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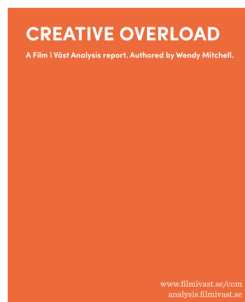
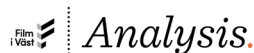
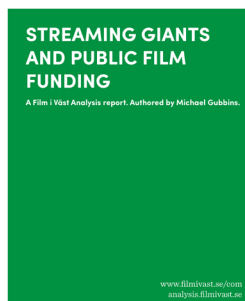
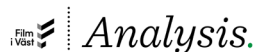
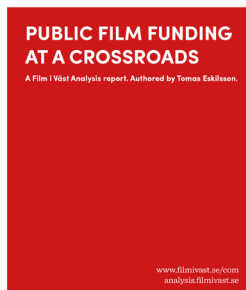
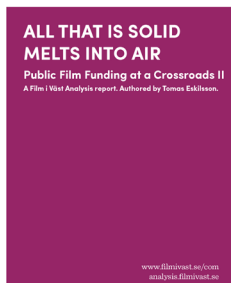
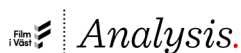
Analysis.

PUBLIC FILM FUNDING AT A CROSSROADS II

Focus group: UK

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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**)

UK

Minutes from Film i Vast Public Film Funding at a Crossroads London Roundtable

The session opened with an introduction about the overall aims of the Public Film Funding at a Crossroads II project and was followed by a brief introduction about the findings of the previous UK report. It was also noted that the BFI report ‘The UK box office in 2022’ (<https://www.bfi.org.uk/industry-data-insights/official-statistics-release-calendar>) was only just published, noting a significant decline in attendance figures for UK Independent film. [Specifically: ‘The total box office revenue for UK qualifying independent films in 2022 was £75 million. This is 55% lower than the £166 million total revenue for UK qualifying independent films in 2019.’, p.1]

Below is a blow-by-blow account of what was discussed.
The summary of the key points can be found on page [].

The first point made concerned the importance of producers thinking about the end customer, and the popularity of streaming for watching films, including UK Independent Films. The rather niche audience for these films (educated and mature) is increasingly attracted by new home entertainment technologies and is becoming less motivated to go to the cinema.

Exhibitors in the focus group noted that before Brexit cinemas that showed independent content used to receive grants from Creative Europe, but this has now stopped. Attempts by some exhibitors to create TVoD platforms with simultaneous online/theatrical releases were successful from a business perspective, but this practice impacted on the sector’s windowing arrangements, so they had to stop it.

The market is split into two categories:



Lydia Papadimitriou, Liverpool John Moores University. Lydia Papadimitriou is Reader (Associate Professor) in Film Studies at Liverpool John Moores University. Her research focuses on different aspects of Greek and Balkan cinema, with particular emphasis on screen and media industries. She has published on issues related to film financing, co-productions, (digital) distribution, and film festivals, among others.
<https://www.ljmu.ac.uk/about-us/staff-profiles/faculty-of-arts-professional-and-social-studies/liverpool-screen-school/lydia-papadimitriou>.

- (a) Big event films (consumed in cinemas that offer better food, discounts, free parking etc); and
- (b) Middle films (that ‘no one’ goes to the cinema to watch).

Film festivals are still important for creating buzz and adding value to films. Some argued that there are too many cinemas in the UK, and that the 20-30% drop in admissions will not return therefore there should be fewer cinemas, with more facilities and situated in the town centres. The community around them matters as much as what they offer.

From the producers’ perspective, it does not matter how films are consumed, as long as films are made, and audiences reached.

It was agreed that technological developments (quality of TVs, streaming etc) are here to stay. The question is whether the kinds of movies/content made are affected and how. Put differently, does streaming affect the variety of films made?

There was some discussion about the demographic of cinema goers. Some noted that audiences are getting older; others claimed this is starting to change. The fact that some films can be surprising box office hits (such as the Irish-language – therefore subtitled – independent film *The Quiet Girl* that reached 1 million pounds in UK cinemas) was evidence of a certain degree of unpredictability.

