

# Georgian Film Sector Mapping

## Georgian National Film Centre

Final Report  
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# 1. Purpose of the research

This is the Final Report of the mapping study of the film sector in Georgia. The purpose of the research is to provide a robust evidence base to guide and support the industry, Georgian National Film Center (GNFC), and other key stakeholders. It is the most detailed and thorough report yet undertaken on the Georgian film sector, that builds on existing information with both new primary and secondary data. The research enhances the understanding of the economic potential of the film and wider creative industries in Georgia, as well as identifying the sector's strengths and weaknesses and what this means for policy support going forward.

A secondary aim of the mapping study has been to build the capacity of GNFC to conduct research and intelligence gathering exercises in the future as part of its overall mission. For this reason, GNFC have been assisted in the mapping research by BOP Consulting, an international consultancy company with a specialization in research on the film and creative industries.

GNFC would like to thank Ministry of Culture and Monuments Protections of Georgia and The British Council for contributing financial assistance to the mapping study.

## 2. Methodology

This chapter of the report describes the methodology GNFC and BOP used to conduct the Georgian film sector mapping study.

### 2.1 Training and set-up

The first phase was to scope and design the research. This was implemented through a five-day workshop led by BOP representatives Josephine Burns and Richard Naylor in Georgia. The workshop was for GNFC representatives and also included meetings with the key sector players and main stakeholders. The aim of the workshop was to identify the mapping strategy with the GNFC team, to create awareness among the key stakeholders and sector players, as well as elaborate study techniques. This involved reviewing available datasets and assessing the options for how best to undertake the collection of data, including the design of a questionnaire, assessing the best available survey medium and the processes for analysis of results.

Apart from the internal workshop to design the mapping study, the first phase also involved meetings with key stakeholders, involving representatives of the Ministry of Culture and Monuments Protection, the Ministry of Economy and Sustainable Development, Head of National Tourism Agency, Head of the Culture Committee of the Parliament of Georgia, as well as key sector players (producers, film directors).

### 2.2 Assessment of existing data

GNFC and BOP analysed the available information provided through the National Statistics Agency (NSA), and from the previous research studies commissioned by GNFC from ACT Research, a marketing research company. In particular, ACT Research undertook a technical personnel study for GNFC in April 2010. The study encompassed 182 respondents from the Georgian film industry. The NSA data and the results of this study are incorporated below, in sections 4 and 8 respectively.

In order for the mapping study to obtain greater detail and comprehensiveness, the research team assessed that the existing data needed to be supplemented with additional research. This was undertaken in the form of

- surveying key companies
- undertaking qualitative research through a focus group conducted with the key sector players; and
- generating comparative international case studies of key supporting interventions in other countries.

### 2.3 Database and Survey

GNFC's database has records of twenty two film production companies that are currently active in Georgia. Nineteen of these companies responded to the survey, a response rate of over 80%, meaning that the information gleaned from the survey is closer to a census of the overall market than to a normal sample survey.

The survey covered questions on financial data, markets and sales, expenditures, shooting areas, directions of the co-production/international productions, financial trends, digital technologies, financial management and company development, and barriers to growth.

The survey was tested and piloted, before going live in June 2011. GNFC had to undertake face-to-face interviews, with data then inputted electronically via an online interface in order to allow for analysis. The field research and survey analysis took two months.

### 2.4 Focus Groups

The survey was also used to recruit companies to participate in a focus group. The focus group was used to discuss the initial findings of the survey and to prioritize the key challenges that exist for the further development of the film sector in Georgia.

## 2.5 Case Studies

A number of international case studies were developed for the report. These were undertaken by BOP and GNFC, to reflect experience relevant to the market situation in Georgia, particularly in terms of policy interventions designed to support the promotion and growth of the film sector in various aspects. Five thematic issues were explored through the case studies: attracting international film productions, developing a digital distribution network, creating a platform for film skills education, and exploring ways on how to improve public film funding opportunities.



# 3. Context

## 3.1 History, tradition, heritage

In November 1896, just months after appearing in Paris, cinema arrived in Georgia. The Georgian audience became familiar with the Lumiere Brothers Cinematographe back in 1896. Photographer David Dighmelov and his son Aleksandre bought the Lumiere projection system and, under the pseudonym of John Morris, toured various parts of Georgia with it in 1900.

Soon cinemas such as the Odeon, Apollo and Moulin Electric appeared in Tbilisi. 1908 is officially considered the year cinema was born in Georgia. Shortly afterwards in 1912, Vasil Amashukeli made his first full-length documentary *Akaki Tsereteli's trip to Racha-Lechkhumi*, which captured the prominent Georgian poet's tour of the north-central Georgian region. In 1916-1918, producer Germane Gogitidze facilitated the production of the first Georgian feature film, *Christine*, by the theatrical director Alexandre Tsutsunava.

After the Soviet takeover in 1921, cinema became a chief method of propaganda, although Georgia continued to produce films based on national literary classics. All fifteen Soviet republics had major film studios and central authorities would assign quotas to each of them. Georgian production output during this period was considerable, with only Russia and Ukraine producing more content. Georgia used to produce 20-25 feature films on average per year and the audience numbered in excess of 20 million admissions per year.

Since the collapse of the Soviet Union, the Georgian cinema sector faced 10-12 years of stagnation during which no films were produced at all. This was due to general economic problems: the transition from a planned economy to a market economy, skills shortages, and outdated infrastructure.

A sector-specific problem related to indigenous production was a lack of entrepreneurial skills on the production side. The Soviet definition of a 'producer' can better be likened to the modern definition

of a 'production manager': someone who would simply control the flow of a centrally-funded film budget. Creative vision and entrepreneurial capability was never high on the agenda. Therefore, in the transition period there were no producers who developed a pro-active approach towards filmmaking.

In recent years Georgian cinema has been witnessing a period of revival. A new generation of filmmakers has emerged, and the directors who stopped making films in the 1990s have returned to the country. Financial support from the state has played a crucial role in this process. Starting in the early 2000s, Georgian cinema has appeared on the international arena and continues to attract the interest of the international film market. Unlike Soviet Georgia, independent Georgia has a much better opportunity to make a name for itself internationally.

The development of a new wave of Georgian filmmaking is a key policy priority of the Ministry of Culture and Monuments Protection of Georgia, and provides funding to the Georgian National Film Centre as the key strategic lead body to develop and support the sector (see section 3.4 below). Recent developments hold the promise that well targeted interventions will lead to positive results (see section 10 below).

## 3.2 Geo-political context

Georgia's location on the Black Sea in the Caucasus region makes it a bridge between Europe and Asia and an important transport-transit hub. However, as a small country in a historically contested region, Georgia's aspiration to freely exercise domestic and foreign policies is challenged by dominant international players.

Georgia's location in wider Caucasian region is interesting. There are historically established good-neighbourly ties between Georgia and Armenia and Azerbaijan. However there is no diplomatic dialogue between Armenia and Azerbaijan. Therefore, South Caucasian cooperation cannot be enhanced multilaterally; only bilateral cooperation exists within the South Caucasus. Given the investment opportunities that exist within Azerbaijan, the film sector there has the potential to become a major co-producing country with Georgia. While

there are already some examples of such cooperation, the prospects still need to be explored further.

Among other neighbours, Turkey is Georgia's leading regional partner. The Georgian National Film Center has certain ties with the Turkish public film institutions. Yet the cooperation in terms of Georgian Turkish co-productions has not yet been explored to any significant extent. The possibility for co-productions with Turkey is also influenced by the big difference in the size, output and political priorities of the two countries. Therefore, while Turkey has the potential to become a strong partner for Georgia (e.g. the shared territorial border should be an asset in terms of transporting film equipment and facilities to Georgia), this is not the case in the film sector at present.

Diplomatic relations have been cut between Russia and Georgia following Russia's military incursion into Georgia in August 2008. Under these circumstances, there is limited scope for implementing cultural relations. Nevertheless, the cultural connection between Georgia and Russia is still strong. This is rooted in the historic links between the two countries and in the strong consumption of Georgian culture both within the old Soviet Union and the modern Russia. There is also a will to cooperate between the film representatives of the two countries. It is even implemented in a form of unofficial co-productions between the two countries. However, prospects for such cooperation are (and will be) heavily influenced by foreign policies and political developments in the region. Should existing problems be resolved over the longer term, Russia could be a key market for Georgian films and the industry could raise financial support from Russia.

In recent years Georgia has deepened trade and economic partnerships with the Arab States of the Persian Gulf region, particularly in terms of attracting investment. It is a part of GNFC's strategic plan to approach the film institutions of the respective states (particularly the Abu Dhabi and Dubai Film Festivals) to explore opportunities for positioning Georgian films in the context of their interests.

In Georgia's foreign strategy Europe is the major space where it has diverse interests considering its geographic location, economic intentions, and social and cultural ties. Culturally and politically, Georgia fully shares European values. In the wider cultural context and within

film specifically, Europe is the natural environment from which Georgia was separated from for centuries, but now has the chance to re-integrate.

Consequently, Europe is considered to be a natural territory for implementing co-productions. Cooperation with the Central and Eastern European film sectors is obvious and is becoming more frequent and deeper: the presence of Georgian films is increasing in European Festivals, and European expertise has been brought to the Georgia film sector via training programmes, such as MINI EAVE Georgia. The biggest achievement to-date in this re-integration process has been Georgia's accession to the Council of Europe's Film Support Fund – EURIMAGES. The latter opens doors not only to strong film cooperation between Georgia and other European member states, but also is a step toward Georgia's integration with the European Union. Should this be achieved, Georgia would unlock access to the European Commission's MEDIA PROGRAMME. This would be an important step forward in Georgian cultural policy, particularly for strengthening the Georgian audio-visual sector, together with advancing educational programmes, festivals, international distribution, etc.

### 3.3 Film, the creative industries and economic development

The film industry is part of a wider audio-visual sector – most obviously through producing television programmes, making commercials, and with some actors, writers and sound editors and engineers also working in radio. But the film workforce also extends beyond even the audio-visual sector. They are in demand to make music videos, increasingly work with high end video games companies in terms of story development, scripting and motion capture; as well as the traditional crossover in craft disciplines (set design and build, lighting, rigging, etc) with work in the theatre, music and events industries. As this brief summary implies film, then, sits at the heart of a wider group of creative industries, and these have grown dramatically over the last twenty years. As such, they have increasingly come to the attention of governments and policymakers for the contribution that they make to economic development, in addition to their cultural and social functions.



This process was kick-started in 1998, when the UK's Department for Culture, Media and Sport (DCMS) published the first Creative Industries Mapping Document. This was the first time that a major western economy had made an argument for bringing together a set of activities that:

“ have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property.

The DCMS classified these industries to be: Advertising, Architecture, Arts and antiques; Crafts; Design; Designer Fashion; Film, video and photography; Software, computer games and electronic publishing; Music and the Visual and Performing arts; Publishing; Television; Radio. In the UK, the creative industries currently account for approximately 7% of the country's GDP and employ over one million people.

The value of the creative industries is not just restricted to their own sector. First, there are positive economic 'spillovers' into areas like tourism, events, and heritage. Second, creative workers are in demand across the economy. Aesthetic design inputs permeate all of the world's most in-demand consumer goods, whether these are cars, running shoes or mobile phones and computers. Finally, creative workers and organisations help with place making – helping to give, image, profile and identity to cities and regions thereby helping to attract mobile investment and talent.

In documenting the size and scale of the creative industries, the Mapping Document proved to be very influential. In the UK it was repeated again in 2002 and since 2003 the Creative Industries Estimates (separate statistics on the size, scale and growth of the sector) have been published annually. Internationally the Mapping Document influenced governments and policymakers in places as diverse as Hong Kong, Columbia, Australia and Sweden to investigate their own creative industries. In each case the definition was adapted to fit local circumstances, but always around a core set of creative industries, of which film is one.

In 2006, the European Commission published the first EU-wide study of the creative industries, which found that at least 5.8 million people worked in the sector in 2004, equivalent to 3.1% of the total working population in Europe. Although the Commission's study came almost a decade after the UK's, the creative industries are becoming increasingly important within Commission policy. In 2010 a Green Paper was published that looks to set the future direction of EU-policy making in this area: Unlocking the Potential of the Cultural and Creative Industries. An indication of this future direction is provided by the European Creative Industries Alliance, a 100 million EURO public and private initiative, led by the Innovation Unit of the Directorate General Enterprise and Industry, which will support projects and test beds that develop both innovative creative industry products and services as well as the links between the creative industries and other sectors of the economy.

Recently it has become clear that the phenomenon of the creative industries is not confined simply to western and developed economies. In 2010, UNCTAD published their Creative Economy report which showed that globally the export of creative goods & services reached \$592bn in 2008 – double the figure in 2002 – and this had been achieved against the backdrop of an overall contraction in international trade of 12% caused by the global financial crisis. Further, that fully 43% of all trade in creative goods & services was accounted for by the global south, which experienced an annual growth rate of 13.5 % between 2002-2008.

The mapping study of Georgia's film industry is also at the same time the first investigation of the country's creative industries, and trials a methodology that could be used to better understand the wider economic potential and development needs of the creative industries in Georgia.

# 4. Structure of the film industry in Georgia

## 4.1 Wider audio-visual sector

GNFC is dedicated to supporting the film industry in Georgia. As in other countries' film policy, the definition of 'film' in this case refers to audio-visual content that is, in the main, seeking a theatrical cinema release, both at home and abroad.

As noted above, film sits within a broader audio-visual sector and in reality, the boundaries between film and other elements of the audio-visual sector are often permeable. While some producers of corporate videos for instance are solely dedicated to this corporate market, others are engaged in this work as part of a portfolio career that may also include producing music promos and adverts, with an ultimate aim to make theatrical features. Similarly, broadcast television has long been a customer market for films, once they have been released at the cinema, but they can also be important commissioners and funders of new productions. Lastly, there are supporting industries to the audio-visual sector that, for instance, produce the capital goods used in the sector, such as the manufacture of film and TV cameras, sound recording devices, editing and mixing desks, and transmission equipment in the case of broadcasting.

This report will concentrate on GNFC's core film constituency, but the early part of the report also contains some National Statistics Agency data on the wider film and video industry, and the related broadcasting sector.

