Georgian Film Policy:

Strategic Review

Final Report

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1 Executive Summary

The Georgian film industry stands at a crossroads. Following the collapse of the Soviet Union, the sector has faced 10-12 years of stagnation due to general economic problems associated with the transition from a planned economy to a market economy; due to infrastructural issues deterring inward investment; and due to a lack of investment in skills and training across the value chain. However, this report is testimony to the ambition of the Georgian National Film Centre (GNFC) and its desire to achieve growth for the sector, to develop and learn lessons from international best practice, and to develop a coherent and progressive film policy which positions film at the heart of Georgia's strategy for creative growth.

This is an opportune moment for such a project. Digital technologies are transforming the sector, creating challenges for established business models due to the growth of piracy, but also providing emerging nations with new opportunities for distribution and consumption. Moreover, shifts in the political economic structure of film, with the rise of indigenous production in Eastern Europe, India and China, shows that there is an increasing global demand for filmic content which has local roots but global ambitions.

Within this broader context, this report is a strategic review of the current situation for the Georgian film sector, and offers a strategic vision and set of recommendations for its future development and growth.

Research for this study suggests that currently, the Georgian film industry needs to address the following pressing issues:

- A key impediment to the growth of indigenous production is a lack of commercial and technical skills within the production community.
- The infrastructure for training, production and post-production is inadequate and needs investment. It consists of 6 leading production companies, couple of post production facilities and fairly underdeveloped sales and distribution system. Over the period of 2000-2008 only 18 feature films were produced in the country. There are two main educational institutions offering film curriculum (State University of Theatre and Film, Tbilisi State University) and one leading NGO providing professional training (IFA-SC).
- The major obstacles for the development of the Georgian film sector are skills shortage, out of date infrastructure, monopolized cinema circuit and weak distribution. Additional weaknesses lie in the unclear taxation for film production companies and an early stage of general co-operation among the sector representatives.

In order to address these issues, and based on evidence from international best practice, we recommend that GNFC focuses attention on the following 3 areas:

1. Developing the Film Value Chain
2. Funding and developing financial incentives
3. Developing the strategic support framework

By focusing on these areas, we have identified the following **Priority Action Points** for GNFC to explore with the relevant partners:

Developing the Value Chain

- Develop an education and training programme to enable the industry to compete globally on the basis of high-level skills
- Create more opportunities for film consumption by working in partnership with schools, universities, and developing a digital screen network in non-cinema venues
- Negotiate control of Georgia's archive and assign all rights to an established trust
- Develop a funding strategy which finance films with a clear marketing and distribution plan
- GNFC should focus on exploiting the distribution potential of emerging business models for digital distribution for the wider dissemination of Georgian films

Funding

- Unlock additional funding options via creation of a 1.5% tax on cinema and television advertising revenue, cable and satellite profits, broadband income and gambling revenue. This will help develop the creation of a content production fund.
- Produce Taxation Guidelines to film businesses based on the current legislation. This shall be a result of joint work between GNFC and relevant fiscal authorities.
- Incentivise the private sector to invest in Georgian films through tax rebate when a private sponsor contributes 20% of Georgian production budget of a film to a production company. In its turn, the corporate sponsor benefits from the tax credit – offsetting the 20% contribution against their payable corporate income tax.
- Introduce a development tax allowance if local or foreign producers (companies) are investing in development of the film infrastructure in Georgia.
- Introduce National Lottery funding as a model for the development the film industry, clearly if Georgian government supports the initiative.
- Develop funding streams for film projects through the main public broadcasting organisation as per the Netherlands model discussed in 5.2.3.

Developing the Strategic Support Framework

- Develop a knowledge transfer network to facilitate closer collaboration between the film industry, the creative and digital industries and the HE and commercial research base
- Join the European Film Commission Network to develop the film location service and drive inward investment through film production
- GNFC's research and policy should develop the evidence base for the film sector and make information based decisions
- Explore the possibility of joining EURIMAGE, to participate with the MEDIA programme, and exploit possible coproduction opportunities through European Convention on Cinematographic Co-productions.

There is little time to lose if Georgia's film sector is to achieve its full potential. We propose broadening the GNFC's leadership and partnerships as first steps towards taking the programme forward.

While Georgia's film policy should be ambitious it also needs to be realistic. The industry is highly competitive, and is likely to face a number of funding issues in the context of the current recession. However, this is a key moment to develop a sustainable programme for the development of the sector, that does not only rely on tax credits, but recognises the importance of developing the film value chain, skills training and infrastructure in order to achieve growth for the future. **Tax credits are vital, and will play a key role in developing a critical income stream for the programme of activities that we suggest in the recommendations. But tax credits alone are not enough to attract inward investment and co-productions – in a highly globalised and competitive market the other factor associated with the value chain are key determinants.**

2 Introduction

The Georgian National Film Centre (GNFC) has commissioned BOP Consulting to conduct a strategic review of the Georgian film industry within an international context, with recommendations for the development of film policy to develop the sector in the future. This work is designed to complement the local research which has been undertaken into the Georgian film industry by ACT Marketing Research and Consultancy, as well as the financial analysis done by independent auditors, Irina Dadvani and Kote Gorbatkov which examined the distinctive features and problems of taxation in the film sector. As such, this report is specifically designed to provide a strategic direction of travel for policymakers in the country as they seek to address current barriers to growth and challenges for Georgian film, and help create a sustainable and dynamic sector that can compete within an increasingly competitive global market.

The report is structured as follows:

- Section 3 of the report provides a summary of the Georgian film industry, assessing capacity, exhibition and distribution, skills and training, and existing barriers to growth.
- Section 4 the report undertakes an analysis of the film sectors for six countries around the world, examining policies and specific interventions, including training, financial interventions (such as tax credits). This was for the purpose of providing an international context for the development of Georgian film policy, and to understand lessons that have been learned internationally.
- Section 5 develops a set of specific recommendations for the development of the Georgian film industry, based on this detailed evidence base. They are focused around financial and taxation incentives; developing the supply chain, exhibition and distribution; and communication and signposting.

2.1 Methodology

This study is based on both primary and secondary research, undertaken in the UK and in Georgia.

The sector analysed in this report is the Georgian film industry, which includes all elements of the film supply chain:

- Pre-production
- Production
- Post-production
- Support, marketing and legal services

At the national level, ACT Marketing Research and Consultancy undertook extensive consultation with the Georgian film industry, to explore the current state of the sector in the country. This research was guided by the lead consultancy, BOP Consulting.[1] This research was done to examine the following areas:

- Existing practices within Georgian film production
- Existing financing for Georgian films
- The strengths and weaknesses of Georgian film production
- The distribution capacity for the Georgian film industry
- The existing exhibition capacity of the Georgian film sector in terms of local festivals, involvement in international festivals, and the cinema infrastructure.

The findings of this research are summarised in this report.

Alongside this local research, BOP Consulting undertook extensive desk research and stakeholder consultation in order to contextualise the local research findings, to provide international case studies of relevance for the development of Georgia's film sector, and to develop the strategic recommendations for the development of Georgian film policy in the future.

3 The Georgian Film Industry

3.1 Introduction

In November 1896, just months after appearing in Paris, cinema arrived in Georgia. Soon cinemas such as the Odeon, Apollo and Moulin Electric appeared throughout Tbilisi. 1908 is officially considered the year cinema was born in Georgia.[2]

With the arrival of the Soviets in 1921, cinema became a chief method of propaganda, although Georgia continued to produce films based on national literary classics. All 15 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 the Ukraine producing more content.

[1] BOP Consulting is a leading UK research consultancy in the creative economy, working with the public and private sector to undertake research, strategic development, and management consultancy across the cultural and creative sectors. See www.bop.co.uk for more information.
[2] http://georgien.blogspot.com/2006/12/georgian-film-tele-video-market-17-21.html

Since the collapse of the Soviet Union, the Georgian cinema sector faced 10-12 years of stagnation during which period no films were produced at all. This was due to general economic problems: the transition from planned economy to market economy, skills shortage, and an outdated infrastructure were key issues. An additional problem related to indigenous production was a lack of entrepreneurial skills on the production side. The Soviet definition of a producer can 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 at all who developed a commercial approach towards filmmaking. The problem is still present in within the sector.

The development of the Georgian film sector was a slow process and is still ongoing. It still needs time and effort to establish itself as a sustainable industry. However, the strong will of the Georgian National Film Center (hereafter referred as GNFC) to facilitate development, as well as the unique cinematic heritage of Georgia, hold the promise that the right effort will lead to the positive results.

The description of the film center in this report is mainly extracted from the recent consultation and findings provided via GNFC. We anticipate that some of the data might be inconsistent and need further specification. However, this is again due to the early stage of the development of the sector in Georgia: there is no official statistical data available, and detailed research and evidence on the size of the sector, its economic impact, and outputs, does not exist at present. However, the report outlines the general picture of the sector today.

3.2 Georgian Film sector

This section provides a brief overview of the film sector in Georgia; in particular each major part of the film value chain:

<u>Production</u>

There are currently 6 leading film producing companies in Georgia.[3] These are companies primarily focused on film production. They produce more than one feature, documentary and short films an year.

According to the GNFC data within the period of 2000-2008 following number of films were produced:

- 18 features
- 56 shorts
- 20 feature documentaries
- 50 short documentaries
- 12 animation films
- 4 experimental films

[3] For the details refer to internal Sector Description by GNFC, 2009 available at GNFC offices

Since 2001 GNFC supported the production of:

- 12 feature films
- 22 debut and short films
- 13 documentaries
- 6 animation films

The average budget of a feature-length film in Georgia is an equivalent of 500 000 Euros.

Post-Production

"Georgian Film" is the biggest studio in Georgia aiming to provide full production and post production services for local and foreign producers. It is established on the basis of former state studio and is partly government owned. "Georgian Film" purchased modern production and post-production equipment and will shortly be ready to provide professional services.[4] The major issue related to "Georgian Film" is a skills shortage. The research carried out for this report shows that the industry believes that local post-production personnel do not have the necessary up to date know-how to work on the equipment.

There are 4-5 other companies within Georgia offering lending of film equipment and occasionally producing films as well. Digital direct sound recording and the whole process of post-production is considered to be problematic.[5] So is the price-range for the leasing of the equipment.

Sales / Distribution / Exhibition

The distribution chain in Georgia is owned by one private company. There is no competition and thus, the company has a full monopoly of the sector.

4 cinemas are functioning in Tbilisi (the capital of Georgia) with average 5-6 screening a day. The programming is mainly consisting of US major releases. Recent Georgian films are also exhibited. The price of an admission ticket is approximately 7-10GEL in Tbilisi (equivalent of 3-4 Euros). In other regions the price is lower.

Table 1: Exhibition infrastructure in Georgia

Location	#	Movie-theatre	Screen	Seat
Tbilisi	**1**	**Rustaveli**	**5**	**858**
			I room	**405**
			II room	*154*
			III room	*106*

[4] For details visit http://www.filmingeorgia.com/

[5] IFA-SC purchased a set of direct sound recording equipment for the three countries of the South Caucasus. The demand does not prove to be that high. It is not just the existence of the equipment in the country. The whole behaviour of the shooting should be changed (director, actors, etc). Thus, having equipment is not a solution of the problem.

			IV room	*102*
			V room	*91*
	2	**Amirani**	**2**	**566**
			I room	*450*
			II room	*116*
	4	**Cinema House**	**1**	**200**
	5	**Akhmeteli**	**1**	**157**
	sub-total			**1921**
Kutaisi	**6**	**Sakartvelo**	**2**	**300**
			I room	*150*
			II room	*150*
	7	**Suliko**	**1**	**300**
	sub-total			**600**
Batumi	**8**	**Tbilisi**	**1**	**389**
	9	**Cinema**	**1**	**210**
	sub-total			**599**
Rustavi	**10**	**Rustaveli**	**1**	**195**
Borjomi	**11**		**1**	**220**
Signagi	**12**	**Qiziki**	**1**	**126**
Zugdidi	**13**	**Atriumi**	**1**	**300**
Chiatura	**14**	**Magaroeli**	**1**	**150**
Sachkhere	**15**		**1**	**150**
Abasha	**16**		**1**	**150**
Telavi	**17**		**1**	**120**
Gori	**18**	**Gamarjveba**	**1**	**600**
Bakuriani	**19**		**1**	**150**
Kodori	**20**		**1**	**150**
Zestafoni	**21**		**1**	**150**
Akhalcikhe	**22**		**1**	**150**
Akhalqalaqi	**24**		**1**	**150**
Tamarasheni	**23**		**1**	**150**
Total			**30**	**5821**

Before the Russian-Georgian conflict broke out in summer 2008, films were imported through Russian distributors, who own the rights for former CIS countries. The films were dubbed in Russian language.

Since the conflict occurred, Georgian distributors import films from Europe, which is a more complex process. The deals are more expensive and films are dubbed in Georgian language. The latter is not always welcomed by local audiences.

There are no local sales agents in Georgia. Most of the sales deals are handled via producers themselves. No Georgian film has been sold for European release.

Education and other sector specific institutions

There are two main educational institutions in Georgia offering film curriculum: State University of Theatre and Film and Tbilisi State University. General local opinion is that both institutions need to strengthen their provision. GNFC identifies that the educational provision is not up to date in Georgia.

The key organization in Georgia providing local professional training is "independent Filmmaker's Association – South Caucasus (IFA-SC) – founded in 2005.[6] This is a non-governmental organization operating on a South Caucasian level (Armenia, Azerbaijan and Georgia). IFA_SC provides up to date training to local professionals with regard to content development, the promotion of South Caucasian films, and brings filmmakers from across the region to work together. The IFA-SC is supported by the Swiss Agency for Development and Cooperation.

"Georgian Authors Rights Protection Agency" is the only organization working on copyright issues in Georgia.

Festivals

Tbilisi hosts two major international film festivals: Tbilisi International Film Festival and Youth Film Festival, *Sesily*. Both are partially supported by GNFC.

Tbilisi International Film Festival is held annually. It is a non-commercial cultural event organized by Cinema Art Center *Prometheus*. It is aimed on introducing world cinema to the wide audiences in Georgia. The Festival has two official awards: *Golden Prometheus* and *Silver Prometheus*, as well as Parajanov and Fipresi prizes[7].

3.3 Current policy support for films in Georgia

Current Georgian legislation to support the local film industry consists of the Constitution of Georgia and Georgian law on culture and is made up of the following legal frameworks:

- the law concerning state support to the national cinematography
- the law concerning copyright and neighboring rights
- law concerning creative labor and creative unions
- Law concerning the protection of adults from harmful influence and other related normative acts. [8]

The key document providing the framework of state support to filmmaking is the Georgian Law on State support to Georgian National Cinematography (dated December 5th, 2000).

As a country in transitional economy, Georgia has and continues to face serious social and economic problems and therefore, the cultural sector has never been a priority area for the government. However, several strong representatives of Georgian cinema still managed to lobby for filmmakers interests. The result of their activities was the

[6] See www.ifasc.org.ge
[7] See www.tbilisifilmfestival.ge
[8] The mentioned laws are available on http://www.parliament.ge/index.php?lang_id=ENG&sec_id=69

establishment of Georgian National Film Center (GNFC)[9] in April 2001. This was one of the first structures established in Georgia aiming revitalization of local film sector.

GNFC is a legal entity of public law under the Ministry of Culture, Monuments Protection and Sports. GNFC funding is allocated via the Ministry from the stage budget funding. Average annual budget of the ministry is 85 million GEL, whereas financing of GNFC is in the area of 2million GEL.

GNFC funding sources according to the law are:

- Allocated means from the State budget of Georgia and from the appropriated local budget.
- Received incomes from the execution of the State orders.
- Received incomes from the service fulfilled based on contracts.
- Received incomes from the additional production activities and other incomes premised by the Georgian legislation.

According to the provided data the only actual funding available to GNFC is the annual allocation of the state budget.

The aim of the GNFC is to ensure an ongoing development of Georgian film sector.

The activities of the GNFC are aimed at supporting national film production (via pubic subsidizing), developing infrastructure and technical facilities; creating favorable conditions for the distribution and screening of national films; supporting and implementing scientific and educational programs and other sector specific activities.

The GNFC acts independently from the Ministry. It is headed by the Director, appointed by the Minister of Culture, Monuments Protection and Sports for a 3 years term. GNFC has the following departments: Administrative, Film production, and Information and Archive. Each department has a Head of department.

Inevitably GNFC is the only public authority providing support to filmmakers. According to its regulatory provision it is entitled to support local filmmakers in all aspects of the filmmaking. However GNFC has a very limited budget and its activities are restricted.

It is important to underline that the financing of GNFC has increased by more than 50% since 2006, yet the overall amount of funding is not sufficient for proper functioning. Evolution of the total budget and allocations among GNFC departments is presented in the Table below:

Table 2: GNFC's budget and allocation for specific areas

Budget Item	*2006*	*2007*	*2008*	*2009*
Administrative Department	221,000	244,660	320,000	424,600
Film Production Department	910,000	910,000	1,190,000	1,372,000
Film Export Department	39,000	40,040	50,000	70,000
Information Department	104,000	55,380	90,000	90,000

[9] For detailed activities of GNFC see http://www.filmcenter.ge/

Archive Department	26,000	49,920	50,000	43,400
Total	**1,300,000**	**1,300,000**	**1,700,000**	**2,000,000**
rate* 1 Euro	2.23	2.29	2.19	2.18
Total Euro	**583,046**	**568,622**	**776,901**	**916,338**

Source: Georgian National Film Centre, 2009

To put these figures into an international context, please refer to the comparative matrix in section 4.4.1. This clearly shows that Georgia has significantly less public funding than other countries in Europe, which is significantly hampering its ambition to create a sustainable and dynamic film industry.

GNFC funding for local films is provided through a competitive tendering process. GNFC then decides upon the content of competitions on an annual basis.

In 2008, 7 feature films were released in Georgia; 4 films were supported by GNFC. In 2009 6-7 feature film will be released; 3 of them are supported by GNFC.

An Expert's Commission has been established by GNFC to decide upon projects and which makes the decision with regards the funding competitions. Composition of an Expert's Commission varies according to the content of competitions. Each competition has separate commission of approximately 5 members each. The expert's Commission decided upon the successful projects.

GNFC generally calls for financial support of following categories:

- Support for film script development
- Support for project development
- Support for national film production
- Support for distribution of a national film

There is a legal condition related to the financing: state subsidy shall not exceed 75% of a total budget when financing film production and 50% of overall costs of distribution when financing distribution of a national film. In order to access the financing a producer shall present a document securing 25% of missing funding of the budget (in case of feature production).

GNFC is eligible to fund national films only. A film is considered to be National only if

- It is made in Georgian national language;
- the producer of the film is a citizen of Georgia or a legal entity registered in Georgia;
- the authors of the film are the citizens of Georgia;
- the film production group (staging directors, operators, sound operators, staging operators, painters, costume designers, editors, actors in the main role) is composed of no more than 30% of people without Georgian citizenship;
- No less than 50% of the works in the film production, multiplication, renting and projection, is implemented by the film organization registered in Georgia (Article5, law on State Support of National Cinematography).

It is important to underline that according to local consultation local producers have a generally positive attitude towards GNFC and find their work supportive. However the amounts available via GNFC are insufficient. Filmmakers assign a crucial role to GNFC in lobbying for their interests in front of the government, as well as promoting local products internationally but more funds are needed to achieve this goal.

3.4 Obstacles for the development of the Georgian film sector

GNFC in its capacity as the lead film body is able to draw on extensive dialogue with the sector and has identified the following obstacles and barriers to proper functioning and to the growth of the sector. These are supported by the recent consultation which is set out in section 3.5.

- **Skills shortages**

A major obstacle is a shortage of creative producers, those combining creative vision and entrepreneurial capability. In Soviet times there was no need for fundraising activities or project development, as films were state financed. There is a pressing need for entrepreneurial producers with solid knowledge of film financing options, negotiating, and a broad understanding of IP law.

On the other hand, due to the fluctuating demand for technical film crew, some skills are not mastered any more (lights engineering, post-production) and the overall level of skills is low (sound recording, post-production, etc).

- **Infrastructure**

Local infrastructure is not up to date. Even those local companies which have invested in modern equipment (e.g. “Georgian Film”, IFA-SC) cannot provide high profile technicians.

Generally, infrastructure in the regions of Georgia (hotels, roads, etc) is not well developed, thus it is particularly complex to organize travel and shooting outside the capital.

- **Distribution**

Although there are 23 cinemas in the country, only 10 of them are functioning on regular basis. Local cinema circuit is owned by one private company which dictates rules to local producers. The box office data is unavailable.

Exploitation of other revenue streams, such as DVD, and online downloads, is not utilized due to unlimited access to illegal DVD/downloads in Georgia. The consultation, and existing evidence suggests that there is higher demand for illegal DVDs and downloads than there is cinema attendance.

Foreign films are often dubbed at a very low quality.

For certain groups of people cinema visit is an expensive mean of entertainment.

- **Networking & Co-operation**

Broadcasters do not finance local films.

There's no practice of official co-productions, even though Georgia is part of European Convention on Cinematographic Co-Production. However, GNFC has just been granted the status of *Competent Authority* recently and needs to explore the opportunities offered by the Convention. See This report shows that there is need for urgent action to develop an adequate strategic framework for the development of the Georgian film industry to guide development across all aspects of the film value chain.

The revitalization of the film sector in Georgia started two years ago and is still in progress. There is much ground to cover and it will still take a substantial amont of time to make the Georgian film sector an economically viable industry. However, we believe that if the recommendations in this report are followed, then the transformation of the sector will be deep and lasting.

Clearly, financial incentives are critically important. If a suitable tax break is introduced in Georgia then this will fundamentally change the behaviour of producers (ensuring the transparent provision of budgets, the production of relevant detailed invoices, and so forth), creating a more entrepreneurial and professional culture. GNFC can aid this process by introducing a set of internal changes focusing on the certification of productions, and by developing a set of clearly established criteria for the qualification of funding for national films, for example. Our recommendations also provide a means by which the film sector can generate essential revenue for public investment, through tax credits, lottery funding, and direct taxation of public broadcasters, amongst a range of means.

These are important steps. However, if the Georgian government's ambition is to position the country as a film friendly one, it should be strongly noted that whilst important, tax breaks alone are not an adequate **solution. Genuine attention must be given to developing technical and commercial skills within the sector, as well as recognising the crucial importance of infrastructure and** political stability as factors that strongly influence the decisions of foreign producers to bring productions to international locations. Tax breaks are only one part of a much wider set of the requirements.

This recognition is vital, not least because the trend towards foreign producers shooting film in favourable territories is now clearly established. For example, in the 1990's Prague was a major location destination for US majors as well as other independent producers. Today, similar productions go to Hungary, Bulgaria and even former Yugoslavian territories, such as Serbia. All those countries, and indeed other territories, are competing **for the same share. Thus, Georgia should not just offer a favourable tax regulation, but more importantly a range of highly professional services, such as crew, hotels, communications, studio infrastructure, foreign language speaking talent, low bureaucracy on filming in public locations, and a commitment to** the health and safety of production teams. Developing these assets is a priority action if Georgia is going to successfully compete with Hungary or other film friendly countries. Therefore, public policy attention must be focused on the need for training, skills and education, as well as tax credits. Equally importantly, attention should be granted to the strengthening of local distribution and to facilitating the emergence of a more commercial and ambitious approach amongst Georgian filmmakers.

Ensuring a progressive approach towards distribution for Georgian productions is also vital. As an absolute priority, local distribution must be strengthened. It is highly unlikely that Georgian films will become economically viable via international distribution only.

Moreover, no foreign partner is interested in a film if the country of origin cannot provide local box office figures. Therefore, finding ways of strengthening local distribution within Georgia, and capturing box office figures, will be of crucial importance.Futhermore, apart from conventional distribution models, we strongly recommend that the emerging opportunities presented by digital distribution should also be explored. This model could provide an easier means for local productions to reach international markets.

Strategic **and organisational development of the film support framework is also vital.** The findings of the local consultation undertaken for this report, as well as the international analysis, shows that there must be an organization to be in charge of the control of the strategic development of film sector in Georgia. It is logical for this to be GNFC, as it has already impressively demonstrated its capacity to be an agent of positive change for the sector.This means that **GNFC must be strengthened as a leading public authority.** It must analyse the evidence presented in this report, and quickly move to define priorities for the local context.

Strengthening GNFC's capacity to commission and undertake research will be crucial to the successful development of the sector. The decisions that need to be made to develop the sector must be based on a longitudinal programme of research in order to build the evidence base, and to be able to make informed decisions based on timely information. Therefore, the recommendations within this report will need to be further researched and their feasibility should be tested within local context. All international comparisons provided in this report and any other sources should be carefully considered, but used for the reference only. In order to decide what could be the best local practice for Georgia further feasibility research will need to be undertaken with regard to the specific interventions (tax break, lottery funding etc) . Decisions should be made that connect to the wider cultural and economic realities of Georgia if they are going to make a transformative difference.

Of **course, solutions to the issues facing the Georgian film** industry cannot be imported in an ad hoc fashion from abroad. The best options will always emerge from consultations **and lessons learned. However, the stage is now set for the GNFC to take the strategic recommendations within** this report to the next level, and to consult with national government. The evidence presented from the international experiences of individual countries will be vital as a learning tool to inform policy decisions in this area. We hope that the evidence and recommendations presented within this report will act as a catalyst for the progressive renewal of the Georgian film industry, and set the stage for a cultural policy which facilitates a framework to support and develop the creativity and passion of Georgian film-makers.

Appendix 1 for full details of the European Convention on Cinematographic Co-Production.

Georgia is not a member of the EURIMAGES - Council of Europe fund for the co-production, distribution and exhibition of European cinematographic works.

- **Taxation**

Due to complex tax requirements and demand for cash spending, local producers try to hide expanses of their films. In such cases very often the actual budget of a film and the actual cost report are showing different figures.

3.5 Findings of local consultation

As part of the review of Georgian film policy GNFC has commissioned local consultation to capture the views of **key representatives** of the sector. The consultation was lead by *ACT Marketing, Research and Consulting.* Full version of their findings and the consultation is available via GNFC. Below is a brief overview of the main findings:

<u>Production</u>

The film sector in Georgia is in the early stage of development. Within the last 5-6 years number of film production companies has increased. Yet none of them have planned annual production target. This means that the number of productions is not systematic (with one or two exceptions). This is mainly due to lack of financing.

The only available local support to film production is subsidies allocated by GNFC. It always covers a certain percentage of a film budget. The key issue is that Georgian producers have no alternate local funding options. Broadcasters are reluctant with regard to film financing. They mainly produce in-house TV series. The private sector does not consider film producing a profitable domain for them to invest in. There are no fiscal initiatives which would stimulate private investments in film.

<u>Skills</u>

Local producers identify strong skills shortage within the sector. Indeed, due to the non-regularity of productions and an overall lack of demand, some skills are not available at all, or the level of skills is very low: e.g. professions such as film makeup artists, electric engineers, costume designers and other key members of a crew.

<u>Infrastructure</u>

Current infrastructure is not up to date either. There is a shortage of film pavilions, and post-production facilities. Almost all of the research interviews mentioned genuine problem in terms of post –producing a film in Georgia. There are no post-production facilities which could allow delivery of final product in Georgia.

On the other hand, the newly renovated company “Georgian Film” has purchased up to date post-production equipment of 2.8 million Euro. Nevertheless, local producers are reluctant in buying its services as the staff is not perceived to be skillful and there are worries that the film might be damaged if it is sent there. This is another big area where the skills issue is high on the agenda.

Another major impediment is that specific insurance packages for filmmaking processes are not available in Georgia.

Generally, infrastructure is not ready to host high number of productions either: e.g. it is hard to organize a shoot outside the capital due to small number of hotels, and poor road infrastructure.

Taxation / Fiscal initiatives

Opinion varies where fiscal initiatives are concerned. Almost all consulted professionals agree that current taxation rules need further clarification with focus on film specific processes. There is no common practice about how taxes should be applied.

They have different views on introduction of tax breaks in Georgia. One part of the interviewees considers that a specific tax break for film businesses would incentivize private investments in films. Some others consider that it will only be another form of money laundering.

However, despite this difference of opinion about whether film production should be tax exempt or not, all the local film producers consulted with see the need for certain incentives which could make financing of films more profitable for the private sector. They considered various options, including: local exhibitors allocating a certain percentage of annual income to the GNFC; other more profitable sectors allocating a certain percentage of their income to film productions in Georgia. It has to be underlined that the any fiscal initiative that might be introduced in Georgia would need to be tested by local professionals to evaluate its feasibility in economic and operational terms.

Distribution / Exhibition

The main channel of film distribution in Georgia is theatrical release. The practice of licensing current productions to local broadcasters is insignificant. Local producers consider the offered fee is very low and are not willing to assign TV rights (average 200-300 per one transmission). Thus, this stream is not exploited. .

The DVD market in Georgian is 90% illegal. One can buy or download almost all films without paying for them. Local films are rarely produced on DVD for wide release, as producers think it is not profitable source of income generation.

According to these findings, the only stream of revenue generation in Georgia nowadays is theatrical distribution. However, it is not feasible to break even on a film via local distribution only. According to the provided reports there is only one large cinema circuit in Georgia. It consists of 3 cinemas in the capital and 4 cinemas regions. There is certainly also a monopoly in film exhibition sector which logically leads to the reality that cinema owners dictate conditions to film producers.

Cinemas underline the recent increase on demand for local productions; they are willing to exhibit local films. Yet the limited exhibition facilities make it almost impossible for a film to break even through this stream only.

Social/Cultural value

Despite these many challenges, it is vital to stress that local producers consistently emphasized the strong social and cultural values that are attached to indigenous Georgian films. Cinema in this context is used a mode of communication. Films act as ambassadors of the country on an international level. Interviewees are confident that the promotion of Georgian films will become easier in time as the country has a deep historic background which is appealing to an international audience. Yet the specific means of reaching this target audience are not discussed by the production community. The interviewees generally expected that the state should intervene and lead the process of promotion

3.6 Financial analysis

The Georgian taxation system has been simplified significantly over the last four years and is one of the most businesses friendly in the region.

Table 3 outlines the major tax types and relevant current and projected rates.

Table 3: Tax typology in Georgia

Taxes	2008	2009	2010	2011	2012	2013
Income Tax	25%	20%	20%	18%	18%	15%
Profit Tax	15%	15%	15%	15%	15%	15%
Dividend Income Tax	10%	5%	5%	3%	0%	0%
Interest Income Tax	10%	7.50%	5%	0%	0%	0%
VAT	18%	18%	TBD	TBD	TBD	TBD
Property Tax	1%	1%	TBD	TBD	TBD	TBD

Table 1: Ministry of Finance www.mof.gov.ge

Financial support for Georgian film production is only available as a result of the Georgian law on State Support of National Cinematography. This law sets out a framework for support both through direct financing from the state budget and indirect funding as a result of the favorable tax regulation of film businesses. However the latter has never been actually implemented and film producers have never actually been granted any tax breaks.

Currently enterprises (in their various legal forms) engaged in film making activities are subject to the same taxes as all other businesses. This means that Georgian Tax Code does not stipulate any allowances for the film production sector. As the international analysis in section 4 of the report shows, this is unusual. The current tax model also fails to take into account specific features of film production and there are number of uncertainties related to tax accounting of the sector.

Local tax experts commissioned by GNFC identified the following core problems related to film businesses:

Value Added Tax

- Normative documents about the Georgian cinematography include such concepts as “director”, “film producer”, “film distributor”, etc Based on these terms it is difficult to define the moment when VAT is applicable. This tax is related to the transfer of ownership over output/service from one owner to another. In the film production sector it is difficult to define an owner of a film as an asset.

- The Tax Code does not stipulate any form of allowance for the national film production sector like it is stipulated in the medical sector [10] or education service sector)(Article 230, Tax Code of Georgia).

Profit and income tax of non-residents

- The tax and other legislation do not provide definite answers for determining the taxable profit in film businesses. It is difficult to define revenues generated in the sector and the deductible expenses.
- Taxation of the funds received from the state budget (susidies) is a complext issue as well. Currently such subsidies are included in the profit calculation and are taxable. That obviously reduces the amount of public subsidy actual spent on films.

Property Tax

- The Tax Code does not clearly define what kind of product is a film and if
  - it is possible to treat it as a fixed asset
  - depreciation shall be charged to it
  - it property tax is applicable

Expenses Recognition is other major problematic issue in the taxation. Peculiarities of film production render it necessary for the tax code to be more definitive and relevant to the sector.

The findings of local tax experts show that explanatory action for tax applicability is of core importance in Georgia. Assumingly, it's more important to clarify the current legislation as a priority action and only after, introduce other fiscal initiatives.

3.7 SWOT analysis

Strengths

- One of the major strengths of the Georgian film sector is its rich cinema heritage. Despite the problems facing the sector, the Georgian talent is there and is eager to tell cinematic stories. This is why nurturing and ensuring the growth of the sector is essential.
- The natural assets and the temperate climate of Georgia are promising elements for positioning the country as one of the most film friendly ones within the region.
- Administrative regulations in Georgia are simple. It is easy to get access to locations. As a rule there are no major needs for permission to film. Georgian people are film friendly, and are always willing to assist a crew.

Weaknesses

[10] rendering of medical service and supply of medications are VAT exempt

- The major weakness of the sector is the skills issue. This comes up in all consultations that GNFC has commissioned. Local talent, especially crew is essential in positioning Georgia a film friendly country. Thus, major effort has to be put to improve film skills level in Georgia.
- The infrastructure has to be further developed. This means having enough hotels to accommodate cast/crew, well developed roads, in place communication means, etc Neither local, nor foreign producers will be keen to produce a film in a country where infrastructure is not properly developed. One of many other reasons will be that lots of time and, therefore money, is spent on operational problems (travel, etc).
- Underdeveloped distribution is another major weakness of Georgia. It is evident from the consultation that the distribution circuit is controlled by one private company and there is no competition of a kind. Moreover, the number of cinemas is very low. Generally, income generation stream locally are almost un-existing.
- Local public funding available to filmmakers is very minimum. GNFC is the only body providing support to filmmakers. Alternative funding options shall be explored and policy framework shall be strengthened as well.
- As a result of all above mentioned weaknesses Georgia films lack promotion and recognition on international level. Even though recently GNFC started to represent Georgian films on various European festivals, it is too early to evaluate the impact of this. Areas of further exploration should be: coproduction agreements, membership to Eurimages, etc
- The existing tax system does not provide favorable conditions for producers.

Opportunities

- Georgia is an emerging film market. Its talent is not yet discovered and thus, through proper development the country's film content could potentially have international appeal. In this sense, Georgia could offer original content to the international market/
- Strengthening of the film sector and adequate promotion would lead to indirect effects such as increase in the number of tourists, and a greater awareness of the country in the international arena.
- A properly functioning film sector will contribute to the economic development of the country via increase of employment; demand on services, and through a multiplier effect in terms of economic outputs.
- The fact that Georgia is now on the international political agenda as a result of the recent conflict with Russia is an opportunity that Georgian filmmakers should capitalize on.
- The sector is beginning to become more coherent – there is greater co-operation, and companies are working together better.

Threats

- The major threat of the development of the film sector lies in geo-political aspects.
- South Caucasian region consists of Armenia, Azerbaijan and Georgia. The countries are close neighbors of Russia. Armenia and Azerbaijan have no political/diplomatic relations due to the conflict of Nagorni Karabakh. The co-operation on regional level is only possible on non-governmental level and is still always under threat of a break out of a new conflict.

- Armenia is a pro Russia country and after the recent Russia-Georgian conflict is under a question mark a potential partner to Georgia.
- The sensitive regional problems are barriers to growth to any sector including films. Establishment of strong regional cooperation would be a major strength for local filmmakers, yet it's less promising nowadays[11].
- Since 2004 Georgia underwent through a significant shift in the economy and achieved on average 10% growth of GDP until 2008. Improvements were driven by the changes made to the Country's economic and fiscal policy and resulting jump in Foreign Direct Investments. However, August war of 2008 and ongoing global economic crisis have seriously hampered Georgia's economic development. Countries Economic outlook is still positive although revised down to 3.5% growth in nominal GDP for 2009[12]. This will have obvious negative impact on local filmmaking.
- Another threat for the development of local industry is related to skills and talent. Due to the lack for the local talent and regular demand those filmmakers who have real talent tend to leave the country. There are many examples of Georgian directors working and producing "German" or French movies (Gela babluaini, Otar Ioseliani, Dito Tsintsadze and others).

4 International Context

The purpose of this section of the report is to provide an overview of international film policy, through a close examination of the film policies and specific state interventions to support and develop film in six countries around the world. The full analysis of each country's film policy, which provides greater context as to how that film policy fits in with the country's wider cultural policy, and economic situation, is available in the appendix. These international comparators were agreed to be of interest for the development of Georgian film policy, through close consultation with GNFC. This section of the report is designed to contextualise the development of Georgian film policy within an international framework, in order to provide an effective evidence base for the development of the strategic recommendations which are in the following section of the report.

In undertaking the desk research and consultation within this area, it became clear that there is a lack of consistent comparable information about film policies, specific interventions and the industry across the comparator countries. This report attempts to deal with this issue through the creation of an easily navigable matrix which summaries the policies of these six countries, and their specific interventions (including tax credits, and co-production agreements, for example). This matrix is available at section 4.4.1.

In undertaking the comparison of the current situation in the Georgian film sector and the international experience, it also became clear that Georgia is facing major obstacles on all levels of the film value chain, as well as general economic barriers. This is why none of the international experiences are advised to be fully copied within the local context.

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[11] IFA-SC is the only NGO operating on regional level in the South Caucasus. Detailed info about the complex character of this co-operation, as well as major achievements can be consulted with its representatives.

[12] See www.nbg.gov.ge and http://www.mof.ge/default.aspx?sec_id=2537&lang=2

The report underlines which of the explored film policies could be the most appropriate lesson learned for the Georgian context.

4.1 Film in an international context

The film industry, for individual nation-states, is of potential significant economic importance, contributing to nation's GDP, exports, and balance of trade. On top of this core direct economic impact, film also has other additional economic benefits with indirect contributions, such as those to supplier industries, tourism, culture, merchandising, trade and the promotion of a nation internationally.[13] Film also plays a crucial role in shaping internal and external perceptions of national cultural identity, and has significance on that basis in terms of cultural policy agendas for nations around the world.

However, outside of a core group of developed nations with significant film industries (still overwhelmingly dominated by the United States), many national film industries struggle to compete, and require significant state intervention aimed at growth and development. In this context, and on a global basis, in order to combat market failure, film is supported through a combination of tax credits (in various complex forms) and direct funding support from the state.

The research undertaken for this report provides details of the different interventions employed by countries in order to develop their indigenous film industries. But first, the report assesses the size of the global film economy, and emerging trends within the sector that are of direct relevance to all nations.

4.2 Overview of global film economy

The world filmed entertainment market is still dominated by the largest developed economies. USA continues to dominate global film production. In 2007, the USA accounted for 41% of the world market, followed by Japan with 9.1%. The next biggest individual territories were the UK, Canada, France, Germany, Italy and Australia.

There are significant global shifts afoot within the global film economy, but it will take time for the full impact of these changes to be seen. Although the Indian market is vast in terms of admissions and both India and China have huge populations and are growing fast economically, their filmed entertainment markets still count in US dollar terms below Australia (population 21 million) and Italy (population 59 million).

[13] For a robust example of a study that examines the economic impact of the film industry in a specific nation-state (the UK), see Oxford Economics (2007), The Economic Impact of the UK Film Industry. London: UKFC, available at www.ukfilmcouncil.org.uk/media/pdf/5/8/FilmCouncilreport190707.pdf.

Table 4: Filmed entertainment revenues by country/region, US$ million, 2007

Country/region	Revenue in US$ million	Percentage of total
USA	35,517	41.3
Japan	7,839	9.1
UK	6,447	7.5
Canada	5,908	6.9
Other Western Europe	5,604	6.5
France	3,823	4.5
Germany	3,220	3.7
Other Asia Pacific	2,793	3.3
Latin America	2,303	2.7
Italy	2,107	2.5
Australia	2,110	2.5
India	1,929	2.2
South Korea	1,769	2.1
Central and Eastern Europe	1,782	2.1
Spain	1,689	2.0
China	641	0.7
Middle East and Africa	423	0.5
Total	85,904	100.0

Source: PricewaterhouseCoopers, Global Entertainment and Media Outlook 2008–2012, June 2008.

4.2.1 Emerging trends in the global film industry

The situation is forecast to change by 2012. According to PricewaterhouseCoopers, India will by then be the seventh largest individual territory, almost equal in size to France and ahead of Germany, South Korea, Australia, Italy and Spain. The USA is forecast to remain the largest single film territory (by a factor of four). Central and Eastern Europe shows substantial absolute and relative growth.

Table 5: Filmed entertainment revenues by country/region, US$ million, forecast for 2012

Country/region	Revenue in US$ million (2012)	Percentage of total1 (2012)
USA	44,528	40.0
Japan	10,341	9.3
UK	7,893	7.1
Canada	7,499	6.7
Other Western Europe	6,578	5.9
France	4,442	4.0
India	4,278	3.8
Germany	4,079	3.7
Other Asia Pacific	3,490	3.1
Latin America	3,182	2.9
Central and Eastern Europe	3,113	2.8
South Korea	2,632	2.4
Australia	2,708	2.4
Italy	2,586	2.3
Spain	1,746	1.6
China	1,531	1.4

Middle East and Africa	575	0.5
Total	111,199	100.0

Source: PricewaterhouseCoopers, Global Entertainment and Media Outlook 2008–2012, June 2008. 'Filmed entertainment revenue' includes box office receipts, home DVD/video (rental and retail) and online rental and streaming revenues. It does not include TV revenues.

PWC have made the following predictions for the global outlook of the film industry:

- Globally, filmed entertainment spending will rise at a growth rate of 5.3 percent, from $85.9 billion in 2007 to $111.2 billion in 2012.
- Global box office spending will increase at a growth rate of 6.1 percent to $36.9 billion in 2012, outpacing the rise in home video spending, which will increase at a rate of 4.9 percent to $74.3 billion.
- Box office spending will be enhanced by digital cinemas and digital cinema upgrades to 3-D.
- Online rental subscriptions and digital streaming will be the fastest-growing component of the market, surging by a projected 32.4 percent growth rate to reach $10.8 billion in 2012.
- This means online rental subscriptions and digital streaming will generate 52 percent of the total projected increase in home video spending during the next five years.[14]

Film production is also now increasingly international. Most recently, the 2009 Oscars show that successful films are increasingly funded on an international basis, and filmed with across a number of countries. For example, the British film *Slumdog Millionaire*, winner of 2009 Best Film at the Oscars, was co-funded under the EU's film support program MEDIA (amongst a number of international funding partners), took advantage of the recent Indo-UK co-production treaty, and was filmed in Mumbai.[15] To date, it has taken $159,226,072 at the box office worldwide.[16] Similarly, *Man on Wire*, winner of the Oscar's 2009 Best Documentary, was funded in the UK, shot in France and America, and is about a French high-wire artist.

This means that national film policies need to be in tune with the growing trend towards the globalisation of the film industry, providing structures that support international co-productions, tax credits for international location and inward investment, and need to make themselves internationally competitive partners.

4.3 Overview of Film in the EU context

It is difficult to summarise European film, from a cultural perspective, from an industrial / economic perspective, or from a policy perspective. There is no single 'European cinema' but rather a variety of European film cultures, languages, administrative structures, histories and policies. However, across Europe, cinema faces common challenges:

[14] Source: Pricewaterhousecoopers, Global Entertainment And Media Outlook: 2008 – 2012.
[15] *Slumdog Millionaire* received 830,000 Euro from the MEDIA program for distribution in 2008 and 2009. The total budget of the film is estimated at 11 million Euros
[16] http://en.wikipedia.org/wiki/Slumdog_Millionaire#Release_and_box_office_performance.

- Few European films reach a wide enough audience to generate sufficient revenues to make the industry self-sustaining. Such trends continue to this day, at a time when the amount of public funding is less available. Annually, over 700 films are produced in Europe. The majority are highly dependent on public funds. Producers, distributors and exhibitors of European films rely on subsidies to fill the growing gap between the costs of making (and making available) the films and the revenues they generate. For many producers, accessing public support has become their main role, more important than creative or organisational input.

- This trend has progressively converted the mission of public funding bodies to enabling production, with only a small role in encouraging quality and good story-telling.

- Convergence and the information and communication technologies (ICT) revolution are challenging existing film policies. The choice is clear: either film policies are updated in order to harness the digital challenge or Europe's film cultures will be left even further behind.[17]

Films that are very successful within their own country are often largely insignificant outside of these borders. Of the 700 films which are made annually in Europe, roughly only 10% will be seen outside of their countries. This means that the majority of films are made via public subsidy (which is estimated to total around $2.5 billion a year in Europe). This is made up of levies on movie revenues, obligatory contributions by broadcasters, tax breaks on money invested in production, and straight government grants. Production subsidies pay roughly 80% of the balance of the cost of production, with the majority coming from national public-service television broadcaster's contributions. For example, a stark statistic shows that in 2005, $1.5 billion was spent producing French films, but sales of those films to territories outside of Europe generated only $70 million.[18]

Moreover, as a recent a survey of national film funds in 29 countries in Europe showed that success was based on festival selections and awards, rather than on the level of audience response, whether the films were commercially successful, or whether they were distributed to other countries.[19] In certain ways, then, the challenge facing European film is at heart an artistic, cultural one – it is about creating a policy environment which not only subsidizes film, but one that encourages the creation of films that are commercially viable with international appeal. At the heart of the challenge is European film directors' ability to be global, and to strengthen their ability to reach and connect with diverse audiences. The challenge is about working internationally, to make European film truly sustainable.

There are clear benefits to be gained from working on a Europe-wide basis, particularly in an increasingly competitive, globalised film industry. The benefits of working on a Europe-wide basis include:

- Learning from experiences in other countries and sharing successful strategies

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[17] Henning Camre and Jonathan Davis (2007), *The Trouble with European Cinema*, available at http://www.dfi.dk/NR/rdonlyres/4FA87CBD-897F-41FE-BCA0-8B5424C7C0FF/0/TroublewithEuropeanCinema.pdf; Thinktank on European Film and Policy (2007) The Copenhagen Report, available at http://www.filmthinktank.org/CopenhagenReport2007.pdf.
[18] Ibid.
[19] The Copenhagen Report.

- Developing more robust arguments to justify public funding for cinema
- Going forward, to create a compelling vision for European cinema.

As the authors of *The Copenhagen Report* argue, in order for European film to maintain economic, political and public support, it has to be more attuned to issues which the public finds important, rather than purely political and economic objectives:

> "A film policy purely based on the twin pillars of national culture and economic competitiveness lacks in ambition. Increasingly questions such as how different cultures and countries can respect one another, how to achieve social cohesion and prevent communities – inside and outside a given country – becoming alienated and antagonistic, must be addressed. Film's ability to contribute to dealing with these questions may ultimately be as significant as its contribution to the national culture and economy."[20]

4.4 International Case Study Countries

In analysis undertaken for this report, the film policies and interventions of six countries are described in detail and placed within an economic and political context. The countries examined were agreed to be of most relevance for Georgia in developing its film policy. They are: France, Hungary, Ireland, New Zealand, Poland and Turkey. Each country is in a very different situation, with specific film policies, and film industries at very different levels of development and maturity. However, they are relevant in that each country has used imaginative methods to develop their film industries, with instructive lessons for Georgia as it formulates a renewed public policy to film.

Appendix 2 provides a full overview of the film policies and specific interventions in these different countries. Each case study in the appendix is divided into following themes:

- **Basic information about a country** – including key economic, political, demographic and social information;
- **Basic overview of tax system** – including factual information what kind of taxes are applicable in respective countries. The section is drawn upon the specific request of the GNFC. It is strongly recommended that professional financial authorities are consulted with regard to further research of the relevant tax systems
- **Cultural Policy overview** – providing a summary of the country's policies to support and develop culture, the arts and the creative industries;
- **Film policy** – an account of the country's public policy towards developing its film industry; details of institutions that have been created in order to achieve these aims; and information about specific interventions (including tax credits, direct funding and subsidies) which are designed to help with the funding of the industry;
- **Outcomes/impact** – information on recent achievements in the country's film sector, and details of the direct and indirect impact of their film policy and interventions.

[20] Ibid. p. 7.

4.4.1International case study countries – matrix of key facts

The matrix below is a distillation of the international analysis undertaken, picking out the key aspects of film policy within each country, and is presented for ease of use and comparability in a matrix form.

Table 6: Matrix to compare film policies and interventions between international case study countries

	France	**Hungary**	**Ireland**	**New Zealand**	**Poland**	**Turkey**	**Georgia**
Integrated in cultural policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Specific film funding body	The Centre National de la Cinématographie (CNC) created in 1946.	The Hungarian Motion Picture Public Foundation established in 1998.	The Irish Film Board re-established in 1993	The Commission established in 1978.	The Polish Film Institute (PISF) was established in 2005.	• General Directorate for Cinema and Copyrights established in 1989.	• Georgian national Film Centre, established 2001
Annual public expenditure on films	€ 194 million (2005).[21] Total film funding from the CNC is 96.2M€	HUF 24 000 million by 2006 (€96 million). Two thirds of this funding was allocated to full or partial Hungarian productions	€ 22, 59,000 (2006-07).	Total budgeted income in the 2008/2009 financial year was $15.778million.	€ 25 million fund - established in 2005.	• Approximately 6m USD(2008)	• 1,700,000 GEL, (776,901Euro).
Annual productions	22822 (2008)	26 (2008)	10 IFB funded films (2008)	12 (2008)	73 (2006-07)	• 54 (2008)	• 7 (2008)
Key Fiscal Incentives	• 10.9% tax on the sale of all cinema tickets	• