producer alongside the IFB and other investors. As a general rule, Section 481 funds or any award from the Broadcasting Commission of Ireland (BCI) will not be treated as 'producer's equity' and be recouped via an external corridor. It will not, however, oppose such a request if recoupment of these funds occurs after IFB's own recoupment and before net profits, and if other investors agree. Since 1993, the IFB has recouped approximately 10% of its production loans to feature film projects.

Independent Producers and RTE

RTE is not obliged to invest a minimum in Irish film production or in acquiring rights to broadcast Irish films, though they must meet a commissioning quota from Irish independent television producers. For television productions, RTE and the other Irish broadcasters typically hold the rights for the

video/DVD exploitation, as well as merchandising and international sales of their programmes. These deal terms have recently come under significant industry criticism as it is felt that broadcasters do not invest significantly in these secondary rights and that producers could gain considerably from retaining these rights. The producers association (see below) has been a vocal advocate for independent producer's rights, and has also argued that RTE and other broadcasters should also have a stronger policy commitment to supporting domestic film.

Screen Producers Ireland (SPI)

SPI represents the Irish independent television, film and animation sectors, with the aim of representing members to state and private bodies both at home and abroad. SPI negotiates the terms of trade with the public broadcasters RTE and TG4, as well as collective agreements with the unions involved in feature film and TV drama crewing. SPI also lobbies the government for the maintenance and expansion of existing support structures like Section 481, publishing reports and submissions to government's consultations. SPI also helps STI develop training courses. SPI has been successful in its appeal to the IFB to support the animation sector and the association also lends its support to animation producers attending international festivals and markets. The SPI is funded by a membership fee of €300 per company (reduced to €150 for the first year for new member companies), an annual subvention from the broadcaster TG4, a levy of 1% of the value of independent commissions for RTE undertaken by member producers (this is not deducted from the production budget but an addition to the budget already agreed between the producer and RTE), as well as an Independent Production Levy. The Independent Production Levy applies to all film, television and animation projects in receipt of IFB production funding, except for those projects funded by RTE and TG4 (where the broadcaster independent production levies already apply) and operates on a sliding scale, depending on the project's eligible production spend.

A1.5.6 Policy Issues

Innovation and the Creative Industries

Although there is no comprehensive government policy addressing the creative industries in Ireland, a recent report by Forfás, Ireland's national policy and advisory board for enterprise, trade, science, technology and innovation, suggests that that may change. The report, on the service industries and the innovation agenda in Ireland, signalled the importance of creative industries to the innovation agenda. Forfás selected the creative industries as a key sector where public support was necessary to encourage innovation take-up, an awareness of intellectual property rights and increased seed and venture capital funding. The report also recognised that the creative industries provide an important source of content and applications for the ICT industries, which may result in the development of new IT services and interfaces and increased demand for digital content and applications. The report indicated that the establishment of clustered networks of interconnected businesses was a successful strategy for supporting the creative sector.

Piracy – Recent Court Action

In March 2008, Ireland witnessed one of the first court cases where the claim filed on behalf of record companies was against an ISP, rather than individual file-sharers. Eircom, the largest Irish ISP, was brought to trial under the 2000 Copyright and Related Rights Acts 2000 in an attempt to make the ISP

take greater responsibility for their customer's actions. Eircom argued that it was under no legal obligation to monitor traffic on its network. Eircom had previously been criticised by the music and film industries for refusing to use any filtering technology to interfere with file-sharers, though recently the firm agreed to take advice on this issue. The case is still in its discovery phase and it may be several months before an outcome is reached.

A1.5.7 Analysis

The Irish audiovisual sector has had a tumultuous past few years, underscoring the vulnerability of its sector to outside pressures, such as the new UK tax incentive. The Irish film economy is built on co-productions and international location filming, while domestic film production remains low-budget and limited in its national audience. Despite the recent uncertainty, the Irish government, support organisations and industry have remained committed to Ireland's film, television and new media support programme and signs of a turnaround may be forthcoming. From a policy standpoint, Ireland has been an industry leader in tax incentives for the audiovisual sector and Section 481 remains at the forefront of Irish audiovisual policy.

Skills training and crew development has been another hallmark of Irish audiovisual policy. Having crews and facilities with an international reputation is crucial for an audiovisual sector, like Ireland's, that depends on a minimum level of incoming international productions. Screen Training Ireland offers audiovisual professionals the chance to build their technological and creative skills, as well as offering business training for producers. In supporting digital and new media skills, STI has promoted cross-platform innovation in the audiovisual sector.

There is still work to be done in terms of broadcaster support and better terms of trade for independent producers with broadcasters, but some of the strategic groundwork has been done, in particular by the strong producers' association, SPI. The weakness of the Irish distribution sector is another area where better support is needed, and the IFB has launched a consultation on how to improve its distribution funding. The government does have some catching up to do, in terms of broader creative industries policy development, but there appears to be political will to support the sector and to adapt existing mechanisms to better support Ireland's film economy.