The discussion then moved to the importance of social media to attract young audiences to the cinemas, and/or to particular films watched on any kind of platform. The documentary *1946* (<https://www.1946themovie.com/>) was mentioned as an example of a film that found a large audience due to social media, despite its seemingly difficult to sell topic – an erroneous translation of the term ‘homosexual’ in the Bible. The film’s director, though, had been active on TikTok for 4 years, so when the 500 tickets for a virtual screening at Doc NYC in November went for sale, they were sold in seconds – leading the organisers to gradually increase them and eventually capping them at 5000. [The film went on to win the audience award: <https://www.docnyc.net/2022-award-winners/>].

It was noted that even films by established directors, such as Ken Loach, benefit from social media campaigns. *I Daniel Blake*, for example, was marketed very locally (over 700 community screenings, including in church halls) and via social media. The promotion of this film was very suited to the socially conscious content of the film and demonstrates how important is to release films with a social agenda in an appropriate, tailor-made way.

On a less positive note, it was pointed out that many independent (and studio) films, such as Steven Spielberg’s *The Fabelmans*, have

been losing money on theatrical release, and that this shows a problem in the theatrical market.

It was recognised that new technologies are often feared to be (and often are) cannibalistic. This is what is happening with streaming which has replaced DVDs and, to a certain degree, now cinema going too.

Whether a film is considered a hit or not is a pure ‘numbers’ game and is affected by the mode of its release (in cinemas or online). So for example, *The Fabelmans* was not a box office hit; however, had it been released on Netflix, it may well have been one. *The Dig*, which never made it to cinemas and was only released on Netflix was the 2nd most watched UK production in UK (by 88 million or so) and was therefore deemed as a major success.

In defence of cinemas, the argument was made that there will always be people who want to go to cinemas, as it is a different experience (going out etc) than watching at home.

The (lack of) transparency of the streaming platforms in terms of audience reach was discussed as problem, especially for producers. The metric for profitability for Netflix creates a disconnect between value to audience and value to producer. But the introduction of AVOD by streamers will lead to more transparency for content creators (they will become more like cable), which is welcome.

The economics of manufacturing films has changed with the streamers. One of the problems with the streamers’ financing model is overproduction of films: there are more films made than there should. This leads to resources becoming more thinly spread and therefore to capacity problems. Popular crew and actors are overpaid, while insufficiently trained people move into positions that they cannot do. All this causes problems.

Before streamers ‘patch funding’ was standard, i.e., a mix of public funding with a bit of private. In some territories, distributors can sell to streamers films produced in such a way, but not everywhere. This co-production funding model still works to a certain degree, but it depends on the kind of film produced. It is much easier if the film is attached to some of ‘franchise’, a brand, or a ‘big name’ (e.g., a famous director). The problem with this traditional funding model is that MGs (minimum guarantees) from distributors and sales agents are falling, so the spread of the costs for producers in the co-production model cannot be easily sustained.

A new role for cinemas is as marketing tools for streamers. For example, some cinemas in the UK showed *The Lord of the Rings: The Rings of Power* (after Amazon’s request) and their screenings sold out very quickly.

In response to the above, comments were made (by different participants) about the fact that the UK has become an offshore production site for streamers; about the importance of having a vibrant UK production industry, otherwise there will be in decline; and about the fact that what is needed is business (or industry) policy not arts policy for the production sector.

The question of IP (intellectual property) rights for independent producers was then raised, leading to a sustained discussion about policy. It was pointed out that when IP is lost, producers lack any additional revenue for success. On the other hand, if you over legislate and insist on IP share for producer, there is a high risk that the big players will not produce that content. In Sweden, for example, film is considered culture and public funding is used to break market distortion. But the trade side of the government – the industrial policy – has now moved to incentives. Countries that have a strong arts policy have been very protectionist.

What if there was a model to incentivise creatives and business to work together? The UK film *Aftersun*, for example, worked very well, especially in cinemas, showing again that some independent content is financially successful too. The BFI has been exploring the possibility of combining cultural and economic incentives. It was stressed here that the definition of ‘market failure’ needs to be clarified, and some kind of scale of what constitutes ‘failure’ established. This should consider the ‘incubator effect’, as, for example, some develop talent, but others reap the benefits. The market alone cannot correct such imbalances.

There is also the problem of the ‘failure of search’ for independents – in other words, audiences cannot easily find independent films to watch. The opposite is the case when Netflix throws something to your screen; this has very high value. Independents cannot compete on search. Nothing can be done about this apart from public funding to restore some kind of balance.

