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# *Analysis.*

## **PUBLIC FILM FUNDING AT A CROSSROADS – UPDATE JUNE 2022**

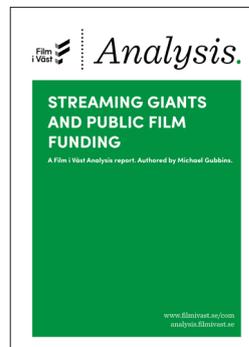
A Film i Väst Analysis report. Authored by Tomas Eskilsson.

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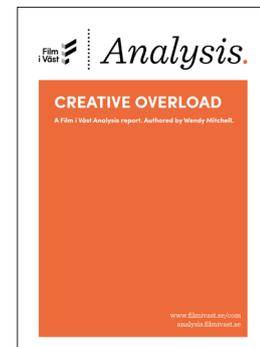
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*Public Film Funding at a Crossroads*  
Authored by  
Tomas Eskilsson



*Streaming Giants and Public Film Funding*  
Authored by  
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*Creative Overload*  
Authored by  
Wendy Mitchell

Plus 10 regional reports as appendix.



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*A Film i Väst Analysis report*

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## BACKGROUND AND FOCUS

The report *Public Film Funding at A Crossroads* was published in the beginning of March 2022 and has since been presented and discussed at several events around Northern, Western and Southern Europe. An explicit aim of the study was to create a platform for discussion and debate about film policy and its practices around Europe. The themes, issues and recommendations presented in the report are primarily seen as a foundation for further reflections.

Given this project's aim to function as a platform for debate and discussion, regular update regarding the major changes in: the ecosystem; film policies; and film agencies practices is required.

This is the first upgrade of the report. It is deliberately concentrated around relatively few themes and kept short. We will work on a major update in autumn 2022 that will be published as *Public Film Funding at A Crossroads II* towards the end of November.

The current update, is based on desk research, longer interviews with the study's territorial partners/experts around Europe and with forty key people in the sector representing mainly the larger countries in Europe: Italy, France, Germany and the UK. We have also added input from participants at events where *Public Film Funding at A Crossroads* have been presented.

This text concentrates on some of the themes that have been discussed most frequently over the past six months: capacity and capacity development, the position of movie theatres and cinema films now and in the medium term and how to understand and reflect 'the grey zone'. We also briefly touch on the future for European co-production and the implementation of article 13 in AVMS(D).

## **EXTERNAL EVENTS, INDUSTRY TRENDS AND AUDIENCE TENDENCIES**

In Europe, so far, 2022 has been marked by the war in Ukraine, the aftermath of Covid 19 and sharply rising prices particularly for food and fuel. A long period of relative economic stability seems to be over. It is not impossible that Europe is heading for a period of recession and stagflation. Based on historical facts, it is hard to predict how a depression will affect consumption of and investment in (public and private) audiovisual works and services in the medium to longer term. Russia's war against Ukraine affects the whole of Europe, but for obvious reasons especially Eastern Europe, where the war in some countries leads to reconsiderations of what sectors the state should (and need to) give priority. This has implications for support to culture and the audiovisual sector.

There is no unified European stance on how to understand and interpret the situation in the Sars Corona 2/Covid 19 pandemic. Some countries don't consider the Omicron variants as socially dangerous diseases and have almost completely abolished restrictions, while others are more cautious and maintain restrictions, especially in indoor environments.

Netflix's financial report for the first quarter of 2022 showed for the first-time reduced subscription numbers. The company fears this tendency will continue in the second quarter. Most of the other major VOD services reported an increase in subscriptions. Netflix's decline led several pundits to speculate that the content boom was soon to be over – that it would not last more than one or at the most two years. So far there is little evidence that this is a correct assumption. According to most sector analysts (see also CNC's 2030 document), the willingness of the players to win the war for market share and 'attention' by producing and financing their own content to create exclusivity and premieres will not end in 2024. Consolidation phases and plateaus, however, are likely along the way, especially in markets where VOD services started ordering and financing local content early on and where most households see 'their content' via streaming.

Most global streaming services will soon offer customers both an SVOD and an AVOD option. This mix will continue to drive overall user numbers upwards both in Europe and globally.

The discussion on media chronology in Europe continues to be lively. In the short term, movie theatres owners have again advanced their positions, arguing that a relatively long and exclusive theatrical window is key to their survival. The risk for them and the industry overall is that the focus in the public discussion about film will again shift from what release method benefits individual films, to what will save and strengthen cinemas/movie theatres. Movie theatre owners

insisting on a long and exclusive window therefore runs the risk of a Pyrrhic victory, while a more flexible approach might better protect their interest in the longer term.

