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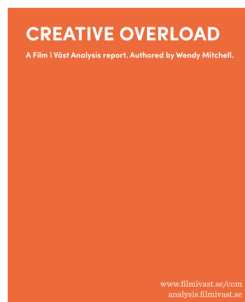
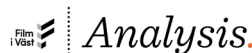
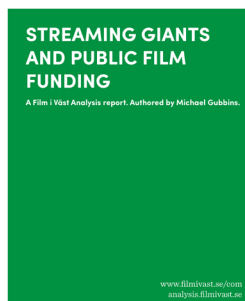
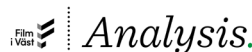
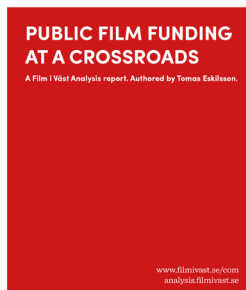
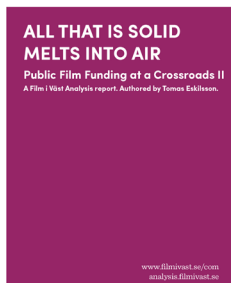
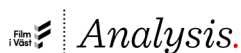
Analysis.

PUBLIC FILM FUNDING AT A CROSSROADS II

Close-up: Italy

Authored by Rickard Olsson

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ABOUT PUBLIC FILM FUNDING AT A CROSSROADS

All that is solid melts into air – *Public Film Funding at A Crossroads II* was launched in Venice in August 2022. Along with the first report *Public Film Funding at A Crossroads* 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. There you also find **Michael Gubbin's** report *Streaming Giants and Public Film Funding* and **Wendy Mitchell's** study *Creative Overload*.

Appendix 1	Topics for the interviews
Appendix 2	Survey to filmagencies
Appendix 3	Status of Article 13's transformation across Europe
Appendix 4	Presentation of the experts

Focus group

Eastern Europe (Assistant Professor **Petar Mitric**, Producer Joanna Szymanska)

French speaking Europe (Senior Consultant **Vincent Leclercq**, Senior Consultant Philippe Reynaert)

German speaking Europe (Senior Consultant **Manfred Schmidt**)

The Nordics (**Katarina Krave**)

UK (**Bengt Toll**, Associate Professor **Lydia Papadimitriou**)

Close-up

Flanders (Producer **Ilse Schooneknaep**)

Italy (Senior Consultant **Rickard Olsson**)

Netherlands (Senior Consultant **Doreen Boonekamp**)

Portugal (Visiting Professor **Nuno Fonseca**)

Spain (Journalist **Irene Jiménez**)

French speaking Belgium (Senior Consultant **Philippe Reynaert**)

ITALY

Introduction

As lawmakers and stakeholders in the Italian audiovisual sector, after a profoundly disruptive pandemic period, are now cautiously navigating the emerging landscape, looking for ways to establish something of a new normal, three distinct but intimately related themes have been dominating the national film policy debate over the summer – those related to company ownership, to production volume, and to cinema attendance. Each topic polarizing opinions and pointing towards important challenges ahead, especially as it relates to upcoming revisions of the Italian regulatory framework for the industry and expected modifications to its popular incentives schemes. And although the mere existence of robust public funding for cinema and audiovisual content is still very much taken for granted across the sector and generally not reflected on much in the debate, some of the arguments that has been heard are indeed touching upon one of the central questions for the main report, that of purpose. Why and for whom all this support?

The question of cultural sovereignty

Already before the covid years, as reported in the first edition of Crossroads, the arrival in Italy of a few big international content producers and media conglomerates, besides the global streaming giants, was met with worry and skepticism in only a few corners of the industry. For the vast majority it was, if not exactly celebrated, at least tolerated as these groups were mainly European in nature as well as corporate culture, notably raised the game and quality of Italian films and drama series, and generally contributed forcefully to the boom in production of Italian audiovisual content. As illustrated more in detail below the process of mergers and acquisitions has only accelerated



Senior Consultant Rickard Olsson. Rickard is a film industry consultant and freelance producer, based in Turin, Italy, and with over 25 years of experience in various positions for companies, programs and institutions across the European audiovisual sector. He holds a master's degree in audiovisual management and regularly serves as advisor for international markets, funds and festivals.

post-pandemic, with the dominating media groups continuing their buying spree of Italian companies, and some industry observers and policy makers are now flagging for a number of potential negative effects on the sector as a whole. In the short term as those companies, according to available data, are sucking up much of the Italian talent pool and workforce, together with a great deal of the public financing allocated, and thus impeding smaller companies to grow organically. They are also seen to be contributing to the inflation of production costs and reinforcing capacity issues. In the long term with some of the most cherished and valuable Italian IP's being shipped away and ultimately controlled by conglomerates with headquarters outside the country, and with their bottom line the only guiding principle, largely unaffected by thorny questions about national and cultural identity, self-determination and heritage. Others, including the most significant producers associations, ANICA and APA, insist that the financial value these international groups bring into the country, as well as privileged access to an international market and infrastructure for Italian projects, including valuable know-how in the development and production of world class AV entertainment, by a wide margin compensates for these risks, and that the tide in production is lifting all boats, including the smaller ones.