## 4.2 Film value chain

The value chain is the set of activities involved in the production of a film. The film (the product) moves through each stage in the chain in a sequential order, and at each stage the product gains some value. In film, the value chain is comprised of the following activities:

- Development – development of script, market research, funding, etc.
- Production
- Post production
- Distribution, Sales and Exhibition

As a small industry that suffered a serious decline in the immediate post-Soviet era, the Georgian film industry is under developed in several elements of the value chain, particularly in terms of development (project work, collaboration), post-production and Exhibition/Distribution. Indeed, of the companies that answered the survey (which represents over 80% of the industry), all of them are engaged in production activities and 72% also undertake some post production activities.

Looking in more detail, companies offering post-production services state that this includes voice mastering (79%), editing (71%), colour correction (64%) and visual effects (57%). However, the services provided are often not yet to the professional standard required for films seeking theatrical release. In terms of production services and equipment, all companies have a grip, 78% provide lighting, two thirds cameras (67%) and just under half have hand carts (44%). One of the companies specialises in the creation of innovative accessories for film cameras. These include: flying camera, body camera, and revolving base camera – the company's products are used extensively across the Georgian audio-visual sector.

## 4.3 Number and size of businesses

As the Georgian film sector is dominated by production companies, it has a distinctive industrial structure that is unlike most other industries (but is common to the film production sector in almost all countries in the world). This structure consists of small production companies that are responsible for the development of films. The companies then hire large numbers of freelance technical and artistic crew members when films go into production, and buy post production services (that may or not be provided by freelancers) after shooting. The importance of

freelance labour within the film production and post production sector therefore needs to be remembered when looking purely at the number and size of businesses that operate in the sector.

The National Statistics Agency data on the number of businesses below shows that, according to their records, there were 77 film and video production companies operating in Georgia in 2009. However, the classification used by the NSA is a wider one than that used by GNFC as it also includes companies that are purely engaged in audio-visual activities which are never designed for a theatrical release, such as corporate videos and DVDs. It also may include companies that are registered as production companies but that are unable to find work in this market. As stated earlier, as GNFC works with all of the active film production companies oriented to producing products for theatrical release, the actual number of these such companies in Georgia is much smaller: 22 (of which 19 responded to the survey).

Figure 1. Number of businesses, turnover, and size of business in the audio-visual sector in Georgia, 2009

	Activities related to film and video (NAICS 92.1)	Activities related to Radio and TV (NAICS 92.2)	Other visual- entertainment activities (NAICS 92.3)
Number of businesses	77	72	103
Turnover (Million GEL)	7,0	69,1	11,1
Average number of employees	0,3	3,3	6,0

Source: National Statistics Agency of Georgia (2011)

Figure 2 below presents data on the supporting capital goods for the audio-visual industries.

Figure 2. Number of businesses, turnover and employment for the manufacture of capital goods for the audio-visual industries in Georgia, 2009

	Business size (000 GEL)	Turnover (000 GEL)	No. of employment (people)
Manufacture of equipment for Film, TV, Radio & communication	1077,1	1077,1	38

Source: National Statistics Agency of Georgia (2011)

### Type of companies

By far the largest component of the film organisations in the survey is the 84% that are private businesses; there are two non-governmental organizations and 1 joint-stock company – in which the State has a share.

## 4.4 Employment

As the previous section implies, the number of people that work in the sector as employees within production companies is modest. But this does not account for all of the employment within the sector. To produce an estimate of the full size of the film workforce requires the number of freelancers to also be taken into account, as well as those working in cinema exhibition.

Across the film companies that were surveyed, there were 157 full-time employees. These companies also employ a further 55 part-time staff. Assuming that 1 part-time employee equals 0.5 of a full-time employee means that there are 185 Full-time Equivalent employees (FTEs) working within companies in the production sector.

GNFC's database has records of a further 343 individual freelancers that work across the industry. The survey asked companies how many days, on average, were freelancers contracted for and the average was 118 days. This equates to a further 257 FTEs working on

a freelance basis in the film sector. Lastly, across the country's small cinema exhibition sub-sector, there are a further 300 FTEs. This means that, in total, combined employment in Georgia's film sector in 2011 amounts to 741 FTEs.

The survey also looked at how employment in the sector has changed over the previous 12 months. As chart below demonstrates, employment within production companies is relatively volatile within any given year. That is, employment was only stable for a minority of companies (32%). Instead, most companies either grew or shrank their staff over the 12 month period. This is unsurprising as employment trends are driven by where companies are in terms of the commissioning and producing cycle. So, although 42% of the businesses reported that they had increased employment (most only by 'a little'), 26% had decreased employment. However, the overall balance across the sector – that is, those companies that increased employment minus those that decreased employment - was positive, at 16%.

Figure 3. Trends in employment in film production companies in Georgia over the last 12 months, 2010/11

Change	Percent
Increased a great deal	5,3%
Increased a little	36,8%
Stayed the same	31,6%
Decreased a little	5,3%
Decreased a great deal	21,1%

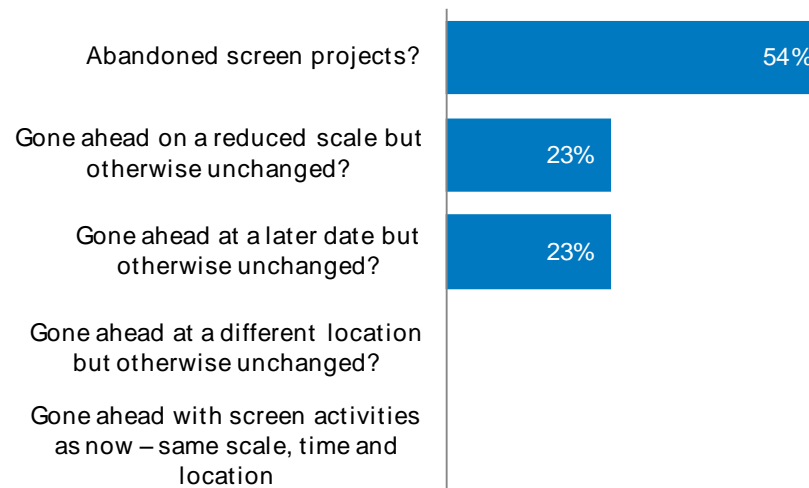
Source: GNFC (2011)

## 5. Financial trends and growth

Looking at the economic value of the film sector in Georgia, the latest figures provided by the NSA estimated that turnover for the film and video production sector was 7,000,000 GEL in 2009. From the survey, the turnover for the production sector in 2010 was 7,030,983 GEL. This strongly suggests that, although the wider film and video production sector in Georgia is larger than the set of companies that work with GNFC, it is this smaller set of companies that are overwhelmingly the most economically active and valuable. The estimated turnover for the cinema exhibition sector in 2010 was 3,680,000 GEL. Therefore, the combined turnover for the film industry in Georgia in 2010 is an estimated 10,987,500 GEL.<sup>1</sup>

The turnover of the production companies comprises three elements: sales of goods and services to the audio-visual industries, which accounted for the largest element (45%), public sector financial assistance received in respect of filmmaking (30%), and other revenues generated outside of the audio-visual sector (25%). Although public sector investment accounts for less than one third of the total turnover of the sector, its role is still crucial in the viability of film projects in Georgia. Figure 4 below shows the responses to the question as to what would have happened 'in the absence of public subsidies'. The results show that the 'additionality' of public sector assistance in the Georgian film sector is high. None of the companies chose the first two response categories that indicate that their activities would have largely been affected. Rather, over half of the companies state that they would abandon their screen activities without the public sector's financial assistance.

Figure 4. What would film production companies have done in the absence of public subsidies? 2010/11



Source: GNFC (2011)

As Figure 5 below shows, financial trends were negative for companies in the survey compared with 2009/10. Production companies' turnovers were down an average of 11.4%, though as all cost items decreased at a faster rate, companies' profits were not hit quite as hard, with an average decline of 9.8%. By another measure, a balance of 7% of the production companies experienced declining profits over the last 12 months.<sup>2</sup>

<sup>1</sup> Due to disclosure issues, the precise turnover figure is not known. Therefore the turnover figure for exhibition has been estimated via the average ticket price (4 EUR) multiplied by the total number of admissions (500,000). As no ancillary revenue streams are included in these figures (e.g. revenues from food and drink concessions), this represents a major under estimate of the total turnover for the cinema exhibition sector.

<sup>2</sup> A balance is simply the numbers of companies reported that their profits has increased minus those reporting a decrease.

Figure 5. Financial trends in film production companies in Georgia over the last twelve months, 2010/11

	Average % change
Turnover	-11.41%
Staff costs	-13.28%
Property costs	-15.31%
Other Operating costs	-15.47%
Profit	-9.82%

Source: GNFC (2011)

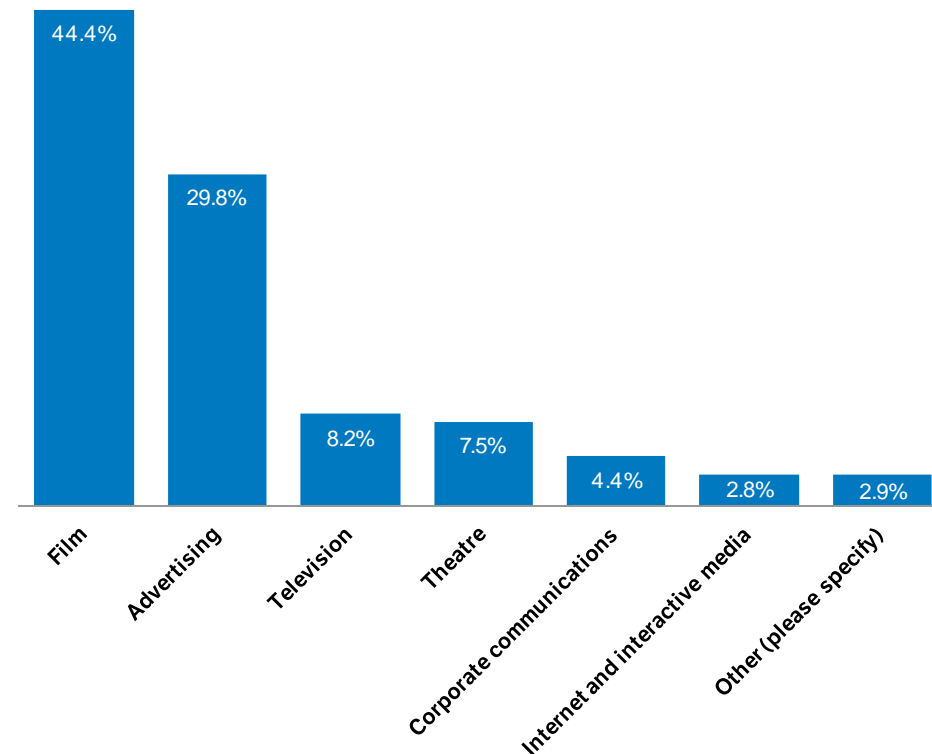
One year's worth of data is not enough to establish whether this is a trend or just a one-off. Looking forward, the picture is mixed. On the one hand, the companies are more positive, with a balance of 18% of the firms anticipating higher profits over the next 12 months, and 72% of the companies actively looking to grow their businesses over the next two to three years. However, this anticipated profit trend is despite the balance of companies expecting their turnover to remain static and with a trend towards rising costs also expected – a balance of 6% and 12% for 'other operating costs' and 'property costs' to increase respectively.



## 6. Markets and sales

As discussed above in Section 4, film production companies are engaged not simply in making products for the film industry. However, as Figure 6 below shows, film is the main customer market for the production companies, accounting for 44% of all sales by value. Advertising is also a big contributor, accounting for 30% of sales revenue. The share of sales accounted for by television is perhaps surprisingly low (8%) and only just ahead of the value of sales made to the theatre sector. While over two fifths of the companies are engaged in corporate communications, this only accounts for a small amount of sales by value, just over 4%. Within film specifically, sales to the production sector (55%) account for the greatest proportion of revenue, followed by sales to Distribution and Exhibition (24%), Post-production (16%), and Development and pre-production (6%).

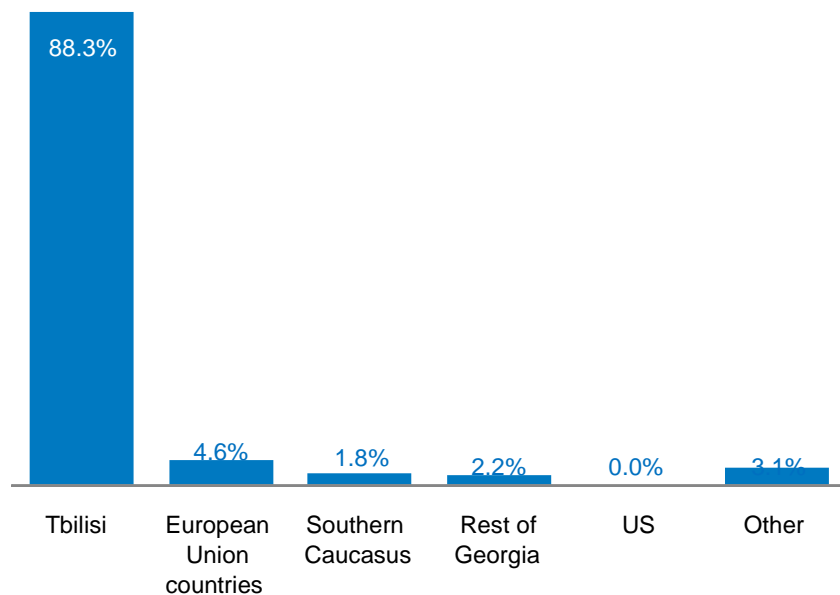
Figure 6. Customer markets for Georgian film production companies, according to proportion of overall audio-visual sales, 2010/11



Source: GNFC (2011)

In terms of the territories where sales are made, production companies are overwhelmingly focused on the domestic market, which accounts for 90% of all sales by turnover, with Tbilisi at its centre. As Figure 7 shows, the companies are exporting, but at present this is very limited and restricted to EU countries, which accounted for 5% of all sales by turnover.

