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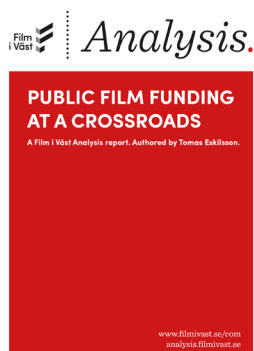
Analysis.

PUBLIC FILM FUNDING AT A CROSSROADS

Appendix: Italy

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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)

ITALY

Introduction

With the ongoing tectonic shifts in the audiovisual landscape, it's worth recalling that by the end of February 2020 Italy was one of the first European countries widely affected by the rapid spread of the novel coronavirus, and to experience a nationwide lockdown with severe restrictions on movement and commerce. This happened right in the middle of an aggressive push from global streaming services, essentially Netflix and Amazon, to boost subscriptions, establish local production hubs and dramatically increase investment in original Italian content. Access to reliable data on this process continues to be a challenge, however in a surprise move Netflix recently declared that they alone between 2017 and 2020 had already spent over 300 million euro in Italy, according to them a 50% increase of their original investment goal for the period. Amazon is now believed to closely match Netflix level of investment, with Disney+ quickly gaining ground on the two market leaders and stepping up their production activities in Italy.

Simultaneously, in a rapid and extraordinary response to the crisis provoked by the pandemic, the Italian government drastically increased funding of existing schemes and implemented a series of new, important support measures across the audiovisual sector, including a 130-million-euro emergency fund for 2020, and an ambitious project to relaunch Cinecittà Studios, with the help of 300 million euro from the Recovery Fund. Perhaps most important though - the already rather successful and popular system of fiscal incentives for the Italian audiovisual sector was further increased to a max 40% tax credit on production costs, making them among the more generous tax incentives in Europe, and leading a few producers to even anticipate the shooting on certain projects, rather than postponing them, as they feared this measure was only temporary (the tax credit increase has



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since then been extended). The total value of audiovisual production for 2021 in Italy, across the sector, has been estimated to ca 1,5 billion euro, with the lion share, more than 700 million, being spent on TV drama and series.

This together has led to a situation where, despite temporary stops in production and increased costs due to covid-protocol, as well as much uncertainty around release schedules and the reopening of cinemas, the industry throughout the pandemic has been operating at full capacity. The boom in production has even created a dramatic shortage of skilled crew and talents in some professional categories further inflating production costs and leading some observers, including respondents in this study, to view the current Italian market for audiovisual production as somewhat overheated.

The opportunities provided, as well as the many threats and challenges the local film industry is now facing by the pandemic as well as the arrival of new powerful stakeholders, has recently been further highlighted in the Italian legislative process. In March 2021 a group of senators introduced a draft bill on “Regulations for the recognition and support of independent film and audiovisual business entities”, that among other provisions aims to address the very definition of “independent producer” and those accompanying definitions that directly relate to the support and promotion of Italian and European audiovisual works. It’s been welcomed as an innovative and forward-looking bill firmly rooted in the EU’s principles of cultural exception and cultural diversity, and the idea of the independent producer as central to guaranteeing this plurality of voices and narratives in the context of European audiovisual content production. It’s also a bill that recognizes that the old definitions and *modus operandi* are no longer sufficient to meet future challenges.

The other more contested issue on the legislative agenda has been the transposition of the AVMS directive, and more specifically article 13 regarding financing requirements on European content. In particular Netflix Italia has publicly been voicing strong criticism, in an orchestrated media-campaign, at the proposed quotas that would in its original form see obligations on reinvestment in Italian and European content jump from 12,5% to 25% for OTT-services on their local revenues. They are claiming unfair treatment, lack of dialogue with relevant parties, and suggesting that such a quota, without a proper impact assessment, could lead to more capacity issues and further inflation of production costs with detrimental effects on the entire AV sector.

Main conclusions

By and large the feedback and reflections on the changing landscape for the audiovisual industry provided by Italian respondents across the sector would seem to confirm the main findings from the pilot study in the Nordic region, but with a few interesting discrepancies.

As with the Nordic respondents there's a widespread consensus that the pandemic has only accelerated and more clearly exposed a process of radical, digital transformation of the entire ecosystem that was already under way. However, to what extent this is an inevitable, consumer & technology-led evolution, or the result of a few global players with vast sums at their disposal, operating on a distorted market and relying on outdated regulations, is still very much up to debate. Most of the Italian respondents also believe in a continued growth in the production of local content for another few years, most significantly of series, TV drama and unscripted, but that a likely stagnation in consumer demand as well as consolidation in the streaming sector will slow down further expansion of the market beyond 2025. A minority of respondents believe we're experiencing a content bubble that sooner or later must burst, or at least deflate, with potentially dramatic domino effects across the entire value chain.