During the pandemic many 50+ residents across Europe, previously resistant to streaming, have learned to use it and loved the opportunities it offers to get access to an extensive and at least partially qualified content when, how and where they want. It has also helped them make clearer choices in terms of what content they want to see. The rapid demographic changes in the users of streaming services can have implications for the future of cinema in the short and medium term (see below).

More recently, the pricing of cinema tickets has emerged as an issue in some of Europe's major countries, including France. Has it become too expensive to go to the movies? And not just for a young audience?

Public Service Broadcasters have played an important role in old world funding models and have been one of the ground pillars of European co-productions of cinema films. It has also been part of many broadcasters' assignments to contribute to national film production as part of state cultural policy. But starting in the middle of last decade, a gradual change has taken place. Public service broadcasters began to question investments in films with cinema as the first window, the old-fashioned media chronology had made the films old and obsolete when it was time for the first broadcast screening. Instead, they chose, like the Norwegian NRK, to produce series and films exclusively for their own channels – not least for their own play services. The Norwegians set an example, other broadcasters followed, and more are most definitely still to go that route. A parallel phenomenon is the increasing number of co-operations/co-productions between streamers and public service broadcasters, which has led to political controversies (see 'The Grey Zone' below).

Overall, the cultural policy discussion in several countries has sharpened about the legitimacy of public service broadcasters. When commercial actors can do the same type of production, the state can sell out parts of the public service and in return save its support. Most recently (spring 2022) this is the case for Channel Four in the UK, which has long been a major factor in British arthouse cinema. In some other European countries, there is the same political discourse. This is important policy issues to follow in the future, not least the bearing it will have on other parts of the audio-visual sector.

## **FILM AND AUDIOVISUAL POLICY AND ITS PRACTICES/ OPERATIONS IN DEVELOPMENT**

In the last few years, we have observed a shift in the public film agencies argumentation with regard to the ‘purpose’ of public film funding. Increasingly, it emphasizes to the link to democracy and freedom of expression and underline a holistic responsibility for ‘film’/‘cinema’. By extension, previous priorities such as supporting the development, production and dissemination of valuable film in its territory are now less important.

The argumentation is at times almost the opposite. First, a long list of purposes (film heritage, general promotion of film as an art form, film as an important language to express opinions, a number of audiovisual ‘independent’ formats and expressions etc) and then finally: ‘yes, and we also support the production of film’.

In an argument with a changed center of gravity, horizontal perspectives (inclusion, gender balance, green) are often seen as central across all areas of activity. Film and media literacy – education and formation of young people and audiences – also become central elements in order to convey the importance of quality films.

In many territories, there is a lively discussion about how horizontal perspectives should be understood in relation to artistic and creative freedom. Guaranteed artistic and creative control for creators and production companies can be seen as one of the most important competitive advantages of the old world.

Overall, in the European discussion about responding to the new challenges, conversations around technicalities rather than ‘purpose’ dominate, arguably suggesting the difficulty in maintaining a holistic perspective, and further fueling the need for this current, and related reports.

A few national film agencies and regional film funds are engaged in a major rethinking of their strategies and tactics based on a territory-based analysis of the changes in the ecosystem triggered by digitalisation and globalisation. These agencies are reflecting on the new power and what it means for their agency/fund.

Several national and regional film agencies are engaged in development work to increase the speed and predictability in decision-making. Some are also trying to find solutions to reduce bureaucracy in the application process, not least in the early phase.

There is a nascent discussion aimed at increasing transparency between public film agencies with the aim of improving communication regarding projects in which they jointly hold an interest, making them aware of what (sometimes conflicting) demands they make for a project. There is an interest from some national film agencies

and regional film funds to explore whether it is possible to harmonize the application process and requirements. ‘Green’ and ‘spend’ are two examples of areas where the possibility of greater coherence in definitions and requirements are discussed. For example: the environmental crisis and the pandemic have together triggered a discussion how to reduce the number of production sites for films and drama series. Changing rules around ‘eligible costs’ to count spend, and to remove the requirement for physical production in a specific territory are other examples of measures discussed to meet the challenges of the future. There are also formal and informal agreements based on reciprocity to reduce travel.

At all presentations of *Public Film Funding at A Crossroads*, not least participating producers, have expressed a strong wish that national film agencies and regional film funds invest significantly more money in fewer feature films meant for traditional distribution. This applies to both development support and production support. The overproduction of small cinema films is a matter of growing importance for the industry, but not always for public film agencies whose results is often assessed on the number of decisions and how many companies and/or individual talents that receive any form of support rather than other indicators.