Too many films, too much money?

The over-production and limited visibility of mainly Italian feature films and documentaries is increasingly becoming an issue that many now agree needs to be confronted structurally. And despite having been lauded as the single most important financial tool for funding film and audiovisual content in Italy, many observers now point towards Italy's generous system of tax credits on production as the root cause and main culprit. Also the ministry of culture now readily admits the problem and has calculated that ca a third of all films produced are to be considered "ghost films", i.e. films of quality standards below what's required for an adequate access to the domestic and/or international market (basically films without an audience), or simply films produced by companies formed ad hoc in order to access the tax credit in a practically fraudulent way. It's evident to all that the fiscal incentives have provided the entire Italian AV sector with a major boost, however many of the stakeholders are now also pushing for a major reform of the incentive-scheme in order to more effectively combat distortions of the system and raise the quality as well as market shares of Italian films. More than anything the industry is asking for guarantees, in terms of resources available, and in the timing of payments (the Italian tax credit is known to be a notoriously slow

process). The new government, but also many operators, are becoming increasingly vocal in their position that higher amounts of support to fewer films is the way forward, while a few important players, such as Rai Cinema, still defend a policy of diversification and the value of the many voices. From small streams comes great rivers.

The uncertain future of the movie theater

It was widely reported over the last year how the Italian exhibition sector was struggling to recover from the dramatic drop in admissions caused by the pandemic. At the beginning of 2023 industry representatives tried to infuse a much needed sense of optimism into the debate by pointing out that 2022, according to Cinetel, the Italian market data provider, actually demonstrated an impressive 75% increase in admissions compared to 2021, minimizing the fact that the 2022 total was still almost 50% below the three-year average preceding the pandemic, 2017-2019. Numerous studies and opinions have been published, conferences organized, and experts analyzing up and down the available data, looking for clues to the poor theatrical recovery that together with Spain has been among the worst in Europe. By turns they have been blaming window-politics, the competition from streaming, or lack of commercial titles of cinematic quality. A few have gone so far as to declare the cinema as we know it practically dead already. All this despite important efforts of both the previous and current government, in collaboration with relevant organizations and local authorities, to incentives cinema-going. A great deal of the covid emergency funds had already been earmarked to the exhibition sector, and cinemas can also access tax credits on their programming and restructuring costs. Furthermore a few well publicized, expensive campaigns have been launched to encourage the public, especially a younger audience, to discover the magic of movies and the theatrical experience. It was thus with much trepidation the industry beginning of July received the Cinetel report for the first six months of the Italian 2023 box-office, and with a collective sigh of relief it was clear that the positive trend had continued. Still 35% less admissions compared to the same period average 2017-2019, but up 54% in respect to 2022. The question without a simple answer is not so much whether the glass is half-empty or half-full, but what it will take to fill the Italian movie theatre all up again.

The Italian film law under review

In November 2016 the Italian parliament passed a much anticipated legislation regulating public support to the cinema and audiovisual industries. A new film law that in Italy is often referred to as “Legge

Franceschini”, named after then minister of culture Dario Franceschini, considered the driving force behind some of the innovations of the law. Most importantly the new law introduced the Cinema and Audiovisual Fund, uniting the various support mechanisms and fiscal incentives in one global funding program. It was also a law that at the time increased the total budget with as much as 60%, to at minimum 400 million euros guaranteed annually, allocated through a virtuous self-financing mechanism based on French model (11% on corporate income tax and VAT revenues from relevant sectors such as broadcasting, distribution, exhibition and telecom/Internet services). That budget has now been increased further to a whopping 750 million euro annually and is divided into three main support mechanisms:

