

Film
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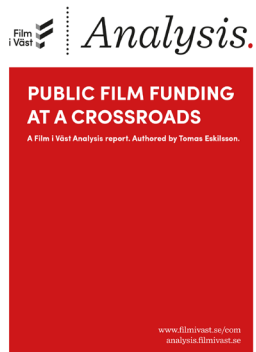
Analysis.

PUBLIC FILM FUNDING AT A CROSSROADS

Appendix: Eastern Europe

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ABOUT PUBLIC FILM FUNDING AT A CROSSROADS

Public Film Funding at A Crossroads was launched in Brussels in March 2022. It can be downloaded at www.analysis.filmivast.se. Here you also find the ten territorial reports, executive summaries, with strong links to the main topics in *Public Film Funding at A Crossroads*. There you also find **Michael Gubbin's** report *Streaming Giants and Public Film Funding*. In May, during the Cannes Film Festival, Wendy Mitchell's study *Creative Overload*, will be published at the same web site.

Appendixes:

- Eastern Europe (Assistant Professor **Petar Mitric**)
- Flanders/Netherlands (Producer **Ilse Schooneknaep**)
- French speaking Europe (Senior consultant **Philippe Reynaert** in collaboration with Xanadu) - also in French
- German speaking Europe (Senior consultant **Manfred Schmidt**)
- Greece/Cyprus (Associate Professor **Lydia Papadimitriou**)
- Ireland (Dr **Mark Rainey** et al in collaboration with the WRAP Fund)
- Italy (Senior consultant **Rickard Olsson**)
- Spain/Portugal (**Belén Álvarez** et al in collaboration with Gabeiras& Asociados)
- The Nordics (**Tomas Eskilsson, Katarina Krave, Bengt Toll**)
- UK (MD **Leon Forde** et al in collaboration with OSPI)

AN EASTERN EUROPE PERSPECTIVE

Introduction

This report defines Eastern Europe as the region of the former socialist European countries which embraced the EU-integration process after the fall of the Berlin Wall (see Figure 1). After the state-run film studios collapsed in 1989 together with the state socialism, the East European film policy makers faced two complex tasks. Firstly, they needed to protect the local markets from the US content that invasively filled the void created by the absence of local productions. Secondly, they had to restructure the national industries in order to harmonize them with the European policy goals set by the measures such as cultural exception clause, European Convention on Cinematographic Co-production, Television without Frontier Directive, idea of independent producer, state aid rules and subsidy-structures. All this was a long and bumpy road for many East European industries.

Thus far, almost all post-socialist countries did complete this transition successfully. They provide stable public financing; they have built the institution of the independent producers well-versed in complex European co-productions; East European films are present at all major international festivals (including the Academy Award ceremonies), while East European crews and locations are increasingly visible in largest international productions. Yet, this systemic transformation took time, energy and financial resources. Hence, it comes as no surprise that East European film agencies and policymakers respond a bit slowly to a yet another transformation which is now suddenly prompted by the current technological revolution. However, some response is undoubtedly there, and this report digs deeper into that.

I conducted 42 one-hour expert and semi-structured interviews with some of the most relevant industry professionals in the region, with the response rate around 80%. I talked to 12 producers, 11 representa-