AVMS(D), article 13, has been discussed and debated around Europe. Only a few countries have to date taken decisions on financial obligations under Article 13 and even fewer have implemented them. One of the obstacles in the AVMS(D) process is that a number of countries have identified a possible conflict with the OECD’s ongoing work to change the corporate taxation of digital business models.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (IF) has agreed a two-pillar solution to address the tax challenges arising from the digitalisation of the economy – *Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*.

The Two-Pillar Solution will ensure that multinational enterprises (MNEs) will be subject to a minimum tax rate of 15%, and will re-allocate profit of the largest and most profitable MNEs to countries worldwide. 136 countries and jurisdictions, representing more than 90% of global GDP, have joined the Two-Pillar Solution establishing a new framework for international tax and agreed a Detailed Implementation Plan that envisages implementation of the new rules by 2023.

The OECD framework replaces any existing digital taxes already introduced by member states.

## **CAPACITY**

For this update, we have especially asked about capacity. The availability of creative and skilled workforce is an issue that has become even more severe as labor costs has risen sharply in film- and drama series production in many countries. Indicatively labor costs increased by up to 25% in 2021 in some of the Northern European countries.

In the last few years it has become popular to develop facilities and technologies in some of the major film countries in Europe. These ventures have usually come about through different variants of public/private partnerships. Continued ‘investments’ of this type have been announced in France, Spain and Italy – all with the stated aim of making the territory the most important hub for production of film and audiovisual works in Europe. In many smaller countries, major investments are planned in facilities and infrastructure. These are sometimes driven by fear that the physical production will completely end up with the resource-rich large neighbor country, sometimes by the desire to take advantage of increased production volumes and ensure that these ‘projects’ are done in one’s own territory.

The lack of enough creative, knowledgeable and skilled personnel to sustain production demand is becoming increasingly acute to solve. At the same time, there are few examples of initiatives that have been substantially successful. There have been plenty of discussions, talks and impact assessments, but the measures launched remain few. There are several examples of proposed ventures in infrastructure and training: CNC’s France 2030 document, and the recovery plans for Italy and Spain.

Some VOD services develop talent initiatives together with public partners, especially with regional film funds. The upside is that young directors, script writers and producer talents are getting a fast track to establish themselves professionally. The potential downside is that talent is molded into the VOD service’s type of storytelling.

## THE SITUATION FOR MOVIE THEATRES AND CINEMA FILMS

Perhaps the most discussed issue in Europe's film industry and among public film agencies is what will happen to movie theatres and to cinema films. The restart of cinemas around Europe has been slow. Visitor numbers in most countries are significantly below those reached in the second half of the 2010s. There are exceptions such as Denmark and the United Kingdom where they are relatively close to the 2019 audience figures.

The overall tendency is that fewer films sell a significantly larger percentage of tickets than before. And it is American cinema of a certain type that is completely dominant. Simply put, it takes a hero, a superhero (be he so called James Bond or Pete 'Maverick' Mitchell), for audiences to rush to the cinema to see the film. It is largely the young audience and the young adult audience that have returned.

What worries movie theatre owners, and the film industry at large is that 50+ audiences have significantly dropped their filmgoing habits since the pandemic. This affects especially the audience figures for the domestic films. In many big (and small) countries in Europe, domestic film audience numbers are at 35 to 50% of what it was before the pandemic. Family film is less affected and holds up better.

There is a lot of speculation as to why the older audience is opting out of the cinema experience. An early perception was that 50+ were more worried about getting infected with Covid and therefore chose to stay at home. In some European countries there are surveys that show that a relatively large group (40%) of the overall population want continued action by movie theatre owners to, among other things, create physical distance between visitors. The older age groups do not particularly stand out in these studies and have largely returned to other pleasures such as shows, sport events and restaurant visits. A widely spread and accepted explanation, as noted above, is that during the pandemic, 50+ increased their consumption of streamed content more than any other age groups – learning to subscribe to services and utilize the content offered by various VOD services.

"Less is more" is the mantra of most movie theater owners: fewer movies, more 'hospitality', and better curation. This doesn't necessarily mean that there are fewer films in the repertoire, but a considerably larger portion of the capacity (measured as the number of start times, the number of screening rooms, and the size of the rooms) is utilized by a handful of titles at best. Other films have few and sometimes odd start times and are shown in smaller screening rooms.

There are plenty of examples from the reopening of cinemas that speak of movie theatre owners (including the big players) choosing to have fewer screening room running and limiting opening hours. The

trend to develop movie theatres into 'cultural venues' (also a venue for instance for screening opera, e-games and hold concerts and put theatre plays on stage) in smaller and medium-sized cities was reinforced during the pandemic and continues unabated.