- **Automatic support:** financing granted on the basis of objective parameters that measure the artistic, commercial and cultural results of film and TV works according to a point system. The money granted will need to be reinvested in the development, production or distribution of new works within a five year period. In 2023 the budget for this scheme is ca 40 million euro.
- **Selective support:** non-refundable grants for development, production and distribution of audiovisual works, as well as for cinemas. Selection is made by a 15 member commission, and primarily awarded to films of high artistic potential, to young filmmakers and debutants, or to so called “difficult films”, by definition all films with a budget below 1,5 million euro. 46,7 million euro has been allocated in 2023 for this, with a further 96 million euro in selective support to promotional initiatives, festivals and events, including the many institutional activities of Cinecittà.
- **Tax credit:** the lions share of the Cinema & Audiovisual Fund’s money are earmarked for Italy’s generous and much inclusive system of tax credits on development, production, distribution and exhibition costs for film, tv/web, video games, as well as for certain costs borne by the involved technical industries. For 2023 as much as 541 million euro have been set aside to finance this specific line of intervention, and during the pandemic it was famously increased from 30% to max 40% on eligible production costs.

On top of this most regions in Italy are now also providing local funds and services in order to attract productions, contributing substantially to the total amount of public financing available to the sector.

At the speed the industry is transforming it should be noted that the film law recognizes the very dynamic nature of the sector and allows for a wide margin of modifications, also through decrees. The long-time director of the Cinema & Audiovisual Department at the ministry

of culture, Nicola Borelli, has on several occasions called for a complete review of the different support measures, and others have lamented the lack of a truly independent and critical impact assessment of the public support program on the industry in general, as well as for the citizens/tax payers and the question of cultural access including changing dynamics regarding supply and demand. This analysis they claim is much urgent as it appears the system is now feeding an over-production of content somehow disconnected from any conventional market logic, with an increased risk of wasting valuable creative and financial resources on films with diminishing potential for a proper distribution and exploitation.

Reflections on the Tax Credit

In late June this year the undersecretary of culture with a specific mandate for the audiovisual sector, Lucia Borgonzoni, started circulating a document called “reflections on the tax credit: proposals for modification” to a select few industry associations and stakeholders for feedback. The main motivation behind this initiative, as previously mentioned, was twofold: a wish to raise the general quality level and commercial appeal of the films supported, and to find ways to limit the volume of projects that could access the tax credit. In part to temper over-production but also because in terms of sheer administrative workload the numbers were starting to get out of hand. According to Ms. Borgonzoni only in 2022 somewhere between 800 to 900 films and audiovisual works had been supported through the incentive, many of which are not expected to be distributed or screened in any meaningful way. A substantial number of international projects are also suspected of taking advantage of loopholes and the relative lack of control, using intermediaries – including banks – to exploit and deceive the system, most commonly through the practice of “re-invoicing”, in order to make foreign expenses appear as Italian.

All parties could thus agree the time for a major revision of the fiscal instrument was ripe, however as the content of the original document became known to a wider set of industry operators and interest groups, it didn’t take long for the protests to spread. The proposed measures was in fact to many interpreted as a draft decree rather than a proposal for discussion, and disproportionately in favor of the big, powerful conglomerates, penalizing small and medium-sized independent producers, and in particular those companies focusing on documentaries and arthouse films, for which the tax incentive have become an indispensable part of their business models and financing plans.

Most controversially the draft proposal included new access requi-

rements for the production company: on top of the current criteria the applying producer would also need to have produced, in the five-year period preceding the submission, at least 3 films with a medium budget of no less than 1,5 million euros or, alternatively, in the last three years have produced one film with a total production budget of at least 5 million euros. If implemented this new measure alone, according to some observers, could over the next couple of years lead to the closure of more than half of all active Italian micro/small production companies that have until now been able to access the tax credit for their projects on a regular basis. Many of which have produced with professionalism and continuity for many years, with access to the international market and with films awarded at the most important festivals.

It's been pointed out that the vast majority of tax credit resources are already reserved for a handful of big companies, i.e. large groups that produce a lot, maybe not so much motivated by cultural access, but above all in an industrial dimension. It is estimated that today there are companies that have accumulated over 100 million euros in definitive tax credit in recent years. A madness of the system, according to representatives of smaller producers, to support in such a massive way the large, often multinational groups, who have an already dominant position on the market, working hand in hand with the platforms, all while punishing micro/small companies and independently produced documentaries, that as a genre is calculated to only represent around 6% of the total funds allocated for the tax credit.

Even many producers readily admit there are just too many production companies operating in Italy today for a healthy industry. Above all micro and small companies in terms of size and production volume. However, how to increase competence and profitability and allow them to grow without squandering public funds on long-term unsustainable business models, is a question they argue the Ministry of Culture has avoided addressing with any concrete measures. In fact, representatives of the documentary sector underline that they are not looking for increased financial support in general, but that available funds must be used better, more fairly and efficiently.