Italian film policy, in general terms and especially considering recent reinforced public funding, is strongly supported in all areas of the industry. It's seen to be playing an essential role in the protection of cultural identity and heritage, in providing democratic access to resources, in promoting quality, diversity and the emergence of new original talents as well as a fundamental safeguard for the long-term survival of cinemas and a future theatrical window for local films. Virtually no respondent believe that market forces alone would be able to provide a satisfying level of pluralism in artistic expressions, themes and narratives to adequately reflect Italian society and culture.

Somewhat in contrast to the Nordic survey there's furthermore a relative broad support of national and regional public film organizations and their work in general and the need for public policy and debate to address horizontal perspectives such as gender balance, diversity and on-screen representation. There's also a strong belief, especially among producers, that public support to film will remain at today's level or even increase slightly over the short/medium term. However, this should be seen in the context of a recent and much-noted surge in political support of the Italian audiovisual industry as a strategically important growth sector. To better meet the challenges of a rapidly changing market for audiovisual content, many respondents also point to the need for adequate competences in key functions, more transparency in decision-making processes, and generally a higher degree of

clarity in the way public film agencies are communicating objectives and priorities.

A vast majority of the respondents agree public funding should not be made available to global streaming-services, on the premises and conditions they are operating now, but there's also an open issue to what extent global streamers already manage to work the system of Italian fiscal incentives on audiovisual production to their advantage. And although most respondents recognize the need for a new approach to windowing and media chronology, allowing for more flexibility and experimentation, the same majority also believe that the focus for selective support schemes should remain on feature films of highest artistic standard intended for theatrical release.

A surprisingly large number of respondents, across all sectors, also pointed to media literacy as an important subject much overlooked in Italy, not only in the context of education and to promote awareness of media influence among children and youth in times of toxic disinformation, but also as a critical tool for the fostering of a more thriving film culture among a younger generation and possibly a key element for the long-term survival of cinemas.

Producers

Despite strong concerns around the shifting balance of power, future earnings on IP's developed and a mutation of the role of independent producer, most production companies, regardless of size and profile, welcome the opportunities provided by the new players and emerging formats, and have a largely positive outlook on the changing landscape and the current production boom. However:

- Small and micro sized companies take a slightly more pessimistic view as they expect to remain much dependent on public selective support and international partners as well as traditional broadcasters in their financing models. They also find it increasingly difficult to secure theatrical distribution, together with uncertainties around the traditional distribution model post-pandemic and the future of cinemas. Very few are against the idea of collaborating more with global streamers, but not all expect to gain access or to benefit much from the dramatic growth in production. On the contrary, they fear that further inflation of production costs and capacity issues might derail some of their own, traditionally financed projects.

- To the extent small/medium-sized companies produce for global streamers they lament the conditions imposed and the lack of any kind of leverage in the negotiations. And even though they consider ownership of rights important and central to the idea of independently

produced European content, many admit to already de facto be operating on a model more based on margins and fees, as rights exploitation provide diminishing returns. Fees and margins however are also rapidly shrinking.

- A majority of smaller producers recognize the need to develop more flexible financing and production models, branch out to new sectors and formats, extend collaborations with colleagues in clusters or even merge with other companies for greater collective strength and leverage. They strongly suspect that an exclusive focus on feature films for theatrical release will no longer be a sustainable operating strategy beyond 2025.

- Key to survival, and to possibly thrive, will be unique and exclusive access to talents and stories, the scouting and cultivation of new, original voices in cinema, and the ability to strike deals that provides a stake in any future success of talents and IPs developed.

- There's a consensus that future film policy must provide stronger protection of local independent producers and their interest, especially in relation to global streamers. New schemes and regulations designed to improve profitability are seen as important, to render them strategically independent and in a position to reinvest in new projects and talents according to editorial lines rather than convenience.

- Most respondents, across the spectrum, agree selective funding will continue to play a fundamental role for smaller companies, but it's also a common impression that resources are dispersed on too many projects, and that the current system of commissions needs to be reformed. Most agree that a general policy of more money to less projects would likely benefit the industry long-term, if simultaneously increased levels of development funding is made available to a larger variety of projects.