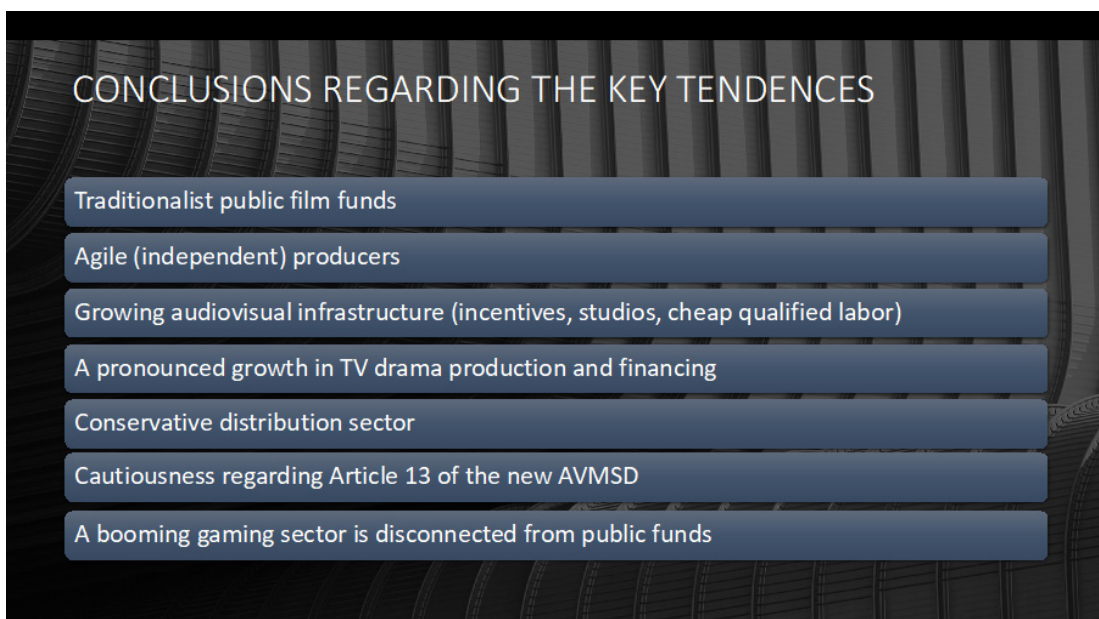
*Petar Mitric is Assistant Professor at the Section of Film Studies and Creative Media Industries at the University of Copenhagen. He has published widely in European film policy and co-edited the book *European Film and Television Co-production: Policy and Practice*. He has also collaborated as a consultant with many European organizations, including the Czech Film Fund, Film i Väst and Torino-FilmLab.*

tives of film funds, 6 distributors, 5 exhibitors, 5 festival representatives, and 3 leaders of regional co-production markets. The 42 interviews provided countless insights into the East European markets and opened myriad topics. Yet, all interviews led to seven conclusions that snapshot the state of the art within the East European film industries (see Figure 2) and the way they are coping with the current global challenges. In this report, each of the seven conclusions will be discussed in more detail. The list of these conclusions, however, should not be seen as final and exhaustive. Its major purpose is to start and inspire the discussion on current and future film policy reforms in the East European region.

Figure 1:
The map
of Eastern
Europe



Figure 2:
Conclusions
regarding the
key tendencies
within the
East Euro-
pean film
industries



Traditionalist Public Film Funds

The infrastructure of the East European public film funding consists mostly of strong national film funds that centralize the local film industries. These film funds have the complex role to stimulate creativity, build industrial infrastructure, develop new talent and nourish established players – all at the same time. There are very few regional film funds in Eastern Europe that could otherwise share this heavy burden with the national funds. Yet, audiovisual clusters are emerging (for example, in Southern Poland and Slovakia) initiated by local producers and filmmakers and with support from both local, national and European funding partners, which to some extent decentralizes the audiovisual sectors.

The national film funds do not plan to go through a significant restructuring within the next five years. Their business models, main activities and policy goals will mostly remain unchanged, except for a couple of funds who may undertake some transformations. The funds will keep supporting development, production, distribution, co-production and promotion of national works, as well as talent development, training and various complementary activities. Also, many film funds will keep administering production incentives in collaboration with the Ministries of Finance.

For most of the funds, the core strategy goals include safeguarding the national languages and national identity, as well as making the national industry and audiovisual works more competitive and more visible in the international market. However, the film funds are not introducing schemes targeted specifically at improving diversity, equality and inclusion of marginalized voices within the local industries. There are also very few discussions relating to the green sustainability policies.

Most of the film funds, however, expect to keep the same level of budgets within the next 5 years, with only exception of one film fund that reduced the budget and the number of open calls due to the pandemic. Many funds expect even higher budgets in the years to come. They are confident about this financial stability as the national audiovisual sectors, according to them, deliver both cultural and industrial results. In most of the East European countries, they are, however, concerned about possible post-election changes. Even though these changes would not decrease the level of financing for the funds, the new governments tend to appoint new top managements in the film funds and disrupt the established policy course of the funds, thus depriving them of having any medium-term or long-term policy strategy.