Figure 7. Proportion of film production companies' sales by turnover according to territory, 2010/11



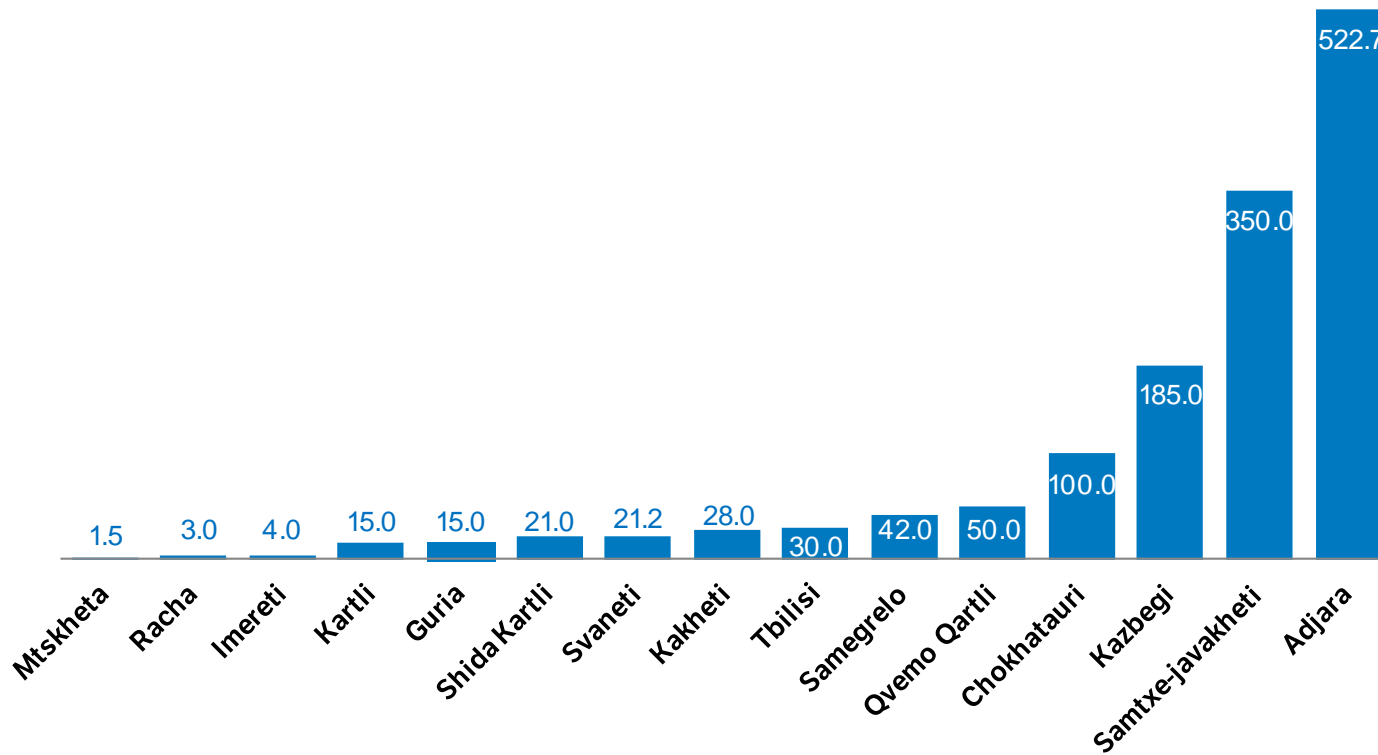
Source: GNFC (2011)

Firms' activities outside of the audio-visual sector show a different pattern, with a much larger component of their sales value being generated internationally (29%).

# 7. Locations

While the film industry is centred in Tbilisi, film companies make expenditures when shooting on location and the survey asked companies a number of questions about their location work. In terms of where companies shoot, as Figure 9 below shows, the bulk of location expenditure was spent in three regions: Adjara (522,653 GEL), Samtskhe Javakheti (350,000 GEL) and then in Kazbegi (185,000 GEL).

Figure 8. Value of location shooting in GEL (000s) in Georgia made by domestic film production companies, by region, 2010/11



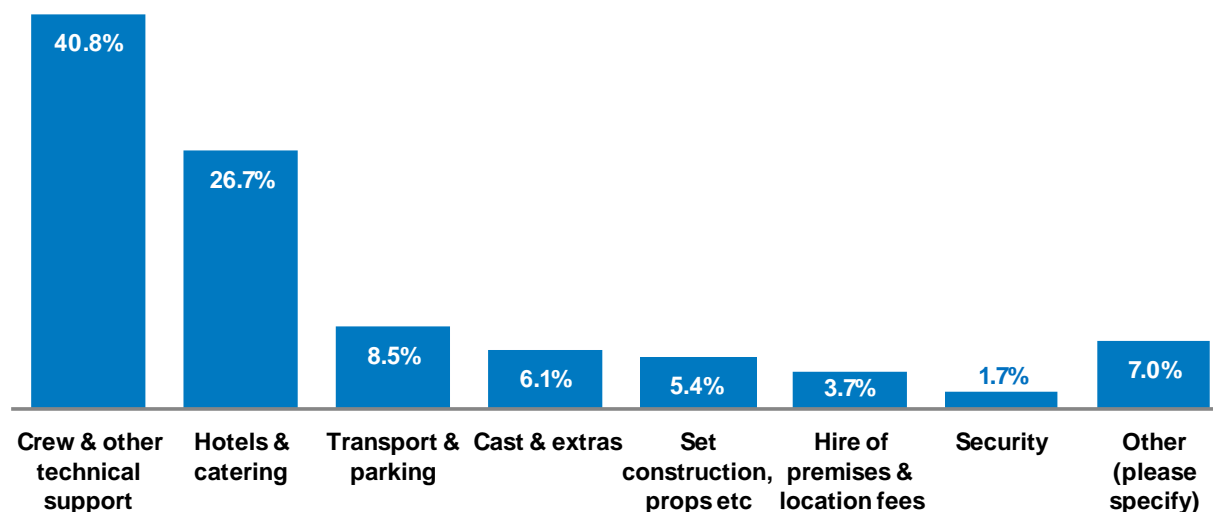
Source: GNFC (2011)

However, the picture is different if we consider the number of filming days. According to this measure, the Chokhatauri region takes first place with 210 days of filming, Adjara second (208 days), and Kazbegi third (70 days). The variation between the value of days shooting and the total number of days shot is accounted for by the fact that the projects all differ from each other. In particular, the genre of what is being shot is a key factor – for example, shooting documentaries is generally five times cheaper than shooting feature films.

Figure 9 shows the long list of items that film productions actually make expenditures on when shooting on location, but two categories alone account for over two thirds of all location expenditure: expenditure on ‘Crew and other technical support’ (41%) and ‘Hotels and catering’

(27%). As this last item indicates, film location expenditure is not simply made to procure film services. It is instead spent much more widely in the local economy in which a production is based. Indeed, the extent of expenditure on non-film services (e.g. hotels and catering, hire of premises and location fees, transport and parking, security, etc.) amounts to almost half of all the money spent on location shooting (48%). This is partly driven by the fact that location production expenditure is mainly focused on actual locations – including exteriors (42%) and interiors (43%) – rather than using dedicated studio space in the regions (which only accounts for 16% of location expenditure).

Figure 9. Proportion of domestic film production companies’ film location expenditure made in Georgia, by category, 2010/11



Source: GNFC (2011)

# 8. Skills and company development

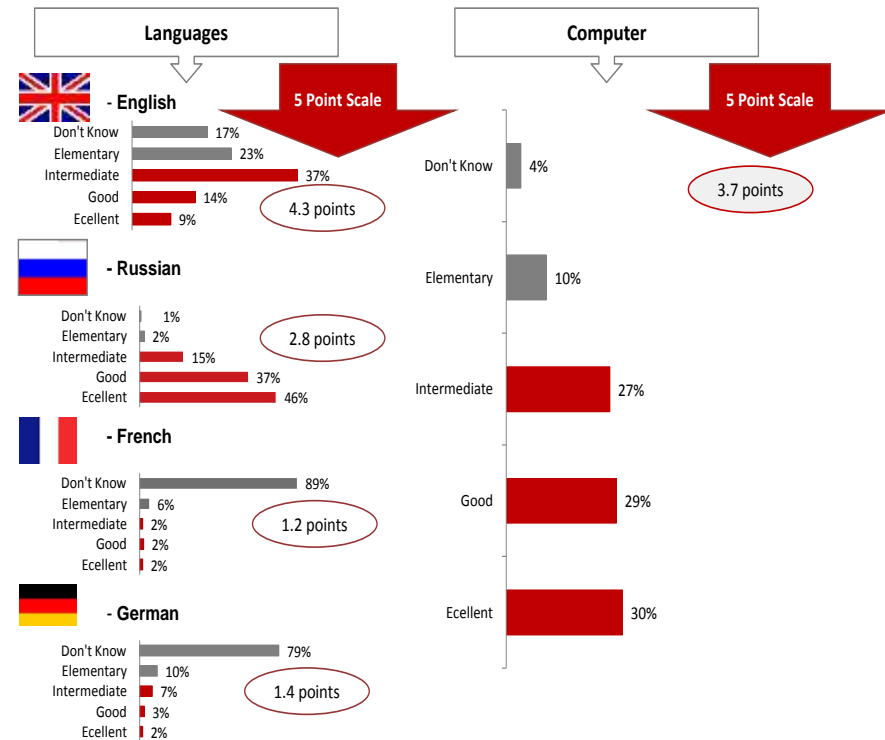
As discussed above in section 2.3, data on the skills of the film workforce was collected through a previous survey, the Technical Personnel research, conducted by ACT Research and Marketing, in May 2010.

The aim of the research was to create a database of Georgian Film Production technical personnel through quantitative research. Both face-to-face and telephone interviews were undertaken. The target segment was technical personnel and managers employed in the film sector. 182 technical personnel and 42 key management representatives participated in the survey. Key highlights from the survey are presented below.

The educational level of the majority of technical personnel in the Georgian film industry is high, with 74% of personnel having completed higher education. However, practical skills that are useful in the film industry – such as language ability and computer literacy – are more varied, as Figure 10 below demonstrates.

Figure 10. General skills of technical personnel in the Georgian film industry, by languages and computer literacy, 2010

### General Skills of Technical Personnel (Languages & Computer)



Source: ACT Research and Marketing (2010)

The workforce has suffered from a lack of training in the recent past. In the last three years, for instance, 79% have not been able to undertake any kind of course or training at all. And this is not because of a lack of demand. There is, instead, a strong desire to want to improve: 64% expressed a desire to develop their skills – in a very wide range of areas, but with particular need in DoP, Directing, Sound engineering, Producing, and Film Production.

The company survey conducted by GNFC specifically for this research did ask some skills questions that were specifically concerned with digital distribution channels. This is because the film industry, as with most other industries at present, is undergoing change and restructuring that is being facilitated by the new possibilities opened up by digital distribution channels such as the internet and mobile. This encompasses knowing how to market films using digital channels, how to manage film rights and licensing online, what are the possibilities for developing new formats and genres, through to how to attract funding using digital channels and how to deal-make and build relationships in the digital space.

The survey first looked at how production companies are currently using digital channels. Encouragingly most companies (83%) already use viral marketing and social media, promote themselves through a ‘static’ website (75%) and even 42% of companies offer the facility to download or stream their content direct from their own website. However, when asked about their skill levels as regards various aspects of digital distribution, the response shows that Georgian film production companies have only limited skills and experience of digital distribution. On a scale of scale of 1 to 10, where 10 = ‘We know everything we need to know’, and 0 = ‘We know none of what we need to know’, Figure 12 shows that on average, production companies tend to score around the halfway mark, with none of the areas rated very highly and four of the seven areas rated below 5.

Figure 11. Digital distribution skills and knowledge of film production companies in Georgia, 2010/11

Digital distribution skills & knowledge	Av. score (out of 10)
Understanding of digital media audiences and consumer behaviour	4.7
Format development/re-purposing for digital distribution	6.2
Digital rights management solutions	4.1
Rights clearance and licensing for digital distribution	5.1
Branding, marketing and communications for digital distribution	5.9
Deal-making and relationship building for digital distribution	4.5
Funding and investment opportunities for digital distribution	4.8

Source: GNFC (2011)

When combined with how companies are already using digital media, it suggests that the film businesses may be engaged in using social media and allowing audiences to access their content, but there may be considerable scope for extending it and improving its effectiveness.

### Company development

The film production companies are very young, with 74% having been trading for between 0-5 years. This is an indication of how the Georgian film industry has only recently begun to recover from its collapse during the immediate post-Soviet years and further, that this revival is being led by a new generation of creative entrepreneurs.

Most of the people who manage or run these (mainly) young companies are fully committed to their businesses and work for them full-time (74%). However, in terms of their business management capacity, fully 42% of the owner/managers have never had any professional mentoring, coaching or training covering business skills.



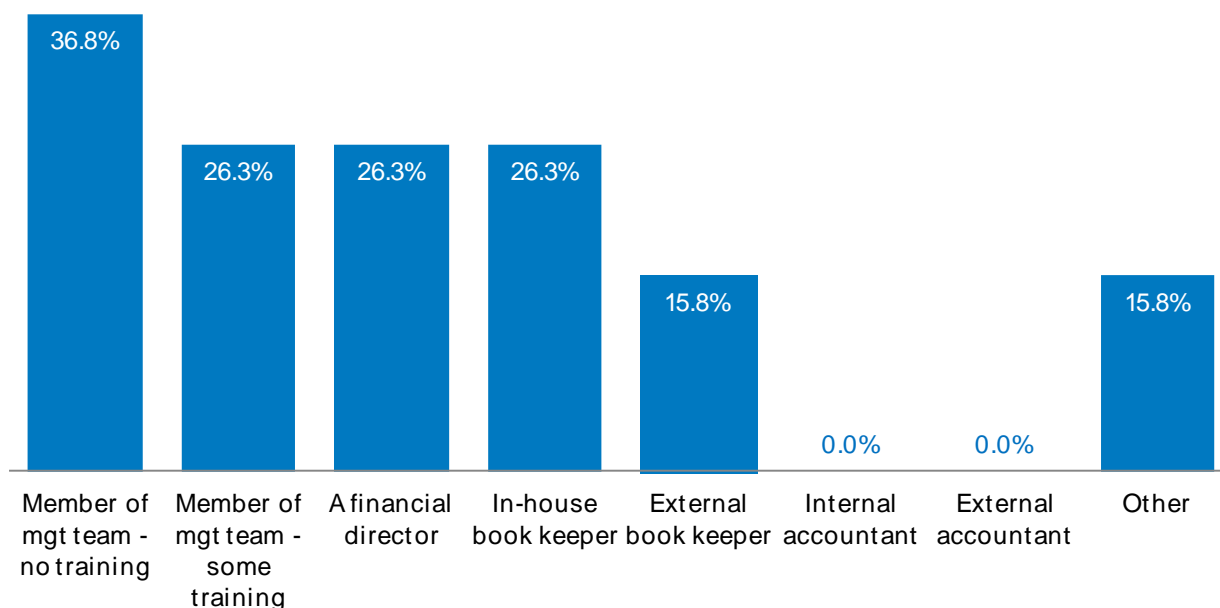
This lack of professional input in terms of business management can be seen in the fact that only 21% of the production companies have a formal Business Plan, although 42% do have some ideas written down but not formalised. This still leaves 37% with nothing written down at all. Similarly, the largest proportion of the companies (37%) has their company accounts looked after by a member of the management team with no training in accounts.