- Market leading production companies with strong owners are generally more confident about the future. They believe in continued growth in demand/production over the next 2-3 years, mainly in TV drama/series, but see lack of skilled crew in certain professional categories as a potential threat to further expansion of their businesses and operations short term. They agree that there will likely be a continued drift towards volume/margin as operating model but insist that the margins and fees allowed by the streamers need to increase to compensate for the rights they take.

- Most respondents continue to have great faith in cinemas and the theatrical experience also for the near future, pointing to the fact that right before the pandemic hit, Italian cinemas were experiencing a boom. However, most of them also agree that viewing habits and consumer patterns have irrevocably changed and that cinemas need

to redefine their traditionally privileged role and be more flexible in general as regards to windows and exclusivity.

- The tendency of M&A is expected to continue and is viewed by large-sized producers as essentially positive, if ownership remains largely European and with owners clearly invested in scripted content. It's believed that this process of market consolidation could ultimately benefit the entire sector, lead to an improved position to negotiate better terms with the global streamers, to keep the creative lead on projects, and the possibility to hold on to their IP's. Smaller producers however see a risk that only a very limited group of likeminded companies, with similarities in corporate culture, will in the end be able to meet the specific standards and demands of the streamers.

- In contrast to their Nordic colleagues, most Italian producers suggest that there's already a clear tendency of mainstream alignment in the content commissioned by the global streamers in Italy. It's a common opinion that the streamers appears less and less inclined to take risks on new, emerging talents and/or artistically more challenging projects.

Distributors

- Italian distributors are generally less optimistic about the future economic/cultural relevance of cinemas than producers but insist on the importance of continuity in theatrical releases of high quality, popular product across genres and targets, in order to cultivate, or at least not to break, the very fragile relation with the local cinema audience.

- Recent data on the reopening of cinemas in Italy are worrying and suggest that, beyond pandemic-related caution in the general public, some more profound changes in the habits of cinema going audience seems to be happening. This is cause for great concern.

- Most respondents in this group agree that theatrical distribution as a core activity will no longer be a viable business model on its own in the medium/long term but will continue to play an important role in adding value to certain films. All-right deals and a much closer collaboration with the platforms, both local and global, will be strategically important.

- Some distributors are considering extending partnerships, or opening brand-new operations, in neighbouring countries, aiming for multi-territory deals on key titles, to offset risk and to better capitalize on the production boom.

- More important than the relative length of an exclusive theatrical window would be to have a framework of regulations for theatrical

exploitation that's applicable to all operators/titles, in order to achieve equal treatment and a level playing field. The cinema window will need better protection and sound policy if it is to have any chance of bouncing back to pre-pandemic levels. The prevalent view is that a free-for-all, unregulated theatrical market will only create a vicious circle that will ultimately weaken not only the cinema circuit and cinema owners, but the entire ecosystem.

- Further diversification of activities is seen as much needed to remain competitive and already there's a strong focus on production in order to secure content with as many accompanying rights as possible, but more experimentation in release strategies would also help to revitalize the entire sector.

- Several respondents foresee a closer collaboration between distributors, especially in the very delicate phase of relaunching cinema going. The main objective would be to avoid cannibalization and to pool resources, for example on costly promotional campaigns.

- A possible future theatrical window according to some respondents should be no less than 60 days, followed by premium VoD, and after 90 days free for all. But there's also the belief that any regulations probably need to stay local and not European, as the audiovisual industries across Europe are too different between them. For example, the level of protectionism that exist in France is simply not adequate for Italy according to a few respondents.

- Main challenge for distributors in the short term will be how to stabilize a film's relative value when their performance in cinemas is no longer a reliable measure. Flat fees as paid by the platforms is keeping the system afloat but does not provide the incentives needed for a dynamic business.

Cinema

Up until recently there's been a relative strong faith in the future of cinemas in Italy, without minimizing the significant challenges ahead and recognizing the need for new business and operating models to remain relevant in a post-pandemic world. The reasons for optimism were twofold: right before the pandemic hit, Italian cinema admissions were showing a positive trend, and with the crisis the government has publicly declared that a viable, healthy cinema business is of vital importance to the entire sector.

A series of important support measures directly aimed at cinemas were introduced, including support for the construction of new cinemas.

This optimism however has now started to falter somewhat as latest available data from Cinetel (the association monitoring the Italian

box-office) indicate that 500 cinema screens, out of 3600 are yet to reopen, 24 months after they were first closed.