There are many disparate opinions about what the solutions should look like to increase cinema going and particularly for domestic films. Optimists argue that that the problem will solve itself as streaming giants increasingly take advantage of the opportunities that movie theatres provide for exposure and revenue. This can also include services as Netflix, Amazon Prime and Apple+ if cinema owners are prepared to be more flexible about the cinema windows exclusive length. Others argue that it is just a historical road bump and that anyone with a habit of seeing films in cinemas will return.

It is not easy, however, to see how these passive models can contribute to 50+ returning to the cinema, and furthermore that they choose to see domestic film when they do so.

The more alarmed and action-oriented ones suggest one of the following models:

- an increased eventification of screenings, including of domestic cinema films. Here you will find everything from Cannes winner **Ruben Östlund's** proposal that films that receive public support should be toured in a number of towns and cities in the country of origin in the form of events where both the director and key cast will participate, to more standardized models that do not require a director and actors on site;
- a more flexible and diversified pricing;
- and/or increased public support with clear counter-performance requirements regarding exposure and capacity of and for domestic/European cinema films.

The big challenge for anyone who cherishes the position of domestic cinema films is whether the trend of providing massive capacity to a few given audience successes continues and proves to be the business model that best guarantees the survival of the movie theatre itself.

## THE GREY ZONE

The discussion about 'The Grey Zone' has continued to interest and have become more intense over the past six months. However, there is no common definition of what 'The Grey Zone' really is. The lack of transparency also means that there are too few proven concrete examples, but even more conflicting 'stories' about how it works.

We have chosen to see 'The Grey Zone' as an arena where audio-visual works are funded by the traditional European system (including public selective funding) and 'streaming giants'. The individual project has an independent production company attached to it that owns/controls the IP to a substantial degree. The business agreement that is concluded takes the form of a license agreement. The length of the license today seems to vary between four and ten years.

The development of 'The Grey Zone' is driven by several interests:

- production companies that have the need to find faster and easier financing models without completely losing artistic and creative control;
- streaming giants who have the need to cheapen their production in order to maintain the volume of works exclusive to the platform;
- and public film agencies who want everything from increasing their own volume at home to getting a greater international spread for supported films.

There is a growing understanding that public film financiers, the traditional European 'film sector' and streaming giants need to find ways to coexist. In the long run, it is not worth defining each other as good and evil.

There are an increasing number of national film agencies and regional film funds that see 'The Grey Zone' as a great opportunity to finance perhaps primarily works that could reach a wide audience. 'The Grey Zone' offers a faster and easier funding model and guarantees that the work will be spread globally or in relatively many territories. At the same time, the possibility of exploiting the work at home remains.

Some public film financiers also see great opportunities that certain types of genre films can be financed through this model. Others believe in the long run that certain types of arthouse films could be possible to do in 'The Grey Zone'.

For the old world, there are a range of potential problems with 'The Grey Zone'. What future is there for European co-production if 'The Grey Zone' becomes the dominant funding model? There is already a concern that European co-production is dominated by small films with limited potential to reach an acceptable audience at home and in

the co-producing territories. What happens to the power over the content in 'The Grey Zone' – this is particularly crucial in drama series financed in the zone? And what long-term value of ownership of the right remains for the production company when it retains the right to fully exploit it after ten years?

There is a great need to explore and describe 'The Grey Zone'. Film i Väst Analysis will during the autumn conduct a study on and of 'The Grey Zone' with the aim of presenting and discuss this at the Berlinale 2023.

## **PUBLIC FILM FUNDING AT A CROSSROADS II**

In *Public Film Funding at A Crossroads II*, we will, among other things, look more detailed into:

- how public film agencies are tackling and intend to further tackle internal, external and ecosystem changes by 2030;
- the development and understanding of the 'purpose'/'aim', content and scope of audiovisual politics now and in the future;
- the discussions and conclusions around IP, 'independent producer' and creative and artistic freedom and control;
- the relationships to the 'new world' – how should coexistence be understood and what could it look like in the mid-term future;
- definitions and attitudes towards The Grey Zone and a forecast of the zone's future development;
- the consequences of the capacity shortage and concrete examples of capacity development now and in the mid-term future;
- developments in the medium-term streaming market and implications thereof for public film politics and agencies;
- the position and role of public service broadcasters in the future public fund-ing of film and audiovisual works;
- the implementation in practice of Paragraph 13 of the AVMSD;
- and the position of movie theatres and cinema films in the transforming audiovisual landscape.

*Public Film Funding at A Crossroads II* will be based on interviews with 100+ key persons in Europe's film- and audiovisual sector and on continued dialogue with our territorial reporters and experts. We will continue to do workshops and dialogue seminars around the same topics as mentioned above across Europe and add insight from those to the second report.

It is our strong belief that reflections, discussion and debates about the relevance and attractiveness for public film funding will grow in importance over the next couple of years.