When asked about the use of management accounts, companies tended to confuse these with end-of-year financial accounts. However, the two are very different. The former are rarely (if ever) made public and instead, provide a range of internal information that supports the day-to-day running and decision-making of a business. This could

include the calculation of overheads and other costs, cost per unit calculations, and budgeting in general. It would be hard for the majority of businesses to be operating management accounts given (i) their limited skills and capacity in financial management skills generally and (ii) the large proportion of businesses without formal business plans.

More straightforwardly, 77% of the companies have clear financial goals for the business (e.g. a target in terms of annual profit margin, the value of sales/turnover, or an exit strategy for selling the business/a part of the business). This indicates a keen entrepreneurial motivation among the companies, with an increase in profits being the most commonly expressed goal (79% of those with a financial goal).

Figure 12. Responsibility for managing the company accounts, film production companies in Georgia, 2010/113



Source: GNFC (2011)

<sup>3</sup> N.B. Percentages do not sum to 100 as respondents gave more than one answer category in some cases.

## 9. Barriers to growth

The vast majority of the production companies (72%) aim to grow their businesses in the immediate future. Of the minority that are not looking to do this, the most commonly expressed reasons are that they 'are looking to retire or close down the business' (mentioned by three of the businesses), with the same number stating that they were not looking to grow the business as it was 'too risky'.

The survey asked a number of questions about factors that might be affecting the growth prospects of the production companies. The first set of factors are generic macroeconomic (e.g. government policy, international competition, etc.) and place specific factors (e.g. distance from market, housing costs, etc.). None of the companies reported that there were 'no barriers' and there were three generic factors that more than half of the companies mentioned as barriers to growth:

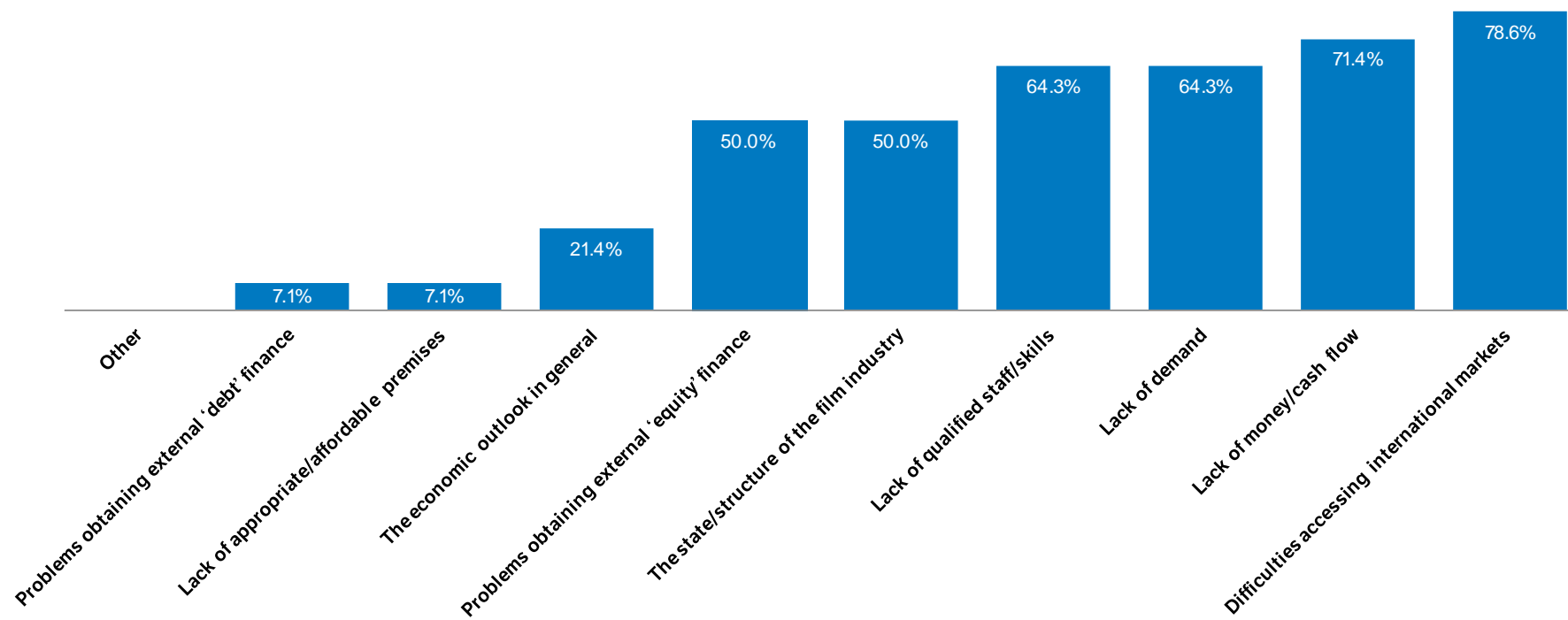
- shortage of finance (80%)
- low capital investment (67%)
- inadequate business support from government (60%)
- lack of an entrepreneurial culture (53%).

When probing more in more detail - and with only those companies that are aiming to grow their businesses - more industry-specific issues come to the fore. As Figure 13 below shows, the biggest barrier for the film production companies that are looking to grow their businesses surround their ability to access international markets (79%), to manage their cash-flows (71%), and the lack of qualified staff/skills (64%), as well as a general lack of demand (64%).

As half of the sample also answered that the 'state/structure of the film and film-related industry' was a barrier to growth, companies were also asked a follow-up question to dig deeper about what particular film industry factors might be a barrier to growth. Three factors were mentioned above all others and by the same proportion of respondents (77%). Two of the top three reasons relate again to finance ('lack of funding options' in general and 'difficulty identifying production

finance sources' specifically), while the third was the 'lack of exhibition outlets (e.g. cinemas)'. Beyond this, there is clear concern around the infringement of Intellectual Property (IP) with 59% of companies being equally concerned about both 'Illegal downloading and file-sharing', and 'piracy of hard copy formats (DVDs)'. Finally, over half of the companies (53%) again made reference to the 'difficulties accessing international sales & distribution opportunities (e.g. festivals).'

Figure 13. Barriers to growth for film production companies in Georgia that are looking to grow, 2010/11



Source: GNFC (2011)

## Company development needs

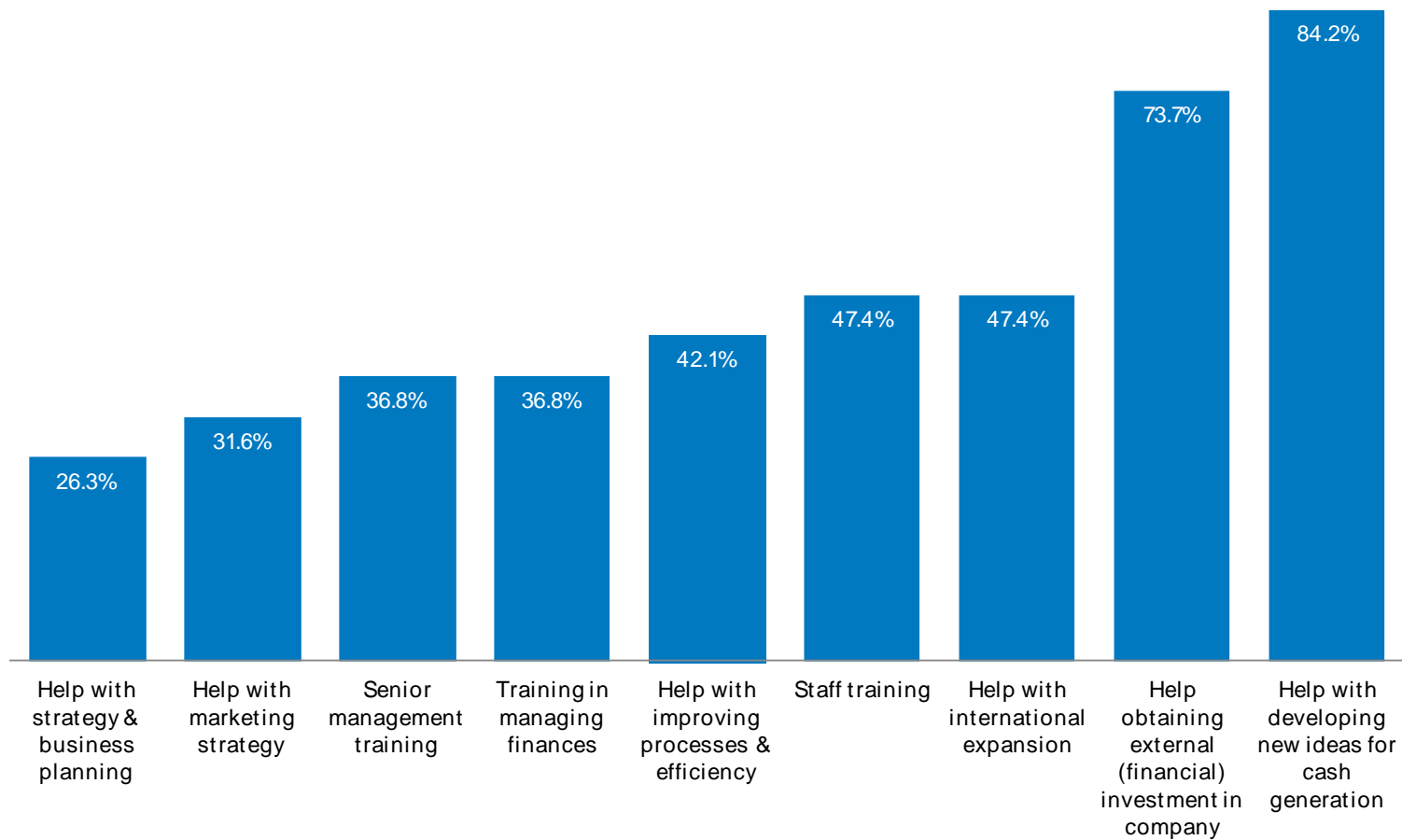
Having assessed what barriers to growth companies perceive, the film companies were also asked to state what their individual company development needs is, and these are shown below in Figure 14. The most regularly identified need was for help in ‘developing new ideas for cash generation’ (84%) – this is a typical finding for small businesses, particularly in the creative industries where the dependence on project-based funding means that they experience particularly tight problems around cash-flow.

‘Help obtaining external investment in the company’ (74%) was the second most regularly identified need. However, the film companies may have misinterpreted this question and understood it instead simply as ‘external production investment’ (as this is a clear challenge for most of the sector). This question is actually asking a different question, related to investment in the company itself – either via a transfer of equity in the business in return for financial or other inputs (mentoring, advice, etc.) or as debt financing (as in bank overdrafts and loans). Many small creative businesses are confused as to what types of funding are suitable and appropriate for which stage of their company development.<sup>4</sup>

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<sup>4</sup> For instance, this issue has been explored in detail in relation to small businesses in the music industry – BOP (2005) *SME Music Businesses: Business Growth and Access to Finance*, report for the UK Department of Culture, Media and Sport.

Figure 14. Company development needs of film production companies in Georgia, 2010/11



Source: GNFC (2011)

## Industry development needs

Moving beyond the individual company level, the mapping study also investigated in more depth what the companies that participated in the film market survey felt were the main development needs at the industry level in Georgia. This was undertaken through follow-up qualitative research with representatives of the companies in the form of a focus group that was held in July 2011 and led by GNFC.<sup>5</sup>

Participants felt very strongly that a key priority to be addressed concerns the tax code. The companies perceive that many of the financial problems that they experience are connected to non-flexible tax codes and the complexity of the tax system. Moreover, the lack of a tax rebate system (such as that which operates in many other emerging film markets), creates challenges in both financing local productions but also to establishing co-productions.

The second priority for development identified by the companies in the focus group was the distribution system in Georgia. In particular, the urgent need to increase the number of cinemas and other exhibition outlets, but also to improve the transparency and availability of box office information (in order to understand how films perform in the market). The companies also expressed difficulties connected to digital distribution – a lack of knowledge around what the possibilities might be and how to gain access to them.

As the survey results immediately above show, improving the financing options for production was also discussed. This took in both a discussion of the possibility for establishing regional production funds in the country, as well as how the Georgian public television broadcaster could provide an alternative source of funding (as in many other countries) by investing in independent Georgian films.

Another major concern was film skills and education. While the film workforce is not entirely unskilled, it is important to upgrade skills yet professionals within the sector find it very hard to access training

opportunities once they have entered the labour market. At the same time, the lack of a national film school means that new entrants – whether these are aspiring directors, producers, scriptwriters, editors, camera operators – are not being prepared to international standards.

Three other issues were also discussed as additional areas for potential action:

- more work on copyright issues to tackle the problem of illegal hard format copying
- simplifying customs clearance procedures
- supporting and encouraging the Film Commission to simplify communication with state bodies.

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<sup>5</sup> Participants included: Jagagripi (G.Shvelidze), Bastra Films (Q. Galdavadze), Sineteqi (Z. Magalashvili), Jemini (T. Kajrishvili), Mi-Fa-Si Films (Z. Diasamidze), SakDoc (Kakha Macharashvili), Qartuli Filmi (N. Khorbaladze).



# 10. Key development challenges

From the information gathered through the specific activities undertaken for this mapping report – the secondary data analysis, the survey of production companies and accompanying focus group, and the review of the earlier survey of technical personnel – it is already clear that there are a number of key development challenges for the Georgian film sector. This picture of the challenges that the sector faces can be completed by drawing on GNFC's own wider perspective of the international film marketplace and how Georgia is currently able to position itself. The challenges fall under supply-side challenges and demand-side challenges.

## 10.1 Supply-side challenges

### 10.1.1 Key weaknesses and gaps in the film value chain

In particular, there are basic structural weakness in Georgia related to two elements.