The traditionalist nature of the film funds is also visible in relation

to the new formats. The funds mostly support theatrical films, documentaries, animation and short films. Some funds have development funding for TV series, but they still feel like learning how to do this. Only two film funds are planning to introduce the game support scheme and the animation industry still does not receive as much support as it deserves. There are occasional examples of support for web series, interactive works and VR projects, but it is still far from a systematic support that would follow the global trends.

Many funds still feel confident about their relevance in the local film industry and do not feel particularly threatened by any of the new players. They believe that they will stay the main contact point and the source of financing for local film producers. That explains why they show (with a couple of exceptions) little flexibility and openness for a more engaging dialogue with the emerging new players in the market (e.g., streaming services, hi-tech companies, telecom operators).

Finally, even when funds are eager to implement some changes, it takes enormous amount of time as any legislative and regulatory changes need to go through long policy cycles. Therefore, some initiatives that look innovative in the moment of their drafting become old-fashioned already by the time they become effective.

Agile (Independent) Producers

The situation is, however, different when it comes to East European producers. Over the past twenty years, we have seen the emergence of a completely new class of local independent producers who are today in no way different from their West European colleagues. They are well-versed in doing European co-productions, fluent in foreign languages, we see them present at the major co-production markets, pitching forums and training programs and their majority co-productions land at A-festivals. When they produce films nationally, it tends to be low-budget social (mostly family) dramas. When they engage in international co-productions, then they do genre films, more commercial and audience-appealing films. In the following years, they will most probably go for more commercial projects following the global market trends.

East European producers respond more quickly to the new changes and challenges that the film funds do. In the first place, they are massively transitioning to production of TV series. Even though some of them have an impressive track-record of successful feature films, they have started learning from scratch how to develop and produce drama series. In some countries producers can receive development funding for TV series from the national film funds, but they also attend

workshops and training programs across Europe in order to learn the production know-how for this format.

Furthermore, East European producers also make TV series in collaboration with streaming platforms (mostly HBO Europe and Netflix). They perceive this collaboration as a new and alternative financing model that does not affect the traditional financing model developed by the public film funds. They also started doing TV co-productions following the patterns of the European film co-productions. These TV co-productions are most often financed by public (and sometimes private) broadcasters and, to a smaller extent, Creative Europe-MEDIA.

Producers, and film professionals in general, are in principle divided about how much the film funds should help them adapt to the new reality. While some think that film funds should provide only financing incentives, the others believe that funds should also be competent enough to re-train film professionals and help them obtain new expertise. The latter is particularly vocal when it comes to the expert support for digital marketing and audience design skills. However, the public film funds often have neither enough expertise nor flexibility to provide this kind of intangible support.

Producers' alliances across Eastern Europe are also active in terms of policy engagement. In several countries they played an important role in negotiating help-packages during the pandemic. In some countries they have also been active in negotiating more favorable production and tax incentives that attracted large international productions to their territories and created more jobs. However, when it comes to political engagement and activism, producers in many East European countries tend to be opportunistic. Many avoid projects with politically controversial and unpopular topics that are not in line with the country's mainstream political course. At least that is how they behave when it comes to working with public film funds. The situation is different in collaborations with streaming services where challenges are rather linked to the project's genre and audience potential.

Growing Audiovisual Infrastructure

Over the past decade, the production infrastructure has been increasingly developing in Eastern Europe. There are only few countries without any kind of production/tax incentives. These incentives are in some countries flexible to the extent that even low-budget publicly financed documentaries can easily gain back a portion of their local spend. They are even more flexible in those East European countries

that are still not part of the EU as they are not limited by the competent European Laws.

In the coming period, many East European countries are planning to couple the production incentives with building modern studios in line with the newest production technologies. These expensive technologies include LED walls, advanced green screens, XR studios and other accompanying virtual production tools. Some large, modern studios are already there, such as Alvoronia studio in Poland, and resemble the leading studios in the West.