A1.6 UK

UK Population: 60.7 million Broadband penetration: 25%										
Year	National Funds	Regional Funds	-Automatic Funds	Broadcast Funds	New Film makers Fund	Distribution & Exhibition Support	How many local films were produced?	No. of Co-productions	Value of Inward Investment	Market share of local films at box office*
2005	UKFC: 1. Premiere Fund 2. Development Fund 3. New Cinema Fund	3 Nations and 9 English regions	UK tax relief under Section 42 and 48		First Feature Development strand of Development Fund	Audience Development; Prints and Advertising Funds; Digital Screen Network	47	65	£306 million	33%
2006	UKFC: 1. Premiere Fund 2. Development Fund 3. New Cinema Fund	3 Nations and 9 English regions	UK tax relief established in Finance Act of 2006	£18 million (BBC Films and Film Four investment)	First Feature Development strand of Development Fund	Audience Development; Prints and Advertising Funds; Digital Screen Network	55	52 (plus 2 inward investment co-productions)	£581 million	19%
2007	UKFC: 1. Premiere Fund £8m 2. Development Fund £4m 3. New Cinema Fund £5m	3 Nations and 9 English regions with total funding of £40.7 million	UK tax incentivised £145 million in investment	£20 million (BBC Films and Film Four investment)	First Feature Development strand of Development Fund	Audience Development; Prints and Advertising Funds; Digital Screen Network	60	29	£532 million	28%
2008	UKFC: 1. Premiere Fund 2. Development Fund 3. New Cinema Fund UKFC/ EM Media/Film Four: Warp X (low-budget scheme)	3 Nations and 9 English regions	UK tax relief		First Feature Development strand of Development Fund	Audience Development; Prints and Advertising Funds; Digital Screen Network				

*Note: Market share figures include UK/US co-productions.

A1.6.1 Overview

The UK is one of the largest countries in Europe and one of the most productive economies in the world. The UK government has recognised both the cultural and economic benefits of supporting the audiovisual sector and has developed a range of support measures to support the film sector. This support is administered by a variety of funding organisations, reflecting the devolved nature of UK government administration. There are 4 nations in the UK: England, Northern Ireland, Scotland and Wales, as well as nine English regions. The BBC is the main public service broadcaster, though the other terrestrial channels all have minimum public service broadcasting requirements, which include quotas for independent production. Channel 4 is owned by the government though commercially funded and has a stricter public service requirement than the commercial channels; the channel also has no in-house production capability.

A1.6.2 Landscape

Production

In 2007 UK film production volume totalled £747 million, down slightly from the 2006 figure of £845 million. 117 film productions were shot in the UK in 2007, 28 of which were inward features. UK Film Council defines inward features as projects substantially financed and controlled from outside the UK and where the production is attracted to the UK because of script requirements, the UK's infrastructure or UK tax incentives. Examples of inward features include films like Sweeney Todd, the Harry Potter films and The Dark Knight. These films represented over 70% of UK film production volume in 2007. Since 1997, UK production volume has principally been driven by inward feature productions a key element of the UK film economy.

In 2007, there were 60 UK domestic feature productions, with a median budget of around £1.9 million. The total number of national productions has risen in the past three years, though the number of co-productions has fallen every year since 2003. The combined value of domestic features and co-productions remained roughly the same over 2004-2006, but dipped by 19% in 2007, mainly as a result of a 32% fall in UK co-production value. Popular co-producing partners in film and television are Canada, France and Germany.

The introduction of the new tax credit in the UK and its definition of qualifying spend as 'used or consumed in the UK' has had the unintended consequence of mitigating against international co-productions by disqualifying spend beyond the UK's borders. UK Film Council are currently undertaking work to both examine the extent of the problem and to devise a number of potential remedies⁴³.

Digital

The UK has a relatively high level of broadband penetration and has the third-highest number of VOD services in Europe. VOD income only accounted for 4% of the UK film market in 2007. TV on demand services have proved extremely popular. The BBC launched their i-player in July 2007 and in June 2008, Virgin media became the first UK cable operator to include the service in its TV package. 17 million BBC programmes were downloaded from the i-player service in the first six months. Similar broadcaster services are available on ITV.com and the 4 on demand. A collaborative venture between the UK's major broadcasters, BBC Worldwide, ITV and Channel 4, with the working title of

43 This work is being carried out for UK Film Council by Oxford Economics Forecasting

'Kangaroo' has also been proposed to create an online on-demand content service with archival and new programmes from all three broadcasters via one service. However the Kangaroo proposition which would effectively amalgamate the three broadcasters has been put on hold while the UK's Competition Commission investigates its likely impact on the market.

A1.6.3 Audiovisual Funding and Support

The largest single source of public investment in the film sector in the UK is film production tax relief, estimated to have provided £145 million in 2007, 52.4% of the total government spend on the sector. The second largest source of funding is the National Lottery followed by the Department for Culture, Media and Sport grant-in-aid funding. BBC Films and Film4 both invested £10 million each in 2007 and the Regional Development Agencies invested £8.8 million. In 2006/7, £40.7 million was spent by the nine English regional and 3 devolved national organisations and £35.3 million was invested by UK Film Council. Public support of the film sector, outside of the tax incentive, is therefore equally divided between regional and national sources of funding.

The amount of lottery and grant-in-aid funding allocated to the film sector is decided by the Department for Culture, Media and Sport, who typically launch consultations on funding for the arts prior to every funding cycle. Currently the lottery allocation for film is 2.3%. Decisions about tax incentives for film are made by the Treasury, though again public consultation has been used. Regional development agencies determine the level of support offered via the regional screen support bodies.

The Tax Incentive

In 2006, a new film tax regime was introduced in the UK. To qualify for the tax relief, films must first qualify as British, either by meeting a cultural test or as an approved co-production. In addition there must be genuine theatrical intent for the project and 25% of the production (core) budget must be 'used and consumed' in the UK. The tax credit is worth up to 20% of the production budget for films with a budget below £20 million and 16% for films with a budget over this threshold. The credit is available after the film has been completed and the DCMS has certified the production.