#### Distribution and exhibition

The distribution network in Georgia is owned by one private company. There is no competition and thus the company has a full monopoly of the sector. Four full-time cinemas are functioning in Georgia. The programming mainly consists of the major US releases, together with a few recent Georgian films. Another full-time cinema was opened in Batumi (Adjara region) in August 2011 with one screen, but this is also owned by the same company. Apart from these cinemas, several seasonal cinemas function in the Georgian regions - showing tailored programming for summer screenings – though these seasonal cinemas do not operate to professional international standards. The remaining cinema infrastructure is in the ownership of the Georgia Film studio (an old studio functioning during the Soviet Union), and the cinemas are in a state of disrepair and not able to meet modern exhibition standards. The

only opportunity for screening art house films are the festivals, as the cinema network mainly focuses on the Hollywood films, and films of artistic value therefore have less priority in the programming. This underdeveloped exhibition network also means that there is no real need to develop local sales agents, which is a weakness as the sales agents could, in turn, play a vital role in improving the distribution of Georgian films in international markets as well as nationally.

#### Development and post-production

The investment and resources allocated to project and script development are not yet sufficient to reliably produce marketable end products. Films tend instead to go into production with underdeveloped scripts, the weaknesses of which become apparent in the finished productions and this has been a consistent criticism of recent Georgian films (i.e. they suffer from incomplete story, lack of character development, weak storytelling techniques, and lack dramaturgy). Part of the problem is that, unlike in established film territories, there is often no division of labour between directing, producing and scriptwriting, with the same individual often fulfilling all of these roles. This is also connected to the fact that there are limited connections between writers and directors, and producers. Weaknesses in post-production are slightly different: several companies state that they offer a full range of post-production services but in reality they do not have the skills, experience and (in some cases) the technology to produce international standard results, so producers have to source their post production outside of Georgia.

### 10.1.2 Limited skills and capacity: in general

The issue regarding post-production echoes a wider challenge for Georgian film: both skills and capacity within the sector are limited at present. The existing workforce has come through difficult times. And as the survey of technical personnel shows, they have some of the core skills necessary, though (i) there are still too few personnel with these skills if the industry in Georgia is serious about servicing international productions, and (ii) as the survey also shows, there has been little chance for the current workforce to upgrade their skills by accessing training over recent years. Additionally, new entrants to the labour

market also remain at a disadvantage given weaknesses in film education in Georgia that do not currently prepare students to international standards.

There are two main educational institutions in Georgia that offer film education: the State University of Theatre and Film and Tbilisi State University. The State University of Theatre and Film has three main educational departments including the film and television department, which is the main educational-structural unit at the university, providing bachelors, MA and PhD degrees. Undergraduate level studies provide for feature film directing, documentary film directing, animation directing, Television directing, DoP studies and sound engineering. However, despite the existence of these educational institutions, they do not at present meet international standards.

The lack of available training for those in the industry and weaknesses in the supply of film skills through the current education system combines to create particular shortages in a number of key areas. Uppermost of these is a shortage of creative producers that meet international producing standards. Another concern is the difficulty of finding highly skilled people in the so-called “below the line” professions, particularly production managers, first assistant directors, line producers, location managers. In terms of technical personnel, as has been noted above, the Georgian film sector experiences shortages of post-production professionals and those who can undertake sound mastering.

As the production company survey shows, skills shortages are equally apparent when looking at the business side of the industry. The companies are young and entrepreneurial, but they also lack business management and financial planning skills and so struggle with cash flow and achieving profitability.

### 10.1.3 Limited skills and capacity: for attracting and hosting inward productions

There are two dimensions to this. First, it relates to the relatively low numbers of technical personnel and crew that are skilled to international levels, meaning that the film sector in the country cannot at present handle more than two medium-sized international productions shooting at the same time in the country. More fundamentally, there are capacity constraints regarding the handling of requests from international productions that are looking to shoot in Georgia, particularly regarding location scouting and coordination with other public authorities.

Due to the rising demand for filming opportunities in Georgia, the Georgian National Film Center has established a Film Commission unit, aimed at attracting international film producers to the country (as well as supporting local film production). The objectives of the Unit are to support international producers interested in shooting in Georgia: to provide recommendations of local partners, host recce visits, facilitate the best logistical offers, provide help with various bureaucratic procedures, etc. Since January 2010 GNFC has received a number of queries from producers from UK, USA, India - potentially interested in shooting on Georgian territory and either obtaining financial support and employing local infrastructure (manpower, equipment). Project genres vary from feature to documentary films, with the average film budget ranging between 3-8 million US dollars per project.

At present, there is a shortage of skilled location scouts to deal with the number of queries from international producers, while cooperation with local governmental institutions remains underdeveloped, meaning that gaining permissions and navigating the local bureaucracy remains to be solved by and through GNFC. In order to deal with this GNFC has set out a strategic plan on the further enhancement of the Film Commission and to involve production companies as well as individuals in order to cope with the challenges and demands of the international market.

However, it is obvious that GNFC will not be able to deliver all of the services required by international producers on its own. Resources are not, and cannot ever be enough for the delivery other services beyond the mandate of a public unit like GNFC. The primary purpose of

the Film Commission is – as in other countries – to market the country as an interesting filming location and promote local services; but it cannot deliver services for all the requests received from the producers interested in shootings in Georgia.

Moreover, it is clear that the job of attracting and hosting international productions needs to draw on the wider labour film pool available in Georgia (and not just GNFC). To this extent, the shortage of skilled personnel is again an issue – particularly in terms of location managers and line producers etc., which GNFC sees is the subject of long-term development. Service infrastructure is another gap to be improved. The latter two factors, without doubt, involve other institutions (film studios, film education institutions), as GNFC alone will not be able to undertake actions for the improvements.

#### 10.1.4 Domestic tax regime

Every year designated public money is allocated from the Georgian State budget to GNFC and the majority of this is invested into film production via GNFC's annual competitions. This constitutes a capital transfer from the Film Center to the producer/production company, which subsequently produces an intangible asset (i.e. a film). According to the agreement drawn-up between GNFC and the film producer, the film remains in the possession of producer, as intangible asset.

According to the national tax code, any kind of benefit received by a person is classed as income and is taxed at either 15% in the case of a legal entity (e.g. a company) or 20% for individuals.

State subsidy under Tax Code of Georgia is subject of taxation as well as all other types of income: by profit tax, for example: (15% of the entire income, e.g. in case of obtaining 700 000 GEL a person or an entity is to pay a tax in the amount of 105 000 GEL), or by income tax (20% of the entire income 20 %; e.g. in case a person obtains 700 000 GEL he is to pay a tax in the amount of 140 000 GEL) and property tax (1 % of the film cost, e.g. if the cost of the film comprises 1 000 000 GEL, the property tax equals 10 000 GEL).

It is also an issue from the property tax point of view, as a "film" is rather expensive intangible asset (for example 1 800 000 GEL),

correspondingly, payment fee is also large (1 % of self-cost – 18000 GEL), which the asset owner must pay annually until its total amortization.

In frequent cases producers have no other sources of income, or their income is so small that they are unable to pay the above-mentioned taxes, whereas they are obliged to pay taxes before they obtain any income from the finished film.

Thus, instead of supporting the producers, the law imposes extremely hard conditions on them. They are subsidized to make films, yet, they are imposed taxes they are unable to pay.

## 10.2 Demand-side challenges

In addition to challenges on the supply-side, the Georgian film sector faces some clear challenges in terms of demand. This arises through the research in terms of companies' identification of 'a lack of funding' as their main barrier to growth – this should more properly be conceived of as a lack of demand for the sector's products and services at present. In turn, there are two components to this.

### 10.2.1 International demand: challenges for the international film industry to investing in, and working with, Georgia

In addition to some of the current weaknesses in the skills base that place capacity constraints on the ability of Georgia to attract and host international productions, there are two other factors that currently inhibit international investment.

Fiscal incentives for international productions – Since the 1980s, a host of national, regional and even local governments around the world have attempted to attract and boost film production activity through providing a range of varying fiscal incentives. Initially, these initiatives were driven more by a desire to grow and support indigenous film making, and therefore the policy priorities were broadly cultural. However, as film production became more internationalized during the 1990s, governments increasingly began to use fiscal incentives as part of their economic development strategies, as the economic gains from

hosting film productions became apparent. Fiscal incentives to attract movie, television, video and new media production to their territories have become a key pillar of film policy in many countries, whether in developed film markets such as North America, Europe or Australia, New Zealand, or in newer, emerging film markets (such as Malta, Hungary, Romania).

This issue is a matter for concern as there is currently no fiscal incentives provided for Georgia and yet the requests from foreign producers interested in producing films in Georgia that GNFC receive on a weekly basis expect there to be incentives in place. Strong interest in the availability of tax incentives has also been registered through the networking meetings conducted by GNFC on the international film markets and festivals (i.e. Cannes Film Market, the European Film Market).

Recent filmmaking trends show that territories compete with each other not only on the basis of the strength of their film infrastructure, the skills of their workforce or their scenery locations, but also through tax incentive schemes. These can often be a decisive factor for international producers in deciding where to shoot their films. Georgia, despite its diverse climate zones and landscapes, it's interesting shooting locations and variety of architecture, cannot currently compete on this dimension.

Weakness of the domestic market – the under developed nature of the exhibition sector has an additional 'knock-on' factor. The lack of opportunities for exhibition is also a major barrier to cooperation between Georgian producers and international partners, such as co-producers, sales agents, and distributors. In any multilateral cooperation, the potential sales in the domestic market of a film are a key issue in influencing co-investment decisions. In Georgia, the financial returns from a theatrical release are negligible, which immediately places Georgia at a disadvantage compared with other rival territories.

## 10.2.2 Georgian demand: stimulating the home market

- Audiences – at a fundamental level, the lack of exhibition outlets (outside of festivals) means that audiences are not being exposed to, and cultivated for, high quality Georgian productions.
- Lack of fiscal incentives and production funds – as with international producers, the lack of fiscal incentives risks Georgian producers looking to realize their films in other locations in which there are more favourable financial incentives. This does not just apply at the country level, but also at a regional level. As the results of the survey above show, shooting films in the regions is mutually beneficial for both filmmakers and for the local regions themselves, it helps to develop infrastructure in the regions, helps to solve employment problems, and promote the regions as well. However, unlike in many countries, there are no Georgian regions that offer any production funds or other financial incentives.
- Lack of investment from state broadcaster – as noted above, in many other countries, the state or 'public service' broadcaster has a remit to support and develop the domestic film industry and has become an important source of production finance. This is not currently the case in Georgia.

# 11. Recent achievements of the Georgian film sector

The mapping research illustrates that the Georgian film sector has a bedrock of economically active companies on which to build. It also highlights many challenges that the companies and the industry as a whole face if they are to progress and realize their potential. The role of public support, principally through GNFC, will be crucial.

Since 2009, the Georgian Ministry of Culture and Monuments Protection and GNFC have introduced a strategy for the development of the film sector and a number of achievements have already been made. The process was fully coordinated and facilitated by the GNFC with the support of the Ministry. The recent achievements are briefly summarised below.

## □ Research, evidence and strategy for policymaking

In 2010 GNFC created a unit with the objectives of identifying strategic priorities and relevant action plans – based on evidence gathered through various targeted market research activities.

This internal unit is an important instrument for understanding the size of sector, the barriers to growth, exploring gaps and challenges, as well as identifying strong elements of the industry. Up until the present, GNFC has conducted market research activities with the direction of defining the educational level of the Georgian film personnel, exploring product placement opportunities, and undertaking a wider research paper for analyzing a long term strategic direction (mapping the Georgian film sector).

## □ European Convention on Cinematographic Co-production

In 2010 GNFC prioritized the activation of the European Convention on Cinematographic Co-production (ratified in 2000 but never actually

acted upon) resulting in the emergence of official European co-productions to be released in 2012 such as Keep Smiling by Rusudan Chkonia (Georgia-France-Luxembourg), and Chaika /Seagull, by Miguel Angel Jimenez (Spain-Georgia-France-Russia).

Since then, the Convention has become a main tool under which GNFC issues subsidy for supporting European co-productions with Georgian participation. Application of the Convention guidelines allows for better planning of co-production strategies by Georgian producers. The latter have equal position with other member state representatives and can enjoy a structured approach towards the generally complex character of international cooperation in film.

## Alternative funding opportunities – membership of EURIMAGES

On June 2011, the Board of Management of the Council of Europe's Cinema Support Fund – 'EURIMAGES' ruled positively on Georgia's case to become the 36th member of the Fund. GNFC, with the support of the Ministry of Culture and Monuments Protection, has gone through a long and difficult process to win accession to EURIMAGES. The accession process involved several steps, including a detailed report on the country's film sector and an official interview of the Georgian delegation in front of the EURIMAGES Board of Management.

Apart from the official procedures envisaged by the Eurimages regulations, a long and dedicated process has been undertaken by representatives of the GNFC and Ministry of Culture for lobbying Georgia's case among EURIMAGES member states' film representatives, particularly with the representatives from Germany, France, Italy, Spain, Estonia, Latvia, Lithuania, Slovakia, Macedonia, Finland, Romania, Turkey, Serbia.

Accession to EURIMAGES is an important achievement of Georgian cultural policy. On the one hand Membership of the Fund is a significant step forward for the country's overall integration to the wider European space. On the other hand, membership also creates opportunities for tangible benefits for the Georgian filmmakers in the form of obtaining alternative funding in line with co-productions and distribution / exhibition. It is no doubt that the membership also helps



the Georgia film sector to be recognized and respected by other European film industries.

### International positioning of Georgian film sector

To position Georgia's film sector developments into wider European landscape has become one of the top priorities of the GNFC. Some of the achievements of this direction are: Membership to Film New Europe (delivering daily film-related news stories to a wider film industry), Membership to European Film promotion (aimed at promoting and marketing European cinema worldwide).

Cooperation on an annual basis with the Eastern European markets (being a main target for the Georgian filmmakers) has come into effect since October 2010. This reflects in the representation of Georgian projects among European co-production markets and forums (Boat meetings, the co-production market of Cottbus film festival, the Wiesbaden film festival, industry events at the Sarajevo Film Festival, and the Sofia Meetings). These events are the means for Georgian filmmakers to seek alternative funding, develop their projects and master their networking and pitching skills.

### Professional training and talent discovery

Tailor made training programs initiated and implemented in cooperation with the leading European educational platforms have already contributed to the improvement of the skills for local professionals, as well as helping to discover young and emerging film talents.