- The most immediate challenge is to bring back the general public to cinemas, with all the remaining protocols on capacity, distancing, masks, green pass etc., to convince them that it's safe space, and with a cinematic offer that despite covid-related hurdles will make the experience fundamentally positive, possibly magic. There are now insistent calls on a massive, nation-wide campaign to this effect.

- Most respondents agree that inevitably less titles will be made available for theatrical release.

- With less mid-level titles from US studios being released in cinemas, some respondents see an opportunity for Italian films with true theatrical/audience potential, but cinemas would benefit more if regulations on an exclusive theatrical window were extended to include all films, based on a French model. This has been the position of Anec, the association of exhibitors, however it would necessitate a new film law.

- Local cinemas have a unique relation with its public, but it's a relation that needs to be integrated and exploited better in future theatrical release models. Some respondents mention the concept of cosy cinema and community building as essential to survival.

- More careful local curation in the programming is needed to re-establish trust and confidence, possibly creating new brands or labels for certain types of programming, targets, genres etc.

- It's a common opinion that many smaller cinemas will need to make themselves available to a greater extent for alternative use, such as gaming events, concerts, live events, festivals etc.

- Some form of redistribution of public resources into new schemes aiming to stimulate demand for the theatrical experience might be necessary according to a few respondents. Others external to the sector point out that any public support to cinemas could soon be perceived as somewhat anachronistic by the general public.

Broadcasters

With global streamers and their rapid expansion stealing much of the attention these days, some respondents called on a deeper reflection on the changing landscape for broadcasters and linear TV, and its implications for independently produced audiovisual content. This is a sector that in Italy is still very much characterized by the outsized role and dominant position of the public broadcaster Rai as the single most important commissioner/producer of Italian film and TV drama, but also the clear tendency of disengagement in film and drama-production by the principal private broadcaster Mediaset that's been noted

over the last few years, due to a steady decline in advertising revenues.

- Inevitably also traditional broadcasters are transforming more and more into platforms on demand, and the appeal of the “brand”, especially that of a public service broadcaster like Rai, will be the principal asset in maintaining and accompanying a loyal, often older audience online, and thus facilitating the transition from linear to non-linear.

- Most respondents recognize the formidable threat to traditional broadcasters, public and private, posed by global OTT-services, but expect Rai to continue over the next five years to play a leading role in the licensing and production of Italian film, documentaries and TV drama. They operate over a large spectrum of budgets and genres but defend vigorously the policy of investing smaller amounts in a vast number of local projects with lower budgets, including many artistically ambitious first and second feature films. “With quantity, quality will follow”

- In the new landscape many believe public service will need to re-focus on their role as a principal defender, or guarantor, of a certain kind of biodiversity in local production; as the principal risk-taker, alongside selective funds, on young, untested talents, on unique new ways of expressions, on difficult, controversial themes and daring narratives. But they are also occasionally collaborating with streamers on more mainstream content for a greater mix, and to remain relevant for a wider audience.

- However, a few respondents also expressed concerns regarding the future relative value of a Free TV window as film and TV drama is expected to occupy less and less programming space in linear broadcasting, to the benefit of news, sports and other live events.

OTT/Streamers

There’s a general belief across all groups of respondents that the pandemic-charged proliferation of OTT-services, in Italy as well as globally, has irrevocably disrupted the traditional content distribution landscape. However, opinions diverge just as much on the possible long-term consequences for Italian film and TV drama and the need for more robust, far-reaching regulations of the sector. The recent controversy regarding the implementation of the AVMS directive in Italy and the question of investment obligations on Italian and European content is a case in point, with Netflix in September 2021 taking a very strong and public position against the proposed 25% quota, and by extension against the Italian government. An interesting aspect on this was also raised by a few respondents external to the OTT sector: with an obligation to reinvest local revenues in Italian/European content, what if a deep-pocket global streamer instead decide to try

transforming a potential threat into an opportunity, by temporarily stepping up the game and invest considerably more than required, further increasing their local market shares, claim talents and from a position of dominance be able to impose their conditions and business model more effectively?

Netflix, Amazon and Disney+ are now together controlling close to 75% of the Italian SVOD market. The remaining share is mainly divided between Telco and Pay TV controlled streaming services, together with a host of smaller local and niche platforms. A few respondents in fact point to the tendency of Telco and Pay TV operators to bundle OTT services in offers for their clients as a possible way for the smaller niche platforms to gain visibility and subscribers. Others are still holding out hope for the launch of a European super platform, capable of going head-to-head with the US giants.