The development of this infrastructure, however, has little to do with the public film funds. The production and tax incentives are mostly financed by Ministries of Finance (and sometimes only administered by public film funds), while the studio-infrastructure is financed by the business development and investment funds. Some business development funds exist on the national level, and they support innovative projects and enterprise development. Yet, a significant amount of this funding comes from the EU through, for example, Innovative Economy Operational Programme, structural funds for regions in Eastern Europe that are still marked as economically underdeveloped, or, more recently, European Development Funds. The funding also comes from the local and international private investment groups.

This new infrastructure is primarily meant for attracting large international productions that would be entirely executed in one place. This would create new servicing jobs in the film industry, but also across other sectors. Still, this fast infrastructural development poses two major challenges. Firstly, the local production companies often do not have enough expertise to service an entire large production themselves. Secondly, there is a shortage of competent crew members and technicians. The way the local film industries address these problems – or plan to address them in the coming years – include three solutions: merging of companies, clustering of companies and educational programs.

Company-merges would ensure that single companies unite their portfolios and expertise in order to become more competitive as a single entity in servicing the entire production cycle of the international projects that come to their country.

Audiovisual clusters are associations of experienced professionals in a particular region of a country. Depending on the needs of a particular small region, clusters focus on different goals such as promotion of works, search for international financing and partnerships, establishing a production studio or an animation studio, etc. The cluster members still finance film projects through the public film funds, but they use the other sources of funding such as local governments, mu-

municipalities and the available EU business development funds for the infrastructural, promotional, training and networking activities.

Finally, the shortage of highly qualified crew members has been addressed through additional training programs that will only thrive in the coming years. Such training initiatives are sometimes organized by the public film funds themselves. There are examples of funds that offer crash courses for gaffers, focus-pullers, light technicians, post-production and special-effect professionals and similar under-the-line functions in order to catch up with the new market demands for film crews. Additionally, the audiovisual clusters establish long-term educational solutions. In collaboration with local academies of fine arts and schools for animation, design and IT, some of them plan to launch educational programs that will prepare animators, special-effect experts and virtual production engineers for large international projects and co-productions.

These infrastructural developments, however, do not go without potential threats. East-European practitioners have longer workdays, are less unionized and tend to be (much) cheaper than their Western colleagues due to the lower living standards in Eastern Europe. This situation poses a threat of overexploitation of the local practitioners as well as their potential drain to the West once they become qualified enough to relocate for better-paid jobs. At the same time, if they start working full-time on international commercial productions in the local East European studios how would it affect the low-profile indigenous productions? Can it decrease the number of local arthouse projects? Can it deflate the budgets of local productions that would not be able to afford the local crew anymore?

Pronounced Growth in TV Drama Production (and Financing)

The growing infrastructure, as explained in the above section, makes East European service producers more competitive. However, an increasing number of local producers also develops and produces their own TV formats. They do so because TV formats are financed much faster than films, they generate more profit and are simply more audience appealing. It is self-evident that this trend will only grow in the coming five years, and three models for financing and production high-end TV drama already stand out.

Model 1

An increasing number of producers collaborate with the streaming platforms (HBO and Netflix for now). Producers pitch their own stories in local languages to be creatively developed with local talent and produced with local crew and cast. Streaming platforms finance it

upfront and generously, thus enabling producers to produce high-end content quickly. Interestingly, some of these projects were previously rejected by public film funds or public broadcasters due to their commercial genre, politically controversial themes or excessive budgets.

Model 2

Several East European producers engage in what we can call European TV co-production. These co-productions are, just like European film co-productions, creative partnerships rather than just technical co-productions. They normally have one director, but local crews in every co-producing country where they are shot. These co-productions differ from collaborations with the streaming platforms as they provide more diversity, more socially and culturally relevant stories dealing with local European issues. Hence, producers from different East European countries increasingly co-produce high-end TV drama among themselves as well as in collaboration with Western colleagues. The financing infrastructure for European TV co-production will keep evolving within the next five years. So far, the main financiers are public broadcasters, but there are also some PayTVs, private broadcasters, production companies, equity investors and even local streaming platforms that sometimes come along. There are also distributors that have specialized in dissemination of European TV co-productions and connecting producers. They sometimes even buy some production companies in Eastern Europe.