These programs are structured in a way that offers up-to-date cases, practical workshops, one-to-one meetings with experts, and providing networking opportunities. Key among these programs to-date have been GNFC's implementation of Mini EAVE training, bringing the Bosch Foundation to Georgia to work with young filmmakers, and cooperation with MAIA workshops.

### Building internal stakeholder cooperation

In 2010 GNFC initiated a dialogue and has consequently created a ground for building a lasting professional cooperation with other sector related organizations and governmental units, such as:

- National Tourism Agency – Cooperation has been achieved in relation to promoting Georgia's tourist potential through audiovisual products. Cooperation concerns the implementation of location/scouting tours for the international filmmakers, and assisting during the production process. Cooperation has a double positive effect due to obtaining tangible support in the form of financial contributions.
- National Investment Agency – Attracting investment to the country is of a primary interest to Georgia's economic policymakers. Film production is an important tool for contributing to the country's economic growth in the form of job creation and developing the country's wider infrastructure. For this reason, GNFC have initiated cooperation with the investment agency.
- Tbilisi City Assembly / Cultural Committee of the Georgian Parliament / Ministers of Economy, Finance and Foreign Affairs of Georgia, Regional Government of Adjara – Cooperation with the concerned bodies serves to facilitate awareness with regard to a number of aspects of film policy and strategic intentions; communication with these bodies has become easier and more effective.
- Tbilisi City Assembly – memorandum of cooperation, which has resulted in a special nomination for the best screenplay of the year as part of the wider literature competition "GALA". The project is one of the steps aimed at improving the quality of scripts as well as motivating local scriptwriters to better concentrate on the dramaturgical aspects of the scripts.

### Location services

As outlined above, in 2010 GNFC started collecting information about locations, crews, and available equipments. This includes the professional level of the local talent and required the collection of thousands of photos from locations across the Georgian regions.

All the researched data and materials are published in a structured format within the Georgian Film Commission web-site at [www.filmcommission.ge](http://www.filmcommission.ge). The website offers detailed information on the

available talent pool and equipment within Georgia, as well as the lists and profiles of Georgian-based production companies and film studios. The photographic database of exteriors and interiors are published in a structured and categorized format, and searchable according to easy search engines tools.

#### Attracting international film productions to Georgia

GNFC has been able to attract renowned film production companies beginning from January 2011 throughout the year. To name a few:

- TaylorMade Production (a young production company with already a list of successful UK production of *The Island*) - Working on the project *My Soviet Kitchen* based on the novel by Amy Spurling. The production team is casting an A-class film with stars like Amanada Seifield; Daniel Craig, Mia Wasilowska, Colin Morgan, Jamie Bell etc. *My Soviet Kitchen* will be shot in Georgia April 2012. The budget is \$5 million.
- Film and Music Entertainment is one of the UK's most successful and prolific independent production companies. It was formed by Mike Downey and Sam Taylor. The company plans to shoot the film titled *Epic* in Georgia in 2012. The film cast includes Ethan Hawke and Sir Ben Kingsley. The budget of the film is \$6 million.
- Cook Street Production is a US-based company, which had a successful production in 2010 within *HappyThankyouMorePlease* (Audience Award Sundance IFF). The company plans to film its next project in Georgia in 2012. The film, titled *Restoration*, will star Rachel Weisz; Karl Urban; Kate Beckinsdale: and Mads Mickelsen, with a budget \$3 million.

## 12. Recommendations

Building on the recent achievements of GNFC's activities, the following seven recommendations address the key development needs that this mapping research has identified (see Section 9 above). They are separated into specific areas, and are designed to provide strategic, top-level guidance, informed by the local and international research. Each recommendation is illustrated with a concrete example of how a similar intervention(s) has worked successfully in other countries.

### 12.1 Script development grants

Development is a particular current weakness within the Georgian film industry. In order to address this, the following actions should be undertaken:

- Public investment in the development stage - GNFC should start allocating development grants for Georgian scriptwriters and producers
- Cooperation should be enhanced with the literature contest "GALA" and other potential initiatives supporting writing skills
- Better communication should be facilitated between writers and producers in Georgia (networking meetings, conferences etc)

The UK Film Council and Dutch Film Fund Development Grant systems provide good examples of models that could be adopted and adapted to the Georgian context.

#### Case Study: British Film Institute's Development Fund, Feature Film Development Programme

The First Feature Film Development Programme aims to identify and support first time filmmakers. Generally awards of up to £25,000 are offered to screenwriters and writer/directors to write and develop a feature film.

The Fund was established by the former UK Film Council

and has now been taken over by The British Film Institute (BFI). The BFI determines the level of the award and may include funding towards the cost of a mentor or other third party that incurs additional costs.

The BFI determines the eligibility of the application. The assessment criteria are: the creative merits of the film project and the writing skills of the scriptwriter. In assessing applications to the 'First Feature Film Development Programme', the Development Fund may be assisted by a small panel of external advisors (including writers/directors in the film industry who may be invited to mentor successful applicants during the development process if appropriate).

The BFI requires assigning a share of all rights in the development work to the BFI as security for its investment. The BFI takes a 50% share of rights.

The BFI requires a contractual end credit and the BFI's Lottery visual brand identity appears on all feature films assisted by the Development Fund, and a credit is also given on the cover of all scripts.

### 12.2 Development of a (digital) exhibition network

The lack of any real exhibition network in Georgia stymies the development of film in Georgian on many levels: audiences have restricted access to a narrow range of programming, domestic productions cannot find local audiences beyond festivals, and the possibilities for co-productions are undermined due to the lack of financial returns from the domestic market. Given the seriousness of the current situation in the exhibition sector, we propose that the following actions are taken.

- \_ Make a policy decision concerning the ownership and development strategy of a local cinema chain. This should be achieved through the



coordinated work of the Georgia Film Studio, Ministry of Culture and Monuments Protection and Ministry of Economy and Sustainable Development. GNFC should be actively involved in the process in order to achieve the best outcome, which could lead to the establishment of municipal cinemas in Georgia.

Once the legal status of the cinemas is determined it will be advisable to consider refurbishing the cinemas. This would include modern exhibition infrastructure, particularly using digital distribution and projection technologies. International examples show that the digitalization of cinema venues brings a number of benefits, in particular, much greater flexibility.

- First, there is the potential for a wider diversity of film product gaining exhibition – particularly independent film, as the costs of digital distribution are much less than for those associated with film prints and the transportation of physical film canisters (e.g. a digital copy of a film costs approximately one tenth of a 35mm print).
- Second, it also offers exhibitors the chance to liven-up and vary their film programming with non-film events. In markets where digital exhibition is relatively developed, such as the UK, this is proving an increasingly popular niche with regular live screenings of major opera, theatre and sports performances.
- Third, digital projection also opens up the possibility to show films made by local filmmakers, film clubs and schools, and therefore holds the potential to contribute to the development of local talent.
- Finally, digital projection equipment is cheaper, lighter and easier to run and maintain than analogue film projection equipment.

The example shown in the below box from Germany illustrates how public policy is helping the exhibition sector move towards digital distribution and exhibition in order help to guarantee the future of the country's independent film and cinema sector.

#### Case study: Germany

While cinemas across Germany have experienced a gradual conversion from analogue to digital over the previous years, in February of 2011 the first government intervention in this area was established. “Für eine Kinodigitalisierung, die den Erhalt unserer Kinolandschaft sichert” (‘digitalising cinema, in a way that guarantees the future of our cinema sector’) is the tagline of a government initiative that supports the implementation of digital projectors across Germany. The intervention is also distinctive in outlining that the projectors do not necessarily need to meet the expensive DCI- standards, as smaller and commercially less successful cinemas would struggle financially with such an investment (which is only partially publicly subsidised). The primary motive for the intervention is to secure the survival of independent cinemas, as well as the diversity of Germany's cinema landscape.

## 12.3 Film Commission enhancement

Considering the gaps and challenges highlighted in the report concerning the existing level of location services that are currently provided, it is recommended for the film sector to undertake following actions:

- GNFC to elaborate an action plan for the film commission enhancement focusing on the following elements:
  - \_Enhanced cooperation with local governmental and service providing institutions (Ministry of Defence, police department, emergency, fire department, etc.)
  - Conducting awareness activities to promote both (i) the need for location managers and scouts equipped to international standards and (ii) the commercial potential for providing these services. The intention would be to encourage entrepreneurs with business ambitious and commercial motivations to fill the current gap.

- If introduced within the course of 2012, integrate the tax incentive scheme (see below) to the overall Film Commission offer pack

Examples of successful film commissions in other countries show that both a country's economic infrastructure (roads, hotels, accessibility to remote areas, catering service, etc.) and its filming infrastructure play a crucial role when it comes to luring international productions to the country.

#### Case study: Malta Film Commission Services

The increasing variety of four and five star hotels in Malta makes accommodation for foreign crew easy and comfortable. Self-catering apartments are also very popular with film crews working in Malta for a long period.

Several transport companies in Malta are experienced in providing all the transportation required for a shoot, and a number of renowned Maltese caterers are also accustomed to servicing film productions. There are dining buses and a mobile kitchen available for rent on the island. Star trailers, two- and three-way trailers, honey wagons, wardrobe and make-up trucks, mobile offices and other film-specific facility vehicles as well as extensive construction plant machinery are also available to rent from Malta. Helicopters and patrol boats are hired from the Armed Forces of Malta.

## 12.4 Introduction of a tax rebate programme

Georgia has many of the key ingredients already in place to attract international productions but the country is currently disadvantaged compared to many other comparable filming locations due to the lack of a fiscal incentive to shoot in the country. Therefore the recommendation is that:

- GNFC should introduce a tax rebate scheme (e.g. 22% of cash back for the Georgian qualified expenditure, with a cap of funding at 4 million GEL) to the relevant governmental bodies.

Case studies: Bulgaria, Hungary, Malta, Bulgaria and Croatia  
The analysis is made according to the combination of three elements: low production costs, diversity of available locations, and tax incentive schemes.

From the case studies it was revealed that the researched countries strongly compete with each other with aggressive tax incentive schemes along with strong equipment and skilled personnel infrastructure.

In the case of Malta, which offers a variety of attractive landscapes and authentic locations, its tax incentive programs have also proved attractive to big budget foreign film productions.

The Maltese Government announced the introduction of a number of fiscal incentives to stimulate film production in the country, particularly all year round, and to help maintain the island's tourism industry. The incentives were made available for feature film and TV productions, including mini-series and soap operas. Animation and documentary features were also eligible for the incentives, provided they were at least partially made in Malta and using a Maltese production company. In order to qualify – and to determine the percentage of rebate that will be granted – productions have to pass 'a cultural test'. The incentives take the form of cash grants to production houses on the presentation of detailed accounts of expenses incurred and paid in Malta. With this scheme, it is possible to recoup up to 22% of costs incurred. Expenses for the rebate are presented to the Commission as net of VAT, which stands at 18% and is fully refundable. The cash rebate is made payable across the very wide range of expenses that could be incurred relating to film production activity. This includes Maltese labour, SFX and VFX services, hotel stays, equipment hire; transportation costs; catering; per diems; location fees; office leases for time spent pre, post and during production;

props and property (owned and leased locally); animal care; laundry and cleaning services to telecommunications.

In the case of Croatia, which has recently introduced a tax rebate program that allows for 20 % of qualifying expenditure to be recouped is one of the major attractive tools along with the local film pool and a local film studio equipped with production and post-production facilities. While Bulgaria, which introduced a tax incentive program earlier, has a plan of extending this to a 30% tax-credit voucher for international producers (although the law has not yet been passed), with strong local “Nu Boyana” studio also equipped with onset facilities and skills local film crew.

From the discussed cases the most attractive scheme to the Georgian environment seems to be the Croatian one, which has set a ceiling set of 3 million Euros per project of qualifying expenditure, and with a minimum local expenditure of 300,000 Euros. Such a scheme would make it easier for governmental bodies to conduct monitoring processes and to calculate the amount to be paid in cash. Having an unlimited rebate with no cap risks the loss of too much government income and is more likely to introduce perverse incentives into the system that would cause market distortion.

## 12.5 Local tax exemptions

As section 9.1 above shows, at present the operation of the Georgian tax code disadvantages film producers and production companies. We therefore suggest changes in the Georgian tax code.

It would be a reasonable form of State support to introduce tax incentives on the financing obtained by the producers from the Georgian National Film Center.

## 12.6 Training and professional development for local filmmakers

Skills gaps and shortages are widespread across the film sector in Georgia and at both pre-entry and post-entry. Skills are one of the fundamental building blocks of any film industry and therefore we recommend the following actions to improve the skill levels in Georgia:

- Thorough education reform the report recommends that Georgian cultural policy makers should elaborate a strategy for the reformation of the local film school.
- GNFC should continue investing in tailor-made training for the existing film workforce. More attention should be given to capacity building for producers and below the line professionals such as assistant directors, production managers, and line producers. GNFC should continue to cooperate with educational institutions like EAVE (because it offers up-to-date and practical workshops by the international experts), and the Bosch Foundation (because it has an expertise for delivering high quality programs to emerging filmmakers and it also gives an opportunity for the Georgian young filmmakers to obtain educational grants from the Bosch Foundation).

### Case Study: the UK’s Film Skills Strategy: A Bigger Future

The UK’s Film Council established the first industry wide skills strategy, *A Bigger Future*, in 2004/5. It was intended as a complete, five-year education and training strategy for film skills, designed to enable the UK film industry to compete globally on the basis of world-beating skills. It was intended to make a major contribution to the sustainability and competitiveness of film in the UK and was delivered by Skillset. The programme was financed through the Film Skills Fund, a combination of lottery funding and investment obtained via a levy.

At the heart of the strategy was the reformation of film school teaching in Higher Education (HE) in the UK and enhanced, tailor-made, affordable training for the existing film

workforce. Concerning the former, investment created six 'Screen Academies' across the UK's HE network. Screen Academy money was invested in two key ways: to make the courses more directly relevant to the film industry – which was achieved less through investment in capital and equipment and more through using monies to pay for international standard film makers and technicians to teach and mentor students – and to make courses more open to people of all backgrounds (which was achieved through a series of student bursaries). As in Georgia, a key problem for the existing workforce is accessing affordable training. So the main intervention in Continuing Professional Development (CPD) was to ensure that courses were provided that addressed identified industry (identified through surveys and other research methods) and that training was affordable. The affordability was established either through individual bursaries or through subsidies given directly to training providers that could then enable them to offer places to trainees at below market cost.