UK Film Council

The Film Council receives two different funding streams from the Department for Culture, Media and Sport: Lottery funding and grant-in-aid funding. The Lottery funding, which totalled £46.7 million in 2006/7, is divided between Film Council, Scottish Screen, the Northern Ireland Film and Television Commission and the Arts Council of Wales. Grant-in-aid is given to the Film Council for its own purposes, as well as for distribution to the National Film and Television School and the British Film Institute. In 2006/7, Lottery funding to Film Council totalled £26.3 million and grant-in-aid totalled £25.3 million. The Film Council has three main funds to support film production: the Premiere fund, New Cinema Fund and the Development Fund. Film Council also offers audience development, prints and advertising support and has recently launched a low-budget support scheme, Warp X.

Premiere Fund

The Premiere Fund is the Film Council's most mainstream funding stream. It aims to invest in a variety of projects, from first-time filmmakers to more established producers and directors working with bigger budgets. The key objective of this fund is to assist in the development of UK film businesses through investments in projects that generate a greater breadth and depth of experience and expertise in the UK film sector. It has an annual budget of £8 million and typically invests in around 8-9 projects a year. Typically investment is capped at 35% of the budget. The Premiere Fund also may fund audience testing and enhancement of completed productions. Applications are first assessed for creative merit, then by an assessment of the film's commercial prospects. The Film Council's Business Affairs and Production Finance departments are involved in funding decisions. The head of the Premiere fund is currently Sally Caplan, who is also President of Icon Film Distribution, who has considerable experience in the acquisitions and distribution business.

New Cinema Fund

This fund is aimed at promoting new and diverse filmmaking talent from across the UK. Films should have a secured UK theatrical or high-profile digital release. The fund will make an investment between 15%-50% of the production budget; the fund also offers completion and post-production funding. Funding decisions are made by the head of the New Cinema Fund, who receives advice from other Film Council executives. Each project is also evaluated by an external reader and the New Cinema Fund staff. The fund has a total budget of £5 million annually.

Development Fund

The Development fund, with an annual budget £4 million, aims to broaden the quality, range and ambition of British film projects and talent being developed. The specific aim of the fund is to improve the quality of British screenplays. There is also a subsidiary scheme, the First Feature Film Development Programme, which aims to identify and support emerging screenwriters, directors and producer teams who have not made a feature film or who have not yet had a feature film released theatrically or broadcast on UK television. Generally, awards of up to £25,000 are offered for development. The fund will support several stages of development, including pre-production.

Prints and Advertising Fund

Film Council's Prints and Advertising Fund is designed to widen and support the distribution and marketing strategy of specialised (art house) films and to offer support to more commercially focused British films that nevertheless remain difficult to market. With an annual budget of £4 million, the Fund supports UK distributors to produce extra prints, increase advertising or enhance media exposure and publicity.

Warp X

Film Council's New Cinema Fund and Film Four, along with co-financiers EM-Media and Screen Yorkshire have recently set up the low-budget digital film studio, Warp X. The project aims to provide a 'one-stop shop' for film production, integrating support for screenwriters, production and distribution. Optimum Releasing will distribute Warp X productions theatrically and on DVD in the UK. WarpX aims to provide economies of scale for low-budget feature film production, developing a

cost-effective model for the development and production of low-budget films by accessing a core team of production, financing and business affairs expertise, so that projects meet the cultural and commercial needs of the UK film industry. The scheme has a total budget of £4.5 million to spend over the period 2006-2009 and intends to finance seven projects with budgets up to £750,000.

The UK's National and Regional Funds

The budgets of the UK's national and regional screen agencies derive partially from Lottery funds and partially from regional government funding. Often the regional government funding is more industrially-focussed on providing high levels of local spend and employment. The regional and national agencies and their main funding programmes are:

- Scottish Screen (2007 total spend: £6.4 million) invests in production, development, audience and market development, training and skills for Scottish film and television projects. From 2009, Scottish Screen along with Scotland's Arts Council will form a new body, Creative Scotland that aims to develop the arts, screen and cultural industries in Scotland.
- Northern Ireland Screen (2007 total spend: £7.5 million) offers development and production funding for film, television and new media projects, as well as markets and festivals funding and training provision.
- Welsh Agencies (2007 total spend: £4.6 million, including Arts Council of Wales) The Film Agency for Wales offers production, development, education and exhibition support. In addition, the Welsh Screen Commission has recently been formed to administer the £7 million Wales Creative IP Fund. The fund acts as a gap financier for the creative industries, offering finance for audiovisual production alongside matching private investment. Investments will be made between £50,000 and £700,000, for feature films, TV productions, new media and music projects. Applicants must have secured a minimum of 60% of their budget from third parties and be able to demonstrate that a proportion of their spend will be in Wales.
- Film London (2007 total spend: £4.3 million) offers production, development and audience development funding, while also providing location services to productions.
- Screen Yorkshire (2007 total spend: £3.9 million) supports the film, television, games and interactive media sectors. Alongside production, education and exhibition funding, the agency also provides business investment funding to these industries. The agency also offers a business consultancy service.
- Northwest Vision and Media (2007 total spend: £3.2 million) supports production, trade and investment in the film, television, games, radio and digital sectors, as well as offering funding to cinemas, festivals and archives.
- EM Media (2007 total spend: £3 million) focuses on talent development, markets and audiences and business support for the film and new media sector. EM Media makes equity investments in the film, TV, interactive media and games sectors; investments are made up to 50% of the project's cost and the fund uses European regional development funding.
- South West Screen (2007 total spend: £2.9 million) supports development, production, festivals, screenings and training in the film and new media sectors. The agency also offers business development support.
- Screen West Midlands (2007 total spend: £1.6 million) offers production, development, exhibition and education funding. From July 2008, Screen West Midlands will also manage a £10 million fund (£5 million invested by Channel 4, matched with £5 million from the regional government body Advantage West Midlands) called the Four Innovation for the Public Fund (4IP), designed to invest in digital media content.
- Northern Film and Media (2007 total spend: £1.5 million) supports development, production, and marketing support for TV, film and new media.

