

# CINE-REGIO FOCUS REPORT 2011

## - Executive summary

### Building Stable Film Production Companies and the Role of Regional Film Agencies

July 2011

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## 1. Executive Summary

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### *Introduction*

- 1.1 In the history of public aid in the film sector, the majority of support has been to fund the development and production of individual film projects, on the theory that the primary need in the sector is for this kind of assistance for producers. However, over the last decade, the goal of building more stable production companies has received increasing focus from policymakers, as greater attention has been given to the economic as well as cultural benefits of film. The hope is that stronger companies will mean more jobs created and more economic value derived from the audiovisual sector. This attention has corresponded to increasing talk of innovation and new business models generated by digital technology.
- 1.2 Another key motive has been a suspicion that the ‘project-by-project’ approach to investment in film development and production is less effective on a long-term basis. The concern is that this piecemeal approach does not encourage companies to be any more focussed on the market success of their films, nor make them any less reliant on public funds – which in the current economic climate are likely to diminish in any event.
- 1.3 This assignment (the Assignment) seeks to examine the matter of the sustainability of film production companies, and to investigate a number of issues: the interaction between project and company support schemes; the policy basis for company support; the more effective support mechanisms; and as a result to make some recommendations for regional film agencies in general and Cine Regio in particular. The Assignment was conducted, for presentation at the Berlinale in 2011, over an extended period from summer 2010 to summer 2011. It included desk research, a survey of Cine Regio members, a focus group of Cine Regio members, and 17 consultations with Cine Regio members, other policymakers and other experts. The focus of the Assignment is on “film production companies”, defined as companies with either a substantial or total focus on producing feature films for initial theatrical release.

### *Support schemes*

- 1.4 In reality, project support and company support schemes are quite deeply intertwined. Upon examination of support schemes, the following categorisation has been adopted:
  - Pure Project support schemes – those project schemes that are only aimed at project support, without regard to, or impact on, the strength of the companies that receive the support.
  - Project Plus schemes – project support schemes that have some kind of element that aims to strengthen the companies that receive the support.

- Pure Company support schemes – schemes that are not directed to the support of projects, but are specifically aimed to build stronger companies.

- 1.5 Support schemes can be further analysed in other ways: whether the support provides a cash investment or whether it pays for some other activity intended to improve the circumstances of production companies; if an investment, whether it is automatic or discretionary; whether the investment is aimed specifically at film or audiovisual companies or whether it is a generic support mechanism for many different industries.
- 1.6 The full categorisation of schemes investigated over the course of the Assignment is given in Sections 3.2, 3.3 and 3.4. Project Plus schemes vary from fairly straightforward slate funding schemes to more interventionist and complex interventions, such as changing the regulatory environment to mandate different terms of trade for producers (as the UK producers trade association is currently attempting). Pure Company development schemes vary from costly company loans to less expensive trade missions and market visits.
- 1.7 Though it is hard to come up with firm evidence for this, all indications are that the overwhelming majority of film funding available today is either Pure Project or Project Plus funding, and that there is very little Pure Company Support funding conducted in Europe. However, it also seems likely that the percentage of Project Plus funding is increasing, as policymakers are increasingly interested in building stronger companies. Furthermore, it is seemingly regional policymakers and support bodies that are leading this increased interest.

#### *Why build company sustainability*

- 1.8 There are a number of issues that need addressed when considering company sustainability. First, there is not widespread agreement as to what this actually means. A number of different definitions of sustainability were discussed and reviewed over the course of the Assignment. However, what is likely to be most healthy is a diversity of strong production companies – some small, some large; some independent, some with broadcaster ownership; some film-only operations and some divisions of diversified company. Secondly, there is not even universal agreement that film production companies should be sustainable. Some policymakers argue that so long as filmmakers continue to make successful films, it does not matter if this takes place in the context of an underlying stable company. Other policymakers say that what matters most is the sustainability of the overall sector rather than the longevity of individual companies. However, most believe that building up stronger production companies is a legitimate goal of public policy.
- 1.9 Even if there is not universal agreement on a definition of sustainability, there is a sense in which everyone agrees in what direction it lies. During the course of this Assignment, an indication of sustainability emerged that seems useful – in

part because it addresses a fundamental problem of the film business. That indication is that a company is more likely to be sustainable if it has a substantial percentage (maybe half) of its business income coming from a source *other than* film production fees. This source might be profits from the performance of successful films in the marketplace, revenues from a different product line (TV or games) or from rights sales if the company has managed to build up some kind of library, or from rental of post-production equipment – as the company's strategy dictates. Without this, the company, in order to stay in business, relies on films going into production. This is generally (though not universally) recognised as an intrinsically unsustainable strategy.

1.10 Many of the arguments for support of sustainability are likely to be of more interest to regional agencies than to national agencies because of the greater focus on economic outputs of many of the regional agencies. The arguments in support of sustainable companies that surfaced over the course of the Assignment were:

- stronger companies that are regionally diverse aid cultural diversity, by enabling the production of films from a broader base of places; they may also help generate a larger market share for local cinema; they can maybe create a stronger brand for local product
- stronger companies are more likely to have strong relationships for co-productions
- with stronger local companies away from capital regions, more of the economic returns of film production will stay in the country/region, rather than going back to the capital/ another European country/ the US.
- stronger regional companies help ensure local jobs, continuity of jobs, skills development, and retaining young people in the region
- sustainable companies are more likely to undertake the risks of innovation
- stronger companies may require less state support; although, in general, the notion that a sustainable company was one that did not require public support was universally rejected.

### *The European Perspective*

1.11 The objective of developing sustainable film production companies has not really been reflected in EU audiovisual policy. However, several support initiatives of MEDIA can be considered to contribute to the sustainable development of beneficiary companies.

1.12 The promotion of business sustainability is also not clearly mentioned in EU enterprise, innovation or regional policies. Nevertheless, mechanisms that contribute to business sustainability of course exist in each of these domains. Many interventions that belong to the category Pure Company Support exist in the area of innovation support. However, relevant programmes are not specifically targeted at audiovisual companies.

- 1.13 In the context of the currently developing strategy to support creative industries, there may be opportunities offered by ERDF and ESF funding, the Competitiveness and Innovation Programme and schemes such as Interreg and Urbact. These programmes can be used to develop more sustainable film production companies in European regions. In addition, the European Commission launched a tender earlier this year for a new European Creative Industries Alliance, which is expected to be in operation from December 2011, and aims to test policy to support micro-enterprises and SMEs in the creative industries.
- 1.14 Advocacy is required to open up financial instruments such as JEREMIE (set up by the European Investment Bank and the European Investment Fund) for making investments into audiovisual companies.
- 1.15 On a different level, EU regulatory developments in the fields of copyright, rights licensing, state aid and telecommunications are likely to have an impact on the sustainability of production companies in Europe. Promoting a better notion of what business sustainability means in relation to film production companies among EU policymakers would help to ensure that regulatory decisions are taken in the interest of the European film industry.
- 1.16 The issue of state aid rules is a particularly important one. During the course of conducting this assignment, it was notable that certain agencies felt that any Pure Company support was by definition illegal, whereas, in actual fact the *de minimis* rules, which allow a rolling amount of €200,000 over three years to be invested in any company activity, without approvals required, provide a good amount of flexibility. The second important point about state aid rules, of course, is that the current Cinema Communication expires at the end of 2012. In this connection, the European Commission published an issues paper in June, and has a consultation period until the end of September regarding the nature of future state aid rules.

#### Preferred support measures

- 1.17 Because so little support has been directed to building stronger companies as a primary goal, it is difficult to assess whether that which has been put in place have been successful. Just as importantly, it is difficult to assert whether the outcomes from having more stable companies, as listed in 1.10 above, have themselves been achieved. However, there are four different mechanisms that appear to be of most interest to policymakers and companies in terms of practicality and effectiveness.
- 1.18 The four mechanisms/themes are as follows:
- flexible development programmes – which make it possible to develop ideas for new projects and new business areas
  - providing strategic expertise – when applied at the right time to grow the company or develop new ways of working

- encouraging co-productions and other natural cooperation with other companies for skills exchange – especially on a long-term basis
- rewarding success and/or structural change such that a production company can have revenues from other than production fees and build up other assets for exploitation – although there are risks with this approach if it leads to an artificial market which can only be maintained with public intervention.

### *Conclusions*

- 1.19      Though there is increasing talk about the importance of building stronger film production companies, there is little coherent policy directed to this goal and few explicit support programmes. Regional support bodies have probably focussed more on this goal than have national agencies. In the future, there will continue to be an important role for regional bodies in making the case for sustainable companies, and indicating the ways this can be achieved – even with the limited resources that may be available in the near future.
- 1.20      Accordingly, as a result of the work done over the course of the Assignment, the recommendations of this report are four-fold:
- Cine Regio members may want to consider the identified mechanisms as they conduct their investment strategies to build companies.
  - Members should continue to consider how they can share information among each other and build cross-border cooperation which builds stronger companies
  - Arguments can and should continue to be made to local politicians and funders for how stronger regional companies can further the development goals of the region
  - Cine Regio should work with the European Commission to make EU schemes available and useful for regional companies; and Cine Regio needs to work with partners to ensure that the new state aid rules post 2012 do not make it more difficult for agencies to support the development of strong companies.
- 1.21      The structure of this document is as follows:
- Section 2 discusses the process of the Assignment and certain key issues that needed to be addressed
  - Section 3 suggests a categorisation of support mechanisms
  - Section 4 looks at the justification for company support and the key European agendas that are relevant to the issue
  - Section 5 discusses the set of preferred support measures
  - Section 6 presents some conclusions and areas for further activity.