*A Bigger Future* ended in 2009/10 but *A Bigger Future 2* commenced in 2010/11 and will run for a further five years, again managed by Skillset. ABF2 represents a refinement and consolidation of the first iteration of the strategy. The two key strands remain the same: more industry-relevant and accessible film education at pre-entry and better, more affordable professional development and training for the current workforce. But the Screen Academy network has been slimmed down to concentrate on a small core of three elite film institutions. The model for delivery of CPD remains unchanged, but again its scale has been reduced and its priorities changed in light of current industry needs. The new priorities are:

- Training in new technologies
- Improving business skills
- Developing creative talent
- Supporting new industry trainees

- Enhancing health and safety skills

Together with the Film Tax Break, the film skills strategy and investment is the key plank in maintaining the UK's healthy film industry, which combines both distinctive and successful domestic talent and production with the hosting of major international productions.

## 12.7 Creating a foundation for regional funds

One of the ways to address the current lack of demand facing the Georgian film industry is to stimulate production through the establishment of regionally-based production funds. These have a mutually beneficial impact on the regions themselves as well as for filmmakers, as they:

- nurture talents in the regions
- attract people and producers to the regions
- support the qualitative and quantitative development of the Georgian film industry and culture
- strengthen the economic competitiveness of the film companies – in particular, of independent producers – by encouraging the necessary regional infrastructure
- facilitate varied and high-quality film and television production in the regions
- present and represent the regions at home and abroad.

In light of this:

- a policy decision should be taken which leads towards the establishment of regional film production funds in Georgia. Adjara region could be the pilot region to explore the opportunity.

#### Case study: Medienboard Berlin-Brandenburg GmbH

Medienboard Berlin-Brandenburg is the first stop for creative professionals active in the film and media industries in Berlin-Brandenburg. It was founded in 2004 as the central agency for all matters relating to the media in the capital region. The company unites the responsibilities of film funding and location development/marketing of both federal states under one roof. It acts as a gateway between the media industry, politics and business. The company's goal is to strengthen and further develop the Berlin-Brandenburg film and media industry by focusing on durable creative, business-oriented and technological development. Medienboard Berlin-Brandenburg issues funding in the categories of story and project development, production, co-production, funding for newcomers, distribution, etc.

## 13. Conclusions

This initial mapping study has revealed that the Georgian film sector is at a turning point. The effects of the 12-year period of stagnation during the immediate post-Soviet years – when filmmaking activities were totally abolished – are diminishing and the establishment of the Georgian National Film Center – the only public institution that provides subsidies for national film production and promotion – has been key. Public investment in the Georgian film sector development is of crucial importance in stimulating and anchoring a strong local film industry.

In recent years filmmaking has become more active: local talent is growing its skill base and has the potential to become internationally competitive. The process is enhanced by Georgia's accession to wider European film institutions, such as membership of EURIMAGES. The coming two to three years are therefore crucial in ensuring that the green shoots of recovery so far seen in Georgia's film industry are supported in order to grow and thrive. Public support is vital to ensuring that the current promise of Georgian film is realised and that a sector creates jobs, attracts inward investment and film tourism to the country. Thus is positioning film as a leading creative industry of Georgia.

# 14. Appendix 1: GNFC's role and actions

The Georgian National Film Center was established on the basis of the Georgian law on "State Support to National Cinema", adopted in December 2000. This was the very first public institution aimed at the revitalisation of the country's film sector.

GNFC is a legal entity of public law under the Ministry of Culture and Monument Protection of Georgia. It operates independently and provides annual reports to the Ministry.

GNFC's activities are guided by the Constitution of Georgia, relevant International Laws and Regulations and the local legal framework. GNFC develops Georgian film policy. Its main activities are outlined according to the Georgian law on "State Support to National Cinematography" GNFC's mission is to secure and coordinate public support for the development of Georgian cinema.

The objectives of the GNFC are:

- Financial support for Georgian film production
- Definition of a strategic course for the film sector
- Supporting film education
- Supporting the development of the cinema network
- Supporting projects aimed at the preservation of film heritage
- Supporting the organisation of local film festivals and other film-related activities
- Developing film export internationally
- Supporting development of film infrastructure

GNFC is entitled to financially support local filmmakers in all aspects of filmmaking, and in 2011 had a budget of 3 million GEL.

GNFC plays a crucial role in defining the policy direction for the film industry development, which is an integral part of wider cultural policy of Georgia. GNFC priorities are financial support for Georgian film production. This is implemented via annual competitions aimed at the production of feature, documentary, short, and animation films. The state subsidy allocated to a production cannot exceed 75% of the total film budget. Another area of GNFC support is film-related activities such as training and book publishing (Mini EAVE, Film Terminology).

GNFC is also involved in the promotional support of Georgian films. This is realized via cooperation with different film festivals and other platforms. GNFC often facilitates contacts between Georgian filmmakers and various international platforms (e.g. GNFC promoted feature film *Salt White* by Ketvi Machavariani for the competitions at Karlovy Vary IFF (2011), East of West), Cottbus Film Festival (international competition, 2011) *Cinedays* (International competition, Macedonia, 2011). Documentary film *Bakhmaro* by Salome Jashi was nominated for Asia Pacific Screen Awards selection committee and is shortlisted for official 2011 APSA nominations. GNFC represents Georgian film sector in key international film markets, such as Marche (since 2007) and the European Film Market (since 2006).

In the beginning of 2010 GNFC introduced two additional internal priorities, such as research activities (e.g. ACT Product placement prospects, etc) and the facilitation of film commission services (hosting recce visit of *Soviet Kitchen*, etc) .

GNFC aims to further build on the key direction of its support of production, promotional and technical levels.



# 15. Appendix 2: Consultees, stakeholders, participants

The following individuals and organisations were consulted as part of the mapping study.

Individual meetings were held with:

- Nikoloz Rurua - Minister of Culture and Monuments Protection of Georgia;
- Lloyd Anderson, Director of the British Council in Georgia;
- Gia Bazgadze, Independent producer and shareholder of Georgian theatrical distribution.

A high-level stakeholder meeting was held with the following:

- David Tskhadadze (First Deputy Minister, Ministry of Culture and Monuments Protection)
- Ia Janashia (Deputy Director, National Investment Agency)
- Khatuna Ochiauri (First Deputy Chairperson, Education, Science and Cultural Committee of Parliament of Georgia)
- Irakli Matkava (Deputy Minister of Economy and Sustainable Development)
- Shota Maglakelidze (Head of Culture Division, City Hall)
- Rusudan Mamatsashvili (International and Local Projects Coordinator, Georgian National Tourism Agency)
- Maia Kipshidze (Deputy Director, British Council)
- Manana Pruidze (Head of the Copyright Protection Department, Georgian National Investment Agency)

Key sector players (key producers) were consulted as part of a focus group:

- Ketil Galdavadze; Archil Gelovani; Vladimer Katcharava; Tinatin Kajrishvili; Zaza Rusadze; Noshre Chkhaidze; Zurab Magalashvili; Guka Rcheulishvili; Levan Koguashvili; Ketil Machavariani; Zurab Magalashvili; Nana Ekvtimishvili.

The following production companies participated in the business survey:

1. Independent Kinoproject
2. Kontrolzstudio, Stenli
3. Georgian Film
4. Sanguko
5. Studia X-Form
6. Studia Kvali XXI
7. Mi-Fa-Si Film
8. Moving Pictures
9. Sakdoc
10. Sineteqi
11. Studia 99
12. Bastra
13. Formula Creative
14. Gemini
15. Studia GFM
16. Jagagripi
17. Metro
18. Nikestudio
19. Independent Film Service



# 16. Appendix 3: Case Studies

## Country Image and Tourism

From *North by NorthWest* and *A Fistful of Dollars*, to *La Dolce Vita* and *Wings of Desire*, film has always created iconic images of landscapes, cities and countries. In recent years, however, film has been used more proactively in 'nation branding'. It has proved to be a particularly successful means of raising the profile of a nation state, of linking the film and tourism sector to benefit the economy, and of forging partnerships between private and public bodies.

This has been nicknamed 'set-Jetting'- or more properly, Film Tourism; driven by the globalisation of the entertainment industry. Cited as being able to reinvigorate trade in areas where tourism traffic has waned, Film Tourism has also raised awareness of destinations that have previously been off the tourist track. The three examples below illustrate different ways of exploiting film tourism.

### 'You've Seen the Film, Now Visit the Set'

In 2004, the US Department of Commerce launched a marketing campaign targeting the UK. The campaign aimed to increase the number of tourists travelling to the USA, following the decline in visitors after the terrorist attacks of 9/11. The campaign, entitled 'You've Seen the Film, Now Visit The Set', sought to capitalise on the presentation of both iconic and lesser known sites across the USA in popular Hollywood films, such as *Maid in Manhattan*, *Chicago*, *L.A. Confidential*, *Sweet Home Alabama*, and *Viva Las Vegas*.

The campaign featured outdoor billboards with film stills, and 30-second long film clips, shown in cinemas and on terrestrial and cable television. The TV ads and billboards advertised a

dedicated website, 'www.seeamerica.org.uk', developed as part of the campaign. This provided further information for potential visitors to the USA, including state-by-state guides, a section devoted to 'Iconic America', and family, outdoor and city/urban getaway sections.

The UK campaign reached approximately 13 million people, and in a post-campaign survey those who had seen the campaign were found to be 10% more likely to mention the USA as a 'dream' travel destination. The survey also found that the number of those who had seen the campaign and subsequently booked a trip to the US amounted to an estimated 360,000 people. Significantly, research carried out by an independent body into the success of US Department of Commerce's campaign indicated that every \$1 spent by the department in advertising provided a return of \$117. This prompted the department to run the campaign in Japan, the world's number one spender in tourism, in 2006.

In addition to raising the profile of the USA as a tourist destination in Japan to increase America's share of the Japanese tourism dollar; the campaign - led by the U.S. Department of Commerce's Office of Travel and Tourism Industries (OTTI) and the Visit America Alliance - created lasting links between more than 50 Japanese travel and tourism partners and the US. It also connected the Travel Industry Association of America (TIAA) with website creators in Japan, and generated ties between two major Japanese retail outlets and US advertising and PR firms subcontracted to manage the campaign. Providing these partnerships last, they should enable the USA to continue to benefit from the Department of Commerce's campaign, even after direct advertising has ceased.

The nationally led campaign was so successful that it was adopted, in a modified version, by both states and cities across the USA to market themselves to domestic and international travellers. Campaigns in both New York City and the state of Hawaii have enjoyed considerable success, improving their

city/state 'brand' reputation, increasing the number of visitors and tourists, and raising their profile, both at home and abroad.

[www.seeamerica.org.uk](http://www.seeamerica.org.uk)

<http://www.ustia.org/>

<http://www.commerce.gov/>

[http://www.nyc.gov/html/film/html/incentives/made\\_ny\\_incentive.shtml](http://www.nyc.gov/html/film/html/incentives/made_ny_incentive.shtml)

<http://hawaiiifilmoffice.blogspot.com/2005/05/youve-seen-films-now-visit-set.html>

Film London: 'Brand image ... a strong tourism destination motivator'

Iconic images of London in British films and co-productions have been projected into homes and cinemas around the globe. For a number of these films, the cinematography of the UK and of London in particular, has been key selling points for the films and as much a part of their success as good (or famous) actors.

Film London has sought to capitalise on this in a number of ways. A number of 'film-maps' have been developed for tourists (and locals), inviting them to discover the London they have seen in films such as *Closer*, *Bridget Jones' Diary*, *Love Actually* and Woody Allen's *Match Point*. Dedicated 'film-maps' detail specific attractions and areas featured in the movies. There are also generic film maps such as the South Bank Movie Trail, which covers attractions on London's famous South Bank. This area has enjoyed massive regeneration in the past decade, and has now become popular both with locals and tourist, and as a location for filming. Film London has also worked in cooperation with Transport for London (TFL) to develop an alternative tube map, which spans 70 years of British film and uses real tube stops but names them after famous British films, such as the *Harry Potter* series, and *Alfie*. This initiative seems more targeted to the cinephile, rather than the 'jet-setter', linking stations with film directors, cinematographers, writers and film studios, as well as

the films and actors.

In 2010, Film London also launched its 'interactive movie map'. This facility allows site visitors to add their own 'movie-map destinations' to the map. This has resulted in the creation of an audience-led London film map, which includes lots of 'off the beaten track' sites, potentially increasing both local and tourist spend in non-traditional areas.

[http://filmlondon.org.uk/film\\_culture/film\\_tourism/movie\\_maps/underground\\_film\\_map](http://filmlondon.org.uk/film_culture/film_tourism/movie_maps/underground_film_map)

<http://blog.visitlondon.com/2010/03/film-londons-london-movie-location-map/>

*The Lord of the Rings* effect

Another example of country branding through film is New Zealand's approach to *The Lord of the Rings*. It is difficult to consider Film Tourism without considering the effects of Peter Jackson's trilogy on the New Zealand tourism industry and infrastructure. At the peak of the film's publicity when the third instalment of the trilogy won 11 Oscars, the number of British tourists visiting New Zealand outstripped the number of those visiting Australia. In 2004, the New Zealand tourism industry reported an overall growth of 8%, which was significantly higher amongst young and female travellers. Areas of the country which received very few (if any) visitors prior to the films' release now have hotels, shops and guided tours aimed to catch the visitor spend. *The Hobbit*, currently being filmed in New Zealand, is expected to generate further publicity for the country.

While this example is a one (or two)-off, it shows the potential of film tourism. What is interesting about the New Zealand case is that, while the scenery of the film is stunning, the trilogy could as easily have been filmed elsewhere. In addition to stunning scenery and Peter Jackson's passionate patriotism, the key attraction of New Zealand to the films' producers was the low filming and production costs. This was a crucial factor in deciding

upon New Zealand as the location for *Lord of the Rings*, which resulted in images of the country reaching millions of people round the world. Whereas Film London and the US Department of Commerce traded on iconic images associated with the UK and the USA to attract visitors, the New Zealand tourism industry was able to capitalize on the fictionalization of its landscape, through the success of the film. It was not necessarily the iconic imagery of New Zealand that drew tourists to the country, but the fantasy landscapes evoked. Provided other countries can offer attractive filming incentives to producers, it may be possible for them to reap benefits in a similar (although probably not as spectacular) way.