- Screen South (2007 total spend: £1 million) offers development, production, exhibition, education and archive support.
- Screen East (2007 total spend: £0.9 million) supports development, production, exhibition, education and training. The agency also administers a risk capital fund, the Content Investment Fund with a budget of £2 million.

A1.6.4 Success Factors

The Success of the Tax Incentive

The importance of the tax incentive was seen in 2005, when a review of Section 42 and 48 resulted in widespread instability in the audiovisual sector. Since the inception of the new tax incentive regime however, production value has been high. The UK film economy depends upon inward investment productions, particularly large-scale US productions. Though creative requirements, desirable skills (i.e. post-production) or facilities may induce these productions to the UK, the financial incentive helps draw a continuous level of investment into the sector. This enabled the film sector to contribute £3.2 billion to UK GDP in 2007. By investing in the industrial capabilities of the UK film sector, through tax credits that encourage productions to spend their budgets in the UK, the British film sector has developed a pool of talent, facilities and skills that contribute to UK plc.

Supporting New Business Models

The UK has also been a trend-setter in supporting the associated screen content industries, alongside film. This has encouraged production companies to diversify their business models by rewarding innovation. The strength of the UK's games sector, as well as the success of online content providers like BBC's iplayer, has encouraged funding bodies to find ways to support crossover projects. The Film Council has supported digital exhibition, but the regions in many ways have led the field in new media support and cross-platform projects. Screen Yorkshire was one of the first regional agencies to recognise the importance of the games sector, while the new Screen West Midlands fund 4IP intends to support cutting-edge content production for consumption online, via social networking sites and on mobiles. The UK's national executive body for encouraging innovation in business NESTA are currently running a number of pilot schemes experimenting with new ways to distribute content digitally.

The Importance of Regional Funding

The regions have not only provided innovative approaches to cross-media content provision, but have also focussed on business support. Because regional screen agencies often derive their funding from regional economic development agencies, they have been creative in finding new ways to fund and support the audiovisual sector. Funds like EM Media or the Wales Creative IP fund aim to build stronger businesses through targeted funding. While the region's focus on spend and local infrastructure is still important, the nations and regions of the UK also recognise the importance of the screen industries as businesses.

Training Initiatives

Training in the film and television sectors occurs not only at the National Film and Television School, but at a number of new Skillset Screen Academies. There are six Skillset Screen Academies and a

Skillset Film Business Academy at the Cass Business School in London. These institutions were identified by the British film industry as those already offering the highest quality of skills training but which required further support to continue to serve sector needs. Skillset, the sector skills council for the audiovisual industries, is funded by government and industry, and provided the funding for this project. Craft and technical skills, design and management are all taught at a further and higher education level at the academies; courses are also offered for professionals already at work in the sector. Regional screen agencies and Film Council all offer additional sources of training for professionals, as well as Pact, the producer's association.

A1.6.5 Business Environment for Producers

UK Film Council, BBC and Film4 Deal Terms

After lobbying by the Producers Association Pact, new deal terms for film investment were agreed in 2007. BBC Films, Film4 and the UK Film Council, the three principal public funders of feature films in the UK, will now treat the net value of the UK tax credit (usually 10-18% of the negative cost) as the UK producer's equity share in the film, recouping and participating, wherever possible, on a pro rata pari passu basis with other equity funding. This move will grant producers an equity stake in the feature films in which they invest, helping to build capital, commercial investment potential and long-term sustainability, into their businesses.

TV Production Deal Terms with Broadcasters

The BBC acquires the right to broadcast programmes for five years on its channels in the UK, though the producer retains all commercial exploitation rights. The BBC expects its distribution arm BBC Worldwide to be given an equal chance at international distribution of programming but there is no requirement or pre-standing agreement. Under the deal terms, the BBC also acquires primary VOD rights and new media rights, including right to distribute the programme via new technologies through temporary or streamed download, premiere and preview online up to seven days before the first linear broadcast, plus a floating window of online availability and series stacking availability. Channel 4 has similar rights but with a thirty day new media rights window.

Pact

Pact is the UK's independent producer's association, which actively engages with the Government, Parliament, Ofcom and Europe, as well as with other specialist organisations within the sector. This is accomplished through high-profile campaigns targeted at funding and regulatory bodies, but also through representation at sector events. Pact was involved in the negotiation of new terms of trade with BBC Films and Film Four and is working with NESTA, the National Endowment for Science, Technology and the Arts, to develop legal templates to enable independent TV production and new media companies to win cross-platform commissions and jointly exploit the intellectual property created. Pact also founded the Indie Training Fund, a registered charity to which UK TV and interactive media independent producers contribute in return for free courses, in-house training, subsidised trainees for company placements and subsidised training for their freelance workers.