Reference was made to a report commissioned by the BFI about Independent UK films – but also notes that tax relief is a very blunt instrument (Links to report: <https://www.bfi.org.uk/industry-data-insights/reports/economic-review-uk-independent-film>; Trade Press: <https://www.hollywoodreporter.com/movies/movie-news/u-k-independent-film-sector-set-market-failure-bfi-report-1235182909/>; <https://variety.com/2022/film/global/uk-independent-film-sector-market-failure-bfi-report-1235319711/>).

The report’s recommendations were to:

1. Increase tax relief for independent productions.

2. Extend tax relief to P&A spend for small film and/or UK Independent films.

3. Offer exhibition support (0% VAT for Independent films cinema screenings).

4. Contribution by streamers to UK independent films (voluntary commitment or requirement to make a modest contribution to a pot of funding that they can reclaim for UK filmmaking).

Streamers need European product because the domestic US market is saturated for them; there is still growth in European markets, so they need European product. Countries need to coordinate their response towards streamers. The retention of IP a huge topic in Europe. The question was raised whether resistance to giving up IP is a sign of conservatism or resistance to change. (The situation in Denmark where streamers stopped producing because of lack of agreement on the issue of IP was briefly discussed here).

In UK producers think about making films rather than building businesses. This is probably why in the UK they are less concerned about IP ownership. Many UK producers are mostly service providers now. Should they not bother about IP?

In the USA, collective bargaining is very strong, in contrast to the UK. For this reason, British industry has benefitted, as many US productions were brought here. The UK producers are represented by PACT (Producers Alliance for Cinema and Television), which is a strong organisation, but it mostly effective for television. Film producers have not achieved the same results in terms of negotiating IP returns. Also, PACT has made no inroads with the streamers, like it has with PSB.

The question was raised as to what could be expected from the BFI (British Film Institute) in terms of policy. It was pointed out that trade associations deal with the tax credits (the main instrument of government support for the sector), not the BFI. The UK has a very mature relationship with streamers, but one country alone cannot regulate streamers (although France has done so, and has established a high levy from streamers).

Participants agreed that joining different areas together in a cohesive industrial policy rather than the current policy fragmentation would be the best way forward. On their own, the tax credits create distortion in the market. South Korea was mentioned as a good example of a country where such industrial policy has brought very positive results (for example, the film *Parasite*, and the Netflix series *Squid Game*, whose success raised the profile of South Korean content). Audiences do not mind subtitles now – and the success of these

series contributed to it. South Korea went from ‘zero to hero’ because they changed policy – they realised they could make money out of their content.

In business terms, it is crucial to have a product for the modern market, a product the market wants. A problem with the independent sector is that it produces content that people do not know if they want to watch – until they do.

However, it was also noted that market failures are both important and unavoidable. 9 out of 10 box office films are sequels or franchises – which shows how difficult it is to bring unbranded content to the theatrical market. But demographics matter a lot - and streamers look at demographics; they often bring particular actors in certain for this reason. The UK’s independent sector makes films for a slightly older and intellectual demographic (affluent, mature, complex).

The need for a coherent industrial policy for the UK was reemphasised, as well as the fact that tax relief is a blunt instrument. An example of a potentially fruitful industrial policy concerns exhibitors. Exhibitors have to return 20% VAT per ticket; if 5% from this was held and reinvested into new productions, it is very likely that it would be in films that would have the potential to attract audiences. Ultimately the point is for each film to find its own audience; cinemas do not like to separate the Marvel-type films from the small films.

Public funding is traditionally aimed at supporting filmmaking, not reaching audiences. There are discussions among funders about extending the financial support for a film from development to distribution/exhibition – but, unless the overall money pot gets bigger, producers will receive less. From a producer’s perspective, even a bit of money from public funder opens opportunities for other funding. It is however crucial to have sales company and at least one or more distributors attached. For a film to find a market, it needs to have more interested parties and participants. Public funding alone does not help find an audience.

If public funding were directed towards supporting films through to distribution and marketing/promotion, it would probably mean supporting fewer films. Some believe that this would be a good idea.

It was claimed that the business skills of the average independent producer are dire. One of the participants believes that the private sector should be empowered to provide the answers for such lack of business acumen. Some industries or stages in the value chain (for example, film development), is not investable. And the government is not a good investor.

It was counterargued that some public agencies have business development schemes – for example, Creative Scotland.

A discussion followed about original material and development to highlight how risky it is for investment. The point about franchises working much better was repeated, even though it was recognised that each film is a prototype. Financially, supporting the supply (development, production etc) without appreciating the demand is a problem, because, overall, around 2% of films break even. From the perspective of private investors, it is important to invest in the companies that make the product, not in individual films or programmes. In this way, the investors can help shape product that fits the needs of the market and minimise the financial risk.

It is important to bring together streaming and theatrical exhibition, for example to show series episodes in the cinemas. Even established director-brand names cannot deliver without moving with the times in terms of how to reach and appeal to audiences. It was noted that apart from cinema directors directing series for television and streaming, the opposite is also emerging; series directors making films. The film *Fair Play* that premiered in Sundance was mentioned as a first feature by someone who had television background. Despite appreciating such creative mobility, the trend to 3-hour cinema movies that is encouraged by streamers was not seen as positive, and it was pointed out that most producers would not allow for such duration.

Overall, it was agreed that selective public funding is important for maintaining the culture and identity of a territory. Selective funding in the UK, overall, is very low (30 million annually). You need public funding for the underdog – if you are going to fund film that people do not know they want.

Summary of key points:

1. The drop in box office of Independent UK films in cinemas, their low discoverability in streaming platforms, combined with the rise of production costs due to streamers and studios, challenge its economic sustainability. Participants agreed that without some public funding, independent production could not be maintained; even if the private sector would increase investment, it would not do so in early stages (such as development) as there is no chance of capital recoupment – nor would it support non-market-friendly films.

Some argued that fewer independent films should be made, and they should be made to ‘fit’ to audiences’ tastes. Others counter-argued that audiences do not always know what they like until they discover it, so it is not always possible to predict hits.

Many agreed that public support should go in all stages of the value chain, including in marketing and exhibition. In such a case, though, the same amount of public money would have to be spread across

fewer films – unless the pot was increased. This was deemed potentially beneficial as it would increase the profile of those independent films.

Overall, there was a call for a more integrated policy, whereby different policies would be coordinated and function in tandem. This should be an industrial policy that could engage with cultural dimensions too. Tax relief (esp. the recommendation that it should increase for independent films) was considered beneficial but a blunt instrument. There was no anticipation of any major changes in policy under the conservative government.

2. Specific policies mentioned that could be beneficial to developing a sustainable independent sector were (a) reinvestment obligation in independent film production for part of the VAT made from tickets sales by cinemas (the implication was that exhibitors would support independent films with market potential); (b) reinvestment obligations to independent films by streamers – but it was also mentioned that this could have adverse effects [despite the example of France].

3. Despite significant drops in MGs from distributors and sales agents, and the overproduction of content by streamers which has led to salary inflation and capacity issues, the co-production model (which depends on public funding) is still deemed necessary for the production of independent films. Keeping costs low and having some kind of ‘brand’ or ‘franchise’ (like an established director) helps hugely for this model to work. Innovative and flexible marketing strategies that use social media and local campaigns tailored to what the film offers are essential for audience reach. Ultimately, whether an independent film is consumed in cinemas or via streaming is of secondary importance. Similarly, while a lot of the discussion focused on film rather than series, there was a sense that fluidity between the two (in terms of talent and modes of display/exhibition) is a good thing.

4. Cinemas need to adapt to changes by:

- (a) offering a more quality experience with extras (food, drink, nice atmosphere, quality seats, etc);
- (b) being fewer;
- (c) working with established streamers (premiering films and quality series);
- (d) potentially returning to simultaneous releases (of independent films) in cinemas and on platforms.

5. The effects of Brexit were noted with regard to the loss of exhibitors’ subsidy for independent film. Other than this, it was not explicitly discussed. As for the future of the UK as a production centre, there was an understanding that while protecting independent production would help protect the cultural identity of UK content, the reality is

that UK producers are becoming increasingly ‘service’ producers. This was related to the question of IP and the fact that it is not the priority for many producers in the current climate. Co-productions with US partners continue to flourish.

Report compiled by **Lydia Papadimitriou**