Source:

<http://www.tourism.net.nz/lord-of-the-rings.html>

<http://www.film-tourism.com/index.php?pageID=1&archived=yes>

<http://inside-digital.blog.lonelyplanet.com/2010/05/12/film-tourism/>

## Digital Distribution and Exhibition

Although the digitisation of many elements of film production has become reutilised over the last decade, this is still not the case for the distribution and exhibition of films. In part, this is because the costs of retrofitting digital projection equipment into analogue movie theatres are significant, and the major cost savings that are made accrue initially to the distributors rather than the exhibitors. This is more pronounced than it would have been in previous eras as in mature film markets; distribution and exhibition are more separated than previously. But digital projection does provide real opportunities for exhibitors as well as distributors.

In particular, digital exhibition affords much greater flexibility. In theory, it ought ultimately to enable exhibitors to be more responsive to audience demand – by switching films according to how they are performing at the box office (keeping those that are playing well on for longer and pulling those that are doing less well). It could also lead to a wider diversity of film product gaining exhibition as the costs of digital

distribution are much less than for those associated with film prints and the transportation of physical film canisters. For instance, a digital copy of a film costs approximately one tenth of a 35mm print. It also offers exhibitors the chance to liven-up and vary their film programming with non-film events. In markets where digital exhibition is relatively developed, such as the UK, this is proving an increasingly popular niche with regular live screenings of major opera, theatre and sports performances. Furthermore digital projection also opens up the possibility to show films made by local filmmakers, film clubs and schools, and therefore holds the potential to contribution to the development of local talent.

Finally, perhaps the major opportunity that digital provides here is to vary the places that can be considered as 'exhibitors'. Digital projection equipment is cheaper, lighter and easier to run and maintain than analogue film projection equipment. This means that digital projection equipment can be installed in non-theatre venues, and has found particular application in smaller towns and rural areas, where it has been installed in multi-function venues, such as village halls and multi-art form venues.

The opportunities that digital provides, combined with the market's initial reluctance to adopt digital (the upfront costs falling disproportionately on the exhibitors whereas the *immediate* financial gains are realised by distributors), has meant that a number of countries have used state funds to invest in programmes to convert/install digital projection equipment, as outlined in the examples below.

### Digital Screen Network (UK)

In 2004, the UK Film Council and Arts Council England set up the Digital Screen Network. £12 million was invested in equipping 240 screens in 210 cinemas with digital projection technology. It was hoped that the transformation from analogue to digital film projection would improve the diversity of programming as well as save costs. In order to successfully reach this target, all cinemas chosen to participate in the network had previously screened non-

mainstream films. Shortly after announcing the creation of the Digital Screen Network, the UK Film Council awarded a contract to Arts Alliance Digital Cinema (AADC) to install and run the network.

In 2007, Arts Alliance Media completed the installation of the DSN. Furthermore it announced Europe's first Virtual Print Fee (VPF) deals with Fox and Universal. In addition to digitising cinemas in Britain, AAM operates a digital cinema circuit in Norway and has also installed screens in Spain, the Netherlands, Italy and Denmark.

While the network was able to celebrate early successes, like the UK Film Council and BBC Two's sold out 'Summer of British Films' season – which was hosted by the Digital Screen Network cinemas in 2007. Unfortunately there has been little follow-up research to establish evidence of its long-term success.

Sources:

<http://news.bbc.co.uk/1/hi/technology/4297865.stm>

<http://www.artsalliancemediacom/documents/DigitalScreenNetwork.pdf>

<http://www.ukfilmcouncil.org.uk/dsn>

[http://ec.europa.eu/competition/consultations/2009\\_digital\\_cinema/uk\\_film\\_council\\_en.pdf](http://ec.europa.eu/competition/consultations/2009_digital_cinema/uk_film_council_en.pdf)

Germany: guaranteeing the future of the independent cinema sector

While cinemas across Germany have experienced a gradual conversion from analogue to digital over the previous years, in February of this year the first government intervention in this area was established. "Für eine Kinodigitalisierung, die den Erhalt unserer Kinolandschaft sichert" ('digitalising cinema, in a way that guarantees the future of our cinema sector') is the tagline of a government initiative that supports the implementation of digital projectors across Germany. The intervention is also distinctive in outlining that the projectors do not necessarily need to meet the expensive DCI- standards, as smaller and commercially less

successful cinemas would struggle financially with such an investment (which is only partially publicly subsidised). The primary motive for the intervention is to secure the survival of independent cinemas, as well as the diversity of Germany's cinema landscape.

The intervention outlines the formal agreement of the government to financially support digital transformation; however details on the precise budget are still pending. In addition, the intervention states that it will only support the implementation of digital projectors in areas where the regional government will also agree to contribute towards the costs. In the event that regions are unable to offer financial support, the government has appealed to the distributors – who will receive the greatest financial gain from the initiative – to step-in and contribute to the funding until the regions are able to financially support the scheme.

Source:

[http://www.spdfraktion.de/cnt/rs/rs\\_dok/0,,55622,00.html](http://www.spdfraktion.de/cnt/rs/rs_dok/0,,55622,00.html)

Finally, an interesting new development is that, as technology continues to change the way film is distribution and consumed, public policy is turning its attentions towards online digital distribution. In particular, the MEDIA programme now supports online film content distribution via Video on Demand (VoD) platforms to support European titles in ensuring they achieve better distribution. In 2010, MEDIA invested 6 million Euros in such European on-demand content platforms.

## Fiscal Incentives

Since the 1980s, a host of national, regional and even local governments around the world have attempted to attract and boost film production activity through providing a range of varying fiscal incentives. Initially, these initiatives were driven more by a desire to grow and support indigenous film making, and therefore the policy priorities were broadly cultural. However, as film production became more

internationalised and ‘footloose’ during the 1990s, governments increasingly began to use fiscal incentives as part of their economic development strategies, as the economic gains from hosting Film and TV productions became apparent.

In the present day, fiscal incentives for filmmaking have extended to incorporate post-production and SFX, and in many cases also extend to non-theatrical productions. Ireland, for instance, offers fiscal incentives for Film, TV, commercials and any digital production, including games. Fiscal incentives, then, have become a key pillar of film policy in many countries, whether in developed film markets such as North America, Europe or Australia/New Zealand, or in newer, emerging film markets – such as the examples provided below. The examples also show how fiscal incentives can co-exist and function in tandem with, other film policy instruments, such as production funds and co-production agreements.

Comparing incentives is complicated as they each differ in terms of their particularities. This includes (among others), differences in the following:

- Nature of the incentive – some fiscal incentives are simply ‘cash rebates’ (essentially government grants) that can be claimed against a designated proportion of production costs spent in a designated territory (e.g. country or region), whereas other incentives focus on reducing the tax payable on film-related activity, traditionally the initial production investment but also in some cases on the commercial returns from film investment.
- Timing of the draw-down of the incentive: tax incentives are pegged to the financial year and therefore can only be recouped at the end of a tax year. But those countries and provinces that offer cash rebates can provide these to production companies much quicker – for instance at the end of a shoot (e.g. in Washington State), or even at the beginning of the first day of principal photography (e.g. South Australia) – this is often when funds are needed the most.
- Level of the incentive – this covers both the % of the budget that can be offset against tax or that qualifies for a cash rebate, but also

whether there is a ‘cap’ on the absolute amount that can be claimed via the incentive for any one production.

- Qualifying rules – there is real variation from territory to territory on what the rules are for qualifying for tax breaks. For instance, for countries offering national tax breaks for filmmaking, there are usually cultural ‘tests’ that must be passed by productions in order to qualify for the tax break. These assess the degree to which different elements of a film – its story, language, the main actors and creatives, the finance, the location shooting and post production work – are based in/originate from that country. Although the main elements are quite common across different territories, the weighting given to each individual element varies considerably.
- Types of qualifying expenditure – as noted above, this can include whether the incentive is restricted purely for films intended for theatrical release (as in the UK), or is applicable for a broader range of audio-visual productions. But it also extends to what links in the supply chain can qualify (e.g. post production, SFX), and what other wider costs can be claimed (e.g. office lease, telecommunications costs, accommodation, etc.).

#### Hungary

Since the 1990s Hungary has played host to a number of international film and TV productions. Most recently *The Borgias*, Showtime’s follow-up to its historical romp *The Tudors*, was filmed in Budapest. The city was chosen for its diverse architecture and low production costs. In addition to low labour costs and attractive cityscapes, Hungary has also been able to offer producers substantial tax incentives to encourage them to choose Hungary over other locations. In addition to increasing the number of films produced in Hungary, the incentives and refunds also aim to increase future film production capacity by drawing talents and experts to the country, thereby building up the capacity of the local production base while having a positive impact on the national economy.



The tax incentive system provides:

- financial refund and investment opportunities to encourage foreign film producers to choose Hungary to make their films
- encourages Hungarian businesses to develop services and infrastructure to support film production
- allows for investment in film to come from businesses' pre-tax profits and investments come from the pre-tax profits of business
- potentially lowers individual's tax contribution by investing in film production - there is a 50% reduction in the tax payable on film revenues for those Hungarian taxpayers that have invested in films.

Hungary also distinguishes between 'films produced to order' and 'films not produced to order'. In the former are films made in Hungary by foreign filmmakers with the participation of a commissioned Hungarian film production company. 'Films not produced to order' are those where a Hungarian company is solely responsible for production and the film is supported by domestic investment.

The first model typically caters to foreign productions that have already secured all of their financing. The incentive attracts foreign companies by reducing their costs via the tax refunds, but it is also designed to encourage investment in production infrastructure by tax incentive. Depending on the region where the investment is made, companies investing a minimum of 100 million HUF can receive a tax incentive of up to 50%, and the incentives also provide for the application of favourable depreciation rules to buildings and equipment.

The second model ('films not produced to order') supports domestic films that have not secured 100% of their financing. In these cases, the Hungarian state provides the gap financing via the incentive system – and in return takes a stake of revenue in return.

Source:

Hungarian Film Commission website: <http://english.mmka.hu/>

## Malta

The Malta Film Commission was set up in 2000, and comes under the umbrella of the Ministry for Investment, Industry and Information Technology. Since the Commission's inception, Malta has doubled as Greece, France, Israel, Palestine, Lebanon and Ancient Rome. It has been the location for a number of high profile films, including *Troy*, *Gladiator* and *U-571*. The Commission has established four key measures designed to encourage film production in the country: cash rebate; tax incentives; investment funds and co-production agreements. Descriptions of the three fiscal elements are provided below.

### *Cash rebate*

In 2005, the Maltese Government announced the introduction of a number of fiscal incentives to stimulate film production in the country. These incentives were made available for feature film and TV productions, including mini-series and soap operas. Animation and documentary features were also eligible for the incentives, provided they were at least partially made in Malta and using a Maltese production company. In order to qualify – and to determine the percentage of rebate that will be granted – productions have to pass 'a cultural test'.

The incentives take the form of cash grants to production houses on the presentation of detailed accounts of expenses incurred and paid in Malta. With this scheme, it is possible to recoup up to 22% of costs incurred, provided the production is deemed to have qualified for the return upon detailed analysis of the accounts by the Malta Film Commission. Expenses for the rebate are presented to the Commission as net of VAT, which stands at 18% and is fully refundable. The cash rebate is made payable across the very wide range of expenses that could be incurred relating to film production activity. This includes Maltese labour, SFX and VFX services, hotel stays, equipment hire; transportation costs; catering; per diems; location fees; office leases for time spent pre, post and during production; props and property (owned and leased locally);

animal care; laundry and cleaning services to telecommunications. In 2007 the rebate was revised according to EU state rules and now stands as the first cash incentive scheme of its kind to be approved in Europe.

#### *Tax incentive*

Filmmakers producing and distributing films in Malta already enjoy the lowest approved corporate tax rates in the EU. But Malta offers a number of specific tax-based incentives for the production of films and related audio-visual works (TV, animation, and commercials).

- VAT rebates – Malta has a Value Added Tax (VAT) charge of 18% on all goods and services supplied in Malta and on all taxable importations.<sup>6</sup> On the majority of goods and services supplied a VAT refund is given to the person/company acquiring the service or good – depending on the types of supplies carried out by that person/company. Additionally, foreign film productions shooting in Malta can claim VAT refunds against a range of ‘input’ VAT costs, such as property rental and accommodation, vehicle fuel, taxis and car hire, and on the cost of materials used in productions that would not otherwise be recoverable.
- Investment Aid for Facilities for filming and audiovisual productions – this is available for a) the acquisition of equipment and immovable property related to film and related audiovisual production; and b) investing in film studio and film sets, editing facilities and filming equipment. The Investment Tax Credit works on either 50% of qualifying investment expenditure or a 50% tax credit of the wage cost for the first 24 months of the newly created job in relation to the supported investment project (jobs must be kept for 5 years).
- Investment Funds – Malta also offers an efficient base for setting up and operating a Film or Media Fund. The fund and its non-

resident investors are entitled to exemptions on income and capital gains tax. Even when the fund/investor has no relation with film or audio-visual production in Malta, tax exemptions are still possible.

Source: Malta Film Commission <http://www.mfc.com.mt/>

#### Bulgaria

The Bulgarian National Film Centre is incorporated into the Ministry of Culture. It is responsible for supporting the creation, distribution and exhibition of Bulgarian cinema. It is also responsible for EU sponsored media training programmes, and running festivals and providing information on the industry.

While the industry in Bulgaria remains relatively small, the Bulgarian film production community proposed a new Bill that would establish a tax incentive in the country. The idea was that the incentive would attract more international film production specifically.

The tax credit system that was proposed would offer a 30% tax-credit voucher for international producers. This would be used to pay income taxes accrued in Bulgaria. If tax credits remained, these could be sold to Bulgarian taxpayers, and the subsequent funds generated re-used to support production costs.

It was hoped that such a system would increase employment opportunities for those working in the film industry and those working in sectors supporting film production, from catering to building. This system was also proposed in order for Bulgaria to remain a viable location for foreign film production in light of increasing competition from neighbouring countries such as Hungary and Romania.

However, in early 2010, the Bill was withdrawn and discussion about fiscal incentives for film production was handed back to the National Film Centre and the Ministry of Culture for a re-think.

Sources: <http://www.nfc.bg/> and  
<http://merlin.obs.coe.int/iris/2010/5/article11.en.html>

<sup>6</sup> Except for accommodation in hotels and licensed premises and the supply of alternative energy equipment where VAT is payable at 5%.