Audience-wise, TV-series are more appealing than European films due to their storytelling, genre, aesthetic and high production value. In Eastern Europe they can also become more visible and accessible than the content on global streaming services if distributed by national broadcasters. Namely, in Eastern Europe streaming subscribers live mostly in big cities, whereas the population in the province watches primarily national TV stations and does not subscribe to Netflix and the likes.

Despite the increase of European TV co-productions, the producers still lack a stable financing infrastructure. There are diverse sources of development financing (e.g., MEDIA, public film funds, public broadcasters), but producers often end up lacking the last 10-30% financing and are forced to reduce the number of episodes. Therefore, they call for a predictable gap-financing scheme for TV series. Also, there is a need for more networking initiatives such as establishment of broadcaster alliances (that already exist in Western Europe), mentorship programs for development of new talent, exchange platforms for creatives, and legal instruments like the European Convention for film co-productions. All these financing, legal and networking structures

are currently discussed within the framework of the new Eurimages' scheme for European TV co-productions. The first results of this scheme are expected within the next five years. The Eurimages' supranational support scheme is something that East European producers are very much looking forward to considering that Eurimages already played a crucial role in integrating Eastern Europe into film co-production ecosystem 20 years ago.

Model 3

Finally, several East European countries have developed models for financing TV series nationally. They have established a creative-financing triangles between the public broadcasters, national telecom operators and specialized production companies in charge of creative development and production. This model is particularly common in the linguistically uniform ex-Yugoslav region where it increased the number of TV series to the extent which caused a dramatic lack of crew members and increased the salaries of the cast by 30%. This model, however, is expected to merge more and more with Model 1 and Model 2 within the next five years as the streaming giants are getting more active, European TV co-productions more common and local below-the-line and above-the-line film professionals more and more experienced in developing, (co-)producing and selling the high-end TV formats.

Last but not least, East European industry events such as Vilnius Meeting Point or CineLink in Sarajevo also help East European producers adapt to producing TV formats. Now they traditionally provide training programs for producers and writers, help producers make proper packages, provide development financing support and networking opportunities with potential financiers and distributors. All these initiatives additionally make the local players more aware of and better-prepared for the new market-developments.

Cautiousness Regarding Article 13 of the New AVMSD

Article 13 of the revised EU's Audiovisual Media Service Directive (AVMSD) now allows the European countries to impose quota and financing obligations for national and cross-border streaming platforms. The idea is that at least 30% of titles in the catalogues of streaming services originates from Europe and that commercial streaming platforms invest a percentage of their local turnover in local productions. Even though Article 13 triggered some results in several West European territories such as France, Germany, Italy and Flanders,

East European countries are less responsive in this area. Several East European countries have not even transposed the revised AVMSD yet, many of them transposed it in its most generic form without adapting it whatsoever to the local context, while only few countries (e.g., Poland, Croatia, Slovenia, maybe Romania) did impose some obligations on streaming platforms. The to-date process of regulating of international streaming platforms points to several challenges that the East European film policymakers as well as public film funds will be necessarily facing within the coming years. In this section, I will indicate the most recurrent challenges that were mentioned during my interviews.

Firstly, the 30% quota for European works will probably mean little for works from small East European countries in small languages if it does not include also national sub-quotas. Secondly, the countries that already introduced the investment obligations landed at supposedly too low percentage ranging between 1.5% and 4% of the local turnover. The local policy makers often go for such a low percentage from fear that a higher percentage may make the platforms withdraw from the local markets. Thirdly, the giant streaming platforms have experienced lobbyists that overpower the resources of public film funds and other stakeholders in the local cultural sectors in Eastern Europe. Finally, the collaboration between the local independent producers and streaming giants is currently regulated in a way that neglects protection of producers' IP rights in these collaborations. As it is now, the streaming services keep the ownership of all IP rights in perpetuity for all the works they make in collaboration with East European producers (except for the documentaries that some East European producers co-produced with the former HBO-Europe). If this trend continues, it may soon undermine the well-known concept of European independent producers whose identity is based on accumulating catalogues of IP-rights.

All in all, while East European producers and other practitioners perceive collaborations with platforms as an additional business model (parallel to the one based on public financing), the East European film funds remain rather distanced from the streaming platforms and there is no sign that any significant collaboration may happen within the next fine year.