Others have remarked on the concept of quality and how it's been used in the discussion, i.e. primarily in relation to production costs. Higher budgets equals better films, would be a simplified but pronounced position taken by government, and seen by many as a clear signal of a future policy focused on more money to fewer films.

The AGCOM report and the question of the independent producer

Shortly after the tax credit document started making headlines, the Italian Authority of Communication Guarantees, AgCom, sent a report

to the government highlighting some, as they saw it “critical aspects of the regulation for the protection and promotion of European and independent audiovisual production” (as stipulated in the AVMS directive) as well as of the tax credit regime for film and audiovisual companies. The report underlined that the Italian regulatory framework on investment obligations for audiovisual media service providers, linear and non-linear (illustrated in detail below), indeed are among the most complex and imposing in Europe, and that excessive rigidity regarding the system of quotas and sub-quotas risk to undermine Italian broadcasters and platforms, jeopardizing their growth potential and competitive capacity, and possibly influencing the market balance on both European and global level. This could ultimately, they claim, create a boomerang and counter the very objective of promoting European and national films that is at the heart of the regulations.

The other critical issue identified in the report concerns the definition of “independent producer”, an exceedingly delicate procedure when considering companies with complex ownership structures and/or established in several countries and controlled by the same parent company making it increasingly difficult to verify controlling shares, links between different companies, crossing of ownership etc. The operating definition now states that the producer, besides possessing the rights, must not be controlled or linked to an Italian broadcaster or media service provider, and/or no more than 90% of the company’s turn-over over the last three years may come from the same provider. This narrow definition, the report claim, becomes problematic and penalizing for certain companies when for example a producer can be linked to a broadcaster operating in a different territory, or you can have the paradoxical situation when companies belonging to the same multinational group are considered not independent in certain countries but in Italy yes, or the other way around.

The recommendations AgCom in the end makes to the government are to simplify the system of investment obligations and lowering quotas and sub-quotas for media service providers, and to make it possible also for companies not classified as independent under current regulation, to access the tax credit scheme. This has further agitated the waters as some now fear smaller Italian independent producer are under serious threat of extinction, and that this “free for all” attitude as proposed by AgCom are completely distorting the original meaning of state aid to the sector. They mean that at stake here is not only the fate of Italian audiovisual companies, but also the potential of Italy’s best talents, and ultimately that of cultural identity.

Capacity, the audiovisual job market and the importance of size

At the height of the infected tax credit debate, with a chorus of unions and associations representing the creative side united in their support of the independent Italian producer under siege and in defense of more traditional cultural policy-arguments, ANICA, the principal producers association, organized a conference in July on the job situation in the sector. It was also an occasion to make the case for the big multinationals and a more business-led approach, with the help of a new study titled “The challenges of the Italian audiovisual supply chain”, commissioned by Anica and carried out by state financial institution CDP.

The study brings forward the thesis that what’s missing in the Italian audiovisual landscape is companies large enough to sustain the important growth seen in recent years. Large in this context is defined as companies with at least 250 full time employees, and out of ca 8.000 companies operating in the Italian sector today in fact only 7 meet this criteria, together representing 15% of the added value to the sector. Already before the outbreak of the pandemic the growth in the value of audiovisual production was strongly supported by the large companies in Italy who nearly tripled their turnover between 2013 and 2019, but it’s specifically noted that the actual growth in Italy during this period can be attributed to not only large, but to foreign-controlled companies. The sector is indeed increasingly dominated by large foreign companies, thanks to a sustained campaign of acquisitions, which are currently driving growth. Between 2013 and 2019, the increase in the value produced was guaranteed exclusively by foreign-controlled companies. Their share went from 745 million in 2013 to 1.6 billion in 2019, while the value produced by Italian companies remained stable at 3.8 billion euros.

It’s specifically these large and foreign companies capacity to generate value and jobs, besides profits, that is now of great interest to the government, guided by the study’s calculation that the investment multiplier in the Italian audiovisual sector is as high as 3.54 – meaning that every euro invested in audiovisual production generates more than triple in value, distributed along the entire supply chain, and across different sectors and activities. This goes hand in hand with job creation and again size is considered an important quality as larger companies are expected to generate jobs with greater level of security and career opportunities, as they are generally better structured, providing a variety of roles and functions compared to smaller companies that often struggle to attract in-demand talent and professional figures in certain categories.

It’s estimated that the sector over the coming years will need as

many as 50 000 new professionals, especially highly specialized technicians, and the fear now is that lack of human resources will hold back any potential for further expansion.

From incentive wars to studio battles – a new bubble?

It's been well noted the successful re-launch of the state owned company Cinecittà srl, previously Cinecittà-Luce, and their famous film studios in Via Tuscolana, Rome (main shareholder is the Italian ministry for Culture), under the new management of former Sky Italia executive Nicola Maccanico, and with the help of 300 million euro from the EU's Recovery Fund (or rather ca 262 million, as the remaining funds are destined to Fondazione CSC/the national film school hosted on the property). The ambitious project is expected to be fully realized in June 2026 and includes 5 brand new soundstages, and the restructuring of another 4 on the historical grounds of Cinecittà. This alone will take the total number of soundstages to 24 and according to Cinecittà increase production capacity with over 60%, but already there's plenty of activity, with a radical uptick in big international productions coming in, mainly, lured by the generous tax credit, and the studios are now according to the company operating at close to full capacity. A strategic agreement has also been signed with Fremantle including a five-year lease of six soundstages, and for the first time in over a decade Cinecittà turned a profit last year.

Much to celebrate it seems. However, the original project, more contentiously, also included a substantial expansion of the site itself, into the adjacent territory of Torre Spaccata, with another 8 soundstages to be built as well as backlots over 31 hectares. An initial deal to buy the plot of land for 18 million euro was made, but now this crucial aspect of the plan has been put on hold after protest from environmentalist groups as well as for archaeological motives, and should reduce the financing from the Recovery Fund with at least 40 million euro. Simultaneously with this first serious bump in the road for Cinecittà the well-known international producer and financier Tarak Ben Ammar (Eagle Pictures) in late July announced a new 50 million euro studio project close to Rome, even proposing to name it Cinecittà 2 and openly speculating about a possible collaboration with Via Tuscolana, although no such discussions appears to have been held. Shortly after, the 5 of august, another successful, well-financed producer and entrepreneur, Andrea Iervolino, revealed his plan to *Hollywood Reporter Roma*, for the construction of high-tech studios in the scenic hills outside of Firenze. A project named The Tuscany Film Studios, also claiming to have 50 million euro in private backing secured for the enterprise. Both Ben Ammar and Iervolino refer to the great

international demand for studio space the main motivation behind these initiatives and both are confident to be up and running already in late 2024, focusing on VR and the latest in virtual production techniques and both much relying on their vast network of top Hollywood contacts, partners and collaborators. There are further rumors about studio plans outside Naples, and several other regional film commissions and funds are now also trying to secure financing for local studio initiatives – in order to stay relevant and offer competitive advantages in the race to attract major productions.

However, some observers are indeed questioning if there's really room to grow the domestic studio market this much, or if we're just witnessing another bubble taking shape. What could be the long-term effects of entering in fierce competition with recently announced new ambitious studio projects in Spain and France to attract the most prestigious US productions, all while the intimately connected incentive war continues to raging on?

Transpositions of the AVMS Directive, programming and investment obligations – A brief summary

The relevant legislative decree provides for a revision of the programming and investment quotas of European and national works to be observed by audiovisual media service providers, and consistent with the provisions of the Audiovisual Media Services Community Directive, approved in November 2018 and implemented by Italy in December 2021.

- **Programming obligations:** The share of European works remains unchanged compared to the previous regulatory regime and is equal to 50%. As far as public broadcaster Rai is concerned, at least half of this quota must be destined for Italian works. For other private operators, the sub-quota reserved for Italian works must be equal to one third. Rai also has a specific obligation related to prime-time programming (18-23). Here the public service company must reserve at least 12% to films and documentaries of Italian origin.

- **Investment obligations:** The share of revenues to be invested in European works (films, dramas and programs produced in Europe) remains unchanged at 17% for Rai and 12.5% for the other operators. A sub-quota equal to at least half of the main quota is reserved for Italian works produced anywhere by independent producers in the last 5 years. Worth noting is that 3.5% of the main share is destined for Italian feature films, a percentage which rises to 4.2 for Rai.

• **Obligations of on-demand audiovisual media service provi-**

ders: Streaming platforms subject to Italian jurisdiction must promote the production of and access to European works by complying with the following obligations: obligations for the programming of highlighted European audiovisual works created in the last 5 years in an amount of no less than 30% of its catalogue. A share of no less than 50% is reserved for works of original Italian expression, wherever produced.

Investment obligations in European audiovisual works produced by independent producers in an amount of no less than 17% of their annual net income in Italy until the end of 2022. In 2023 the share rises to 18% and in 2024 to 20%. At least half of the aforementioned quota is reserved for works of original Italian expression produced anywhere in the last 5 years, by independent producers. A fifth of this sub-investment is reserved for films.