A1.6.6 Policy Issues

Measuring the Economic Value of Film

UK Film Council funding is subject to particular DCMS objectives and priorities for the film sector. One of the DCMS' four key strategic priorities for the Film Council, as outlined in the 2003-2006 funding agreement is 'contribution to the economy.'⁴⁴ This objective is to be assessed against a variety of economic and cultural indicators. These indicative factors include, for example, the number of national and international awards won by Film Council funded projects, domestic and international box office performance of Film Council supported projects, the number and production value of projects supported by Film Council, the diversity of companies and projects (in terms of scale) supported by Film Council and the number and total production value of inward investment and co-production projects attracted to the UK. Production value of UK Film Council supported films, as well as inward investment and co-productions, is therefore linked to the 'economic contribution' element of UK Film Council's strategy, as set by the UK Government. While the political basis for film funding is primarily cultural, assessment of this funding, particularly with regards to production support, is on a cultural and economic basis.

Film and the Creative Industries

The UK government first mapped the creative industries in 2001, and created their first comprehensive plan to support the creative industries in 2008. Film's role within the creative economy has been recognised by government stakeholders, who cited the economic value of the sector in the debate about the new film tax incentive. The fact that a number of venture capital funds for the film and screen content industries have arisen in the nations and regions points to how widespread the connection between the film industry and the wider creative industries, as well as the economic potential of these industries.

The new government strategy for the creative industries 'Creative Britain: New Talents for the New Economy' makes 26 key commitments for Government and industry across every stage of the creative process, including film along with design, new media and fashion. Job creation and international competitiveness are two focuses of the strategy. Building the next generation of talented Britons is one of the strategy's highlights, with 5,000 apprenticeships in creative industries for young people, as well as a number of academic hubs in the creative sector. Film production companies like Aardman Animation and broadcasters like the BBC have already been named as partners in these training ventures.

The government has also proposed an independent review to investigate the path to next generation broadband, as well as an annual event, the World Creative Business Conference, to bring together global leaders in the creative and financial sectors. A number of measures to help creative businesses access finance have been proposed, as well as the creation of a number of regional 'beacons' for creativity. In this move, the government has recognised the importance of regional venture capital funds in supporting the creative industries, but goes further, saying this provision should be expanded.

The government has also pledged to take action on illegal file sharing by 2009 if the sector has not met a voluntary solution, in order to safeguard British intellectual property. There is a government minister for Intellectual Property who will be leading a new educational campaign and the pilot scheme 'Fake Free London.'

44 Funding Agreement between the Department for Culture, Media and Sport and the Film Council for 2003-2006.

Coordination Between Stakeholders

Film funding bodies, production/distribution companies, regional agencies, broadcasters and publicly owned venture capital operations have combined forces in a number of schemes designed to support cross-platform production. Symptomatic of this shift to the wider “content and creative industries” is the formation of Creative Scotland, the proposed new strategic body tasked with leading the development of the arts, and creative and screen industries in Scotland. The rationale for the creation of the new body came out of a wider review of cultural policy in Scotland, which underscored the interconnected nature and economic potential of the screen and wider creative industries. The Government’s new strategy for the creative industries also encourages coordination between cultural institutions and support agencies, with regional business support and economic development agencies.

A1.6.7 Analysis

The British film sector has benefited from an innovative approach to supporting the industry. Tax incentives were introduced at an early stage and the government reviewed and refined the incentive programme in order to ensure better value for money and more targeted support. The UK has enjoyed consistently high levels of inward investment as a result of this automatic funding scheme.

UK Film Council has been a leader in innovative strategies for supporting development and digital exhibition, and has proved willing to partner with other bodies, public and private, to achieve success. The UK’s national and regional agencies have also been pioneering in their approach to the sector, using regional development funds to target the film sector’s industrial growth. There is a high-level of strategic thinking, at the Government level, as well as at national and many of the regional public support bodies, which have consistently looked for new ways to support the film sector.

There is a growing appreciation for the importance of training, and in particular business training for film and television producers. The establishment of the Skillset Film Business Academy demonstrates that both the sector and the government have recognised the need for business training in the film sector. The recent Government policy paper on the creative industries foregrounded training measures. A number of the regional funds already run business incubator, consultancy and skills training courses. Funding programmes that support cross-platform content production also encourage content producers to diversify their business model.

British producers are active and have a strong voice in the sector. Pact has emerged as a key player in securing new rights for independent producers with BBCFilm, FilmFour and Film Council. With the new terms of trade, British producers will retain more rights and be able to accrue more investment and secure futures for their companies.

Despite these strengths, the British film sector is also hugely dependent on US studio productions. By investing in skills and facilities, alongside the maintenance of fiscal incentives for production, the government has managed to maintain this flow of productions. Big-budget studio productions like James Bond and the Harry Potter films, have a cultural link to Britain but are financed from America. The UK had been able to capitalise on the global success of these types of cultural products, even with the involvement of US studios, but the UK film economy is in many ways still at the mercy of Hollywood.

A2. Sweden Current Landscape

A2.1 Key Funders

Film Support – Swedish Film Institute

Public support of Sweden’s film sector is subject to multi-annual policy agreements, the most recent of which was established for the period 2006 to 2010. The Swedish Film Institute is the designated support agency for the distribution of these funds. The Film Institute is financed by the Swedish government, the television broadcasters SVT and TV4, the Swedish film producers’ association, as well as a 10% levy on gross ticket sales. In 2007, Government funding for the Swedish Film Institute totalled SEK 180 million, that year the box office levy provided around SEK 95 million and the broadcasters contributed roughly SEK 47 million. Together with a separate contribution from the film producers, all of these contributions totalled approximately SEK 328 million in 2007. 120million SEK was also made available by the State outside of the agreement.

Film Agreement ⁴⁵	Budget 2007	Budget 2008
	SEK (million)	SEK (million)
State contribution	180	185
SVT	34.68	35.37
TV 4	8.16	8.32
MTG	4.08	4.16
K5	2.04	2.08
C More	2.04	2.08
Producers	2	2
Cinema levies	95	100
Total Film Agreement SEK (million)	328	339.02
Total Film Agreement euros (million)	33.86	35
Other Central funds		
State outside FAG SEK (million)	120	
State outside FAG euros (million)	12.39	

45 Source SFI

The Television Sector

The Swedish public service broadcaster, Sveriges Television, SVT is the country's most powerful broadcaster. Funded by license fee, SVT had a monopoly on domestic terrestrial broadcasting until 1992 when TV4 was launched. SVT is still the dominant broadcaster, with an audience share of 36.4% and is the primary commissioner for Swedish-language programming. In 2005, nearly a third of first-time broadcast programming on Swedish television was of foreign origin. There have been reviews of Swedish television provision, but no substantial changes in the system since the early 1990s. According to the terms of the Swedish Film Agreement, the Swedish television broadcasters must also spend at least SEK 59 million on new Swedish films through co-financing, joint production and the purchase of broadcasting rights.

The Regions

Funding for film at regional level in Sweden is provided by Film i Väst, Film i Skåne, Filmpool Nord and the Gotland Film Fund. Total regional funding is approximately €12million, with the lion's share coming from Film i Väst, which has an €7 million annual budget. Filmpool Nord's annual budget is €3.3 million budget; Film i Skåne's is €1.6 million a year. Funding for these agencies derives from their respective county councils, who are responsible for regional economic development in general – as well as from the Swedish Film Institute. Each of the regional film funds have different strengths – Film i Skåne is near Denmark and has lots of television production activity, Västra Götaland has the studios of Trollhättan – and the regional support agencies have good relationships with one another.

Funding for film at the regional level in Sweden is more explicitly driven by economic considerations than at the national level. For instance, the Skåne county council has recognised film as a key industry with which to promote regional trade and economic development. The council's regional Film Initiative 2005-2010 was, in part, established in order to reap the potential profits of increased investment in film. The economic benefits of additional tourism from the region's exposure in locally-produced film was a second important consideration. Film i Skåne provides funding requiring a two-to-one spend in the region. Film i Skåne's stated objective in requiring local spend is to encourage local industry and employment "The result is a better labour market and the development of the skills of the film workers in Skåne as well as an improved source of income for the region's audio-visual sector."⁴⁶

Film i Väst is the largest of Sweden's regional film funds and does not require a minimal spend in the region. Film i Väst will invest up to one third of the film's budget if the film is shot in the region. Film i Väst's production investment typically takes the form of an equity investment and no longer require that companies be incorporated in the region in order to receive funding. Funding rules focus on spend and employment, and projects must employ at least 50% of staff from the region to be eligible for funding.

A2.2 Talent and Critical Success

Contemporary Swedish film, in many ways, still resides in the shadow of the legendary Ingmar Bergman. Today, there are a handful of internationally-recognised Swedish directors. Directors such as Lasse Hallström, Lukas Moodysson, Josef Fares and Maria Blom have won international critical recognition and a number of high-profile awards. At home, Swedish film has a respectably high market

46 <http://www.filmiskane.se/>

share. Internationally, Swedish film does not have a ‘cinema brand’ as strong as either Denmark or France, but the country does have a more prominent brand identity than many other national cinemas.

A2.3 Support Mechanisms

Production Funding

At least 46% of the SFI’s annual budget is used for advance support for film, of which at least 10% must be aimed at children’s film, 9% for shorts and documentaries and documentary film, 7% for development support and 2% for regional production. Advance support is aimed at producers with ambitions to distribute their project in a range of formats (TV, DVD).

SFI sets aside SEK75 million each year to provide Audience-Related Support (PRS). PRS is awarded to producers based on box office takings and the level of private investment in a film. Support for a film is capped at 50 per cent of gross box office for a film financed with ‘advance support’ from the Swedish Film Institute, or 75 per cent of gross box office for a film that has not received ‘advance support’ and 100 per cent of gross box office in relation to children’s films. This automatic support is subject to repayment once a film begins to generate profit.

In addition to this funding, SFI have just announced a one-off Market-Oriented Production Support fund of around SEK100 million (€10.7 million) for films with commercial potential. This fund, part of the SFI’s existing PRS, will assess projects on the basis of the cast, genre, source material and track records of production company and filmmaker. Only projects with a budget of SEK14 million or above will be considered and the film must have 60% of its financing confirmed. Support will be capped at SEK 9 million, or a maximum of 40% of the film’s budget. Projects cannot be granted support from the SFI’s Consultant scheme and the Market-Oriented Production Fund, though projects supported by the new fund can also apply for PRS support.

Development and Company Support

Previously the SFI provided little funding for development or company support, although the 2006 Film Agreement makes provisions for “Development support including greenhouse funding, project-based support for scriptwriters, producers and directors and business support for independent producers.” The Film Agreement limits business support paid to independent producers to SEK 1 million but no tangible support programmes have yet been established to grow Swedish audiovisual companies.