Some respondents stress that quality cinema needs protection also online, and that it's essential not to let the big streamers condition the supply side completely. They point to smaller, local platforms that not only made it possible for Italian film festivals to go online during the pandemic, but how they could extend their reach and, at least temporarily, were able to compete directly with the global platforms.

Public film funders

In large part the Italian respondents in this group share the views of those in the Nordic pilot-survey, but with a few, distinct differences. Platform neutrality is not yet a central concept in terms of policymaking, and as far as selective support schemes concerns, TV drama, documentaries and feature films intended for cinema release is expected to remain the focus, at least until 2025, with virtually all respondents. A clear majority is also expressing strong support for measures aimed at protecting the theatrical window and experience. Many in fact expect window regulations to be a hotly contested topic over the next few years, together with emerging new definitions of “independent producer”, and indeed of film itself.

Italian fund representatives on both regional and national level are somewhat more optimistic about a possible slight increase in public funding for film over the next few years than their Nordic colleagues, even though less so than Italian producers. This tendency, however, must be seen in the context of robust consensus and recent successful political lobbying on behalf of the industry.

The cultural mandate is generally regarded as equally important to their funding activities as the economic, and audiovisual production as an expression of cultural identity is seen as irreplaceable and cen-

tral to social cohesion. However, one of the main challenges for public funds in the short/medium term, as identified by some respondents, will in fact be to re-define the relation and strike the right balance between these two sometimes conflicting mandates.

Another significant challenge according to several respondents will be to find a way, most likely through a combination of dialogue, incentives and regulations, to make global streamers investment in Italian content more virtuous, in order to benefit a greater variety of independent producers, and by extension the local industry. Most respondents in this category recognize that with more fluidity between genres and formats, also financing and recoupment models are becoming more flexible and ad hoc, and it's of critical importance that the funds learn how to adapt and respond to this new reality.

Both national and regional funds are committed to support and cultivate small and micro enterprises, but beyond the pandemic there must be a renewed focus on the elements that allow those companies (and talents) to grow. To distinguish better between support measures that boost the industry and avoid the fragmentation of resources in schemes that tend to multiply going forward.

There's a continued strong belief among fund representatives that one of the best ways for independent Italian production to strengthen its market position, is through further increased international collaboration and co-productions on the one hand, and a far greater attention to relevance, marketability and audience potential on the other. Training and talent scouting will continue to be of high priority for regional funds, and targeted selective funding, including development funding, as well as funding for shorts, documentaries and web-formats, is seen as a fundamental tool to this effect. There's moreover a wide consensus among respondents regarding the need to continue incentivizing sustainability aspects/green production, as these are expected to steadily increase in importance, as will horizontal perspectives.

Most respondents recognize the need to simplify access to state and regional resources, and to generally provide more transparency and facilitate dialogue with the industry.

In theory several fund representatives would support a policy of more funding to fewer projects but recognize that it's a politically somewhat problematic position. There's also the odd voice that openly speculate if Italy should instead spend less public funds in order to best support the industry long term, since that would force all operators and stakeholders to make certain hard but necessary strategic choices, that in the end would benefit the entire ecosystem.

A few words on the gaming sector

Although more comprehensively described and analyzed in the main report, and somewhat beyond the scope of the interviews conducted for this sub-report, many respondents nevertheless noted a steady increase in cross-sectorial activity, strategic partnerships and collaborations between the film and gaming industries in Italy. This tendency is expected to continue, and is perceived as largely positive, both in the area of creative exchange and economic impact, as games has come to define many emerging entertainment trends, including the development of new storytelling tools and virtual production techniques. This also seems to be the view of the Italian government that through MISE, The Ministry for Economic Development, recently launched a new fund dedicated to videogames, aptly titled “First Playable Fund”. This came as The Ministry of Culture (MiC) extended their fiscal incentives for film and TV to also include the gaming sector, recognizing a 25% tax credit on the development costs of videogames. However, for the first year only 5 million euro has been set aside to fund the new scheme, which observers are claiming is far from sufficient for any real, transformative impact on the sector.

Notes to the report

35 in-depths interviews with a wide range of Italian top industry professionals were conducted for this study, primarily over zoom, between May and September 2021. Out of these were 11 production companies, 10 national and regional film agencies, 6 distribution and sales companies, and the remaining 8 evenly split between cinema owners, broadcasters, streaming services and market events. The response rate was estimated to around 60%.

Rickard Olsson

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