Conservative Distribution Sector

The overall impression is that East European distributors are most often "old school". They invest most of their budget in the promotion of big commercial hits (US productions or local comedies), whereas

arthouse films get minimum attention and short distribution windows. After the pandemic, many distributors have become pickier as they curate only the films that undoubtedly can sell. There is even less room for experimenting now.

Smaller distributors in some East European countries complain about the monopoly of one – the strongest – player, who kills a healthy competition and hinders any alternative distribution business models. Bigger distributors, however, are afraid that the audiences will not be returning to cinemas after the re-opening and that the spreading of global streaming platforms will permanently damage their business models. Platforms may start “stealing” best-selling national directors to finance their new projects and distribute their films non-theatrically. On the other hand, sales agents may choose to sell their titles to streaming platforms in one go instead of selling them to multiple distributors in multiple territories.

When it comes to the exhibition sector, arthouse cinemas survived the pandemics only thanks to the help-packages from the state. However, once they stop receiving this help, some of them may go bankrupt as the admissions are still not even close to the pre-pandemic situation. Many East European exhibitors have launched TVODs for their films, and arranged virtual screenings, but it did not manage to compensate for the financial losses caused by the closures of cinemas. The online arthouse platforms worked better in case of film festivals launched as an extension to the theatrical festival release. However, all these platforms survived only thanks to the public support from national or European public funds. They did not become self-sustainable. Also, piracy in Eastern Europe is still on such a high level that running a small arthouse streaming service (especially TVOD) seems absurd.

According to some of the interviewees, up to 50% of arthouse audiences have disappeared after the pandemic and the young audiences had been traditionally difficult target even before the pandemic. It is a challenge for arthouse exhibitors to build loyal audiences and to identify the target audience-clusters because, according to them, latent audience for each arthouse films can be hiding within every age group. Film funds in several Eastern European countries also suffered from the closures of cinemas as they are partly financed by the percentage of the cinemas’ turnover.

The interviewees indicated some directions that East European distribution sectors may take soon in order to survive. The biggest focus is on advanced promotion campaigns. Therefore, some distributors started collaborating with digital marketing companies; they arrange social events around screenings; experiment with the

windowing timelines; use festival releases as pre-distribution test screenings. In some countries there are national networks of independent one-screen or two-screen exhibitors. These arthouse cinemas are fully digitized, subsidized by public film funds and welcoming for small films. Film producers sometimes decide to self-distribute their arthouse films through these networks and do it more innovatively than the available distributors.

A Booming Gaming Sector is Disconnected from Public Film Funds

Several Eastern European countries have a developed gaming sector, at least according to reports published by associations such as European Game Developers Association. The video-game audiences count in millions and game producers' profit by far exceeds the one of East European film producers. However, it seems that East European film funds have no foreseeable plans for introducing game support schemes and building bridges between the audiovisual and gaming sectors the way it has been done in several West European countries. In fact, the only exceptions are the Croatian Audiovisual Center that launched the game support scheme in November 2021 and the Czech Film Fund that considers a similar scheme.

The local laws recognize East European game developers as part of the IT sector rather than creative audiovisual sector. Hence, gamers have a parallel infrastructure, apply to different types of Business development funds and fall under different tax-schemes than the audiovisual professionals. Moreover, the funding that any East European Fund would offer them through the game schemes could not compare whatsoever with what they earn in the free market already as young game-developers. In addition to that, game developers are not at all familiar with the bureaucracy and administrative workload associated with the use of grants by funding schemes from film agencies.

Yet, my interviews articulated some areas where a collaboration between the AV and gaming sector still may trigger mutual benefit. For example, the game schemes under film funds can help young game-developers (20-25 y.o.) do their first steps, grant support for educational games with a cultural value or provide free training and networking programs for game-developers. Finally, in some East European countries the applicable legislation does not stipulate how gamers can unionize or articulate their voice as a stakeholder group. By including them in an audiovisual law as part of the AV sector, the film policymakers can thus move closer to them, particularly now when many East European countries are in the process of drafting new audiovisual/media/film acts.