Distribution and Exhibition Support

According to the new Film Agreement, at least 2% of SFI’s annual budget shall be used for film launch support with a further 3% to go towards parallel distribution and 7% to exhibitors. Crucially, the Film Agreement insists that distribution and exhibition support be technology neutral, that is, focus on digital technology is not allowed. Distribution support is allowed only to match the distributor’s own investment and capped at SEK500,000. This means that specialised distribution and exhibition support measures, like those funded in the UK or in France, have a limited potential under the current Swedish Film Agreement. The distribution and exhibition sectors are a crucial, and often under-supported area of the audiovisual sector. Without a variety of distributors and exhibitors in operation, there is a risk that cinema offerings become homogenous. Diversity in distribution and exhibition means diverse audiences for a wider market of films.

A2.4 Levels of Production

Production Volume

The number of films produced in Sweden has dropped in the past three years. From a high-water mark of 40-45 films per year, the Swedish film sector last year produced less than 30 films. This drop was most marked in the area of co-productions. With the average Swedish film budget at about €2 million, the decline in co-productions is worrying as it brings total production volume and local spend levels down. The dip in production volume also reflects the Swedish Film Institute's new financing policy, investing more funds in fewer projects.

Inward Investment Productions and International Co-Productions

Sweden has traditionally worked most closely with its Nordic neighbours Norway, Denmark and Finland and only occasionally works outside of these areas, usually with the UK or Germany. As a smaller country, Sweden co-produces less than the larger European countries, and generally partners with Nordic countries, with which it has the closest cultural affinities and specific co-production agreements. Historically, Sweden has not been particularly concerned with attracting inward investment however inward investment is a key component in sustaining production infrastructure and providing employment. Co-production funding is available through its regional agencies, but at national level, Sweden has no measures in place to attract inward investment to its shores. This is an area that could be developed: Sweden has a good production infrastructure, a diversity of locations, dedicated regional film commissions, relatively low production costs and fluency in English. It can also guarantee real snow.

The regions have been more successful at attracting international productions. In recent years, there has been a marked increase in Eastern European countries coming to Sweden's regions to film, as facilities in their home country are limited and dominated by larger-budget inward investment productions. Film i Väst's turnover has increased over the past three years, while the production volume of Swedish film is going down, implying that the region has been successful in are making alliances with other countries. Sweden's ability to co-produce/co-finance is largely due to regional funds, as well as supra-national bodies like the Nordic Film and Television Fund and Eurimages.

As Sweden limits its center of interest to Nordic content and relies on Nordic co-production agreements as a film financing mechanism, Sweden is often unable to produce truly pan-European product. In minimizing its demands on incoming production it is unable to offer substantial funding that would permit the production of wider pan-European product. The establishment of a well-funded and ambitious Swedish film Commission, as proposed by several of Sweden's regional film support agencies, could help further Sweden's international profile for attracting incoming productions.

Crews and Infrastructure

Swedish actors, technicians and crews have a high reputation. Despite Swedish labour laws, which restrict working hours more so than in the UK or Australia, production costs are reasonably low. Craft labour is efficient and competitively priced. There are considerable studio facilities available, not only in Stockholm but in Trollhättan and Ystad. Sweden is also home to world-class post-production facilities and companies like the Chimney Pot, the Syndicate, and Stockholm Postproduction all have considerable portfolios.

A2.5 Digital Activity

Digital technology has the potential to revive the fortunes of independent audiovisual producers, offering new platforms to exploit through rights management and content production. These seemingly niche products have a global potential. One of the greatest examples of this phenomenon was the creation of two Swedes, Daniel Malmédahl and Erik Wernquist, whose Crazy Frog animation and sound effect, went on to spawn a ringtone, a number 1 single, merchandise and two computer games. The strength of the Swedish games sector represents an area of potential for audiovisual companies, for cross-platform development and opportunities for directors and writers. Games, animation, special effects and post-production staff all share a number of skills, creating a pool of talent that can work in film, television, games or software. There is real potential for both individuals and companies to diversify their skills and business opportunities by embracing synergies between the various sectors that utilize audiovisual content

A2.6 Key Statistics

The table below provides an overview of levels of various activities in relation to the benchmarked countries. For some data figures are not available:

2007	DEN	SE	UK	FRA	AUS	IE	AUS'LIA
Film Production:							
Film production volume (millions)			€944m	€1.2 bn	€23.2m		€206m
National films produced	17	29	60	133	20	14	24
Co-productions	9	8	29	95	12		3
Theatrical Exhibition:							
Admissions per capita	2.2	1.62	2.67	2.80	1.9	4.09	4.05
Number of screens	394	1049	3493	5362	570	386	1941
Gross box office	€115m	€125m	€1037m	€1057m			€545m
Total number films released	235	246	516	565	296	284	317
National films released	27	29	107	222	34	11	26
Market share - national films	26%	21.6%	28.5%	36.5%	1.8%	1.20%	4.00%
Number of Distributors	5	20	67	32	24	13	34
Number of Exhibitors	5	299 ⁴⁷	22	6			
Market share of largest distributor	27%	17.8%	21%	12%			24%
Market share of largest exhibitor	43%	65%	24%				
Broadband penetration (per capita)	34.5%	29.5%	24.9%	23.4%	19.10%	16.80%	15.79%

Source: Collated from a variety of available sources of public information.

2007	DEN	SWE	UK	FRA	AUS	IRE	A'LIA
General							
Population (million)	6	9	60	64	8	4	21
GDP (billion €)	197	289	1746	1612	237	119	565
Estimation of central funds automatic (million €)	6.0	7.7	218.0	156.5	14.7	50.0	
Estimation of central funds selective (million €)	19.1	12.0	21.4	100.4	3.7		
Estimation of regional funding (million €)	4.0	12.0	51.2	50.0	19.8		91.0
Estimation induced funding eg broadcasters (million €)	9.0		25.2		5.9		

47 Source SFI statistics 2007. Cinema ownership breaks down as follows: private companies 78, joint-stock companies 52, NFPPCG 1, Municipalities 32, sport associations 11, others 125.

2007	DEN	SWE	UK	FRA	AUS	IRE	A'LIA
Estimation of central funds automatic (per capita €)	1.1	0.9	3.6	2.4	1.8	12.2	
Estimation of central funds selective (per capita €)	3.5	1.3	0.4	1.6	0.4		
Estimation of regional funding (per capita €)	0.7	1.3	0.9	0.8	2.4		4.4
Estimation induced funding eg broadcasters (per capita €)	1.6		0.4		0.7		

Source: Collated from a variety of available sources of public information. In some cases data not publicly available.

Notes⁴⁸

The table above shows that in terms of funding per capita Sweden is relatively well funded from the centre at a national level. However most countries have a much higher emphasis on automatic funding. The level of selective national funding in Sweden compares favourably well with France but is markedly behind Denmark. Regional funding is significant in Sweden as is demonstrated by the per capita figure.

SPI has been unable to establish the per capita funding induced by broadcasters in Sweden. However it is worthy of note that this figure is high in Denmark (€1.6 per head) compared to the UK where it is SPI's estimation that both BBC Films and Channel 4 invest in the region of £10m or €12m each per annum in film development and production.

48 UK automatic funds based on estimated £145m in tax relief in 2007; Ireland's Section 481 has officially predicted annual budget of 25-50m€ per annum. Any one film can receive up to 35m€. 50m€ is therefore taken as an estimate; Australia annual budget of package of incentives to be determined. Austria's selective and automatic fund levels taken from the European Think Tank Data 2006. AFI budget is 9.6 €m , TV fund 7.5m€ plus Chancellery funds. Sweden's 46.3 central funding includes 38m€ of Film Agreement and the additional 12.4m€ from the government outside of Agreement.

Appendix 2 Consultation List

Name	Organisation	Title
Boreson Anna	Swedish Ministry of Culture	Desk Officer
Broberg Eric	Swedish Film Distributors (Buena Vista)	Senior VP Scandinavia
Carlsson Gunnar	Sveriges Television AB SVT	Executive Producer
Croneman Anna	Bob Film	Producer
Denward Charlotta	Swedish Film Institute	Head of Production Support
Dunås Jon	Filmutredningen 2008	Office of Special Investigator
Elwin Cissi	Swedish Film Institute	Chief Executive Officer
Eskilsson Tomas	Film i Väst	Chief Executive Officer
Fornstam Peter	Svensk Bio	Managing Director
Gyberg Bo-Erik	Swedish Film Alliance	Chairman
Hald Peter	Swedish Film Institute	Deputy MD/Head of Production
Hansen Klaus	Danish Producers' Association	Secretary General
Hansson Borje	Svensk Filmindustri	Head of Production
Hiselius Patrik	TeliaSonera	Legal Counsel
Holmer Johan	Swedish Film Producers Association	Executive Officer
Ivarsson Ralf	Film i Skane	Managing Director
Johansson Sture	Svensk Filmindustri	Head of Programming
Jonsson Lars	Memfis Film	Producer
Kjellberg Hubert	Eriksson	CEO – Content
Koppel Lena	TeaterForbundet	Director
Krave Katarina	Film i Väst	Head of Administration
Leszczyowski Michael	National Film School – Dramatiska Institutet	Professor
Lundberg Pia	Swedish Film Institute	Head of International Department

Lysander	Per	Stockholm Film School (Dramatic Institute)	Principal
Mathsson	Katrina	Folkets Bio	Head of Information
Neumann	Per	Film Finances – Denmark and lawyer	Senior Executive
Nilson	Christer	Götafilm	Producer
Nissell	Ulrika	Media Desk	Head of Media Desk
Oxburgh	Anita	Migma Film	Producer
Palmquist	Hanne	Nordic film & TV Fund	Chief Executive Officer
Rosengren	Björn	Swedish Film Producers Association	President
Runfors	Tomas	Svensk Filmindustri	Information Officer
Sandahl	Gunno	National Federation of People's Parks and Community Centres	Culture Chief
Sandermark	Helena	Bratek	Managing Director
Sjoberg	Åsa	Tv4 AB	Director of Programmes
Sondberg	Ole	Yellowbird	Creative Chief
Staermose	Soren	Yellowbird	Producer and Development Executive
Svegfors	Mats	Filmutredningen 2008	County Governor/Special Investigator
Svensson	Per-Erik	Filmpool Nord	CEO/MD
Toll	Bengt	Film i Väst	Industry Executive
Versteegh	Gerre	Bonver & Film2home & Chairman of Association of Video Online	Board Chairman and Business Developer
Werner	Michael	NonStop Television	Sales Manager
Wolfsberg	Anna Karin	Swedenborg & Wolfsberg	Media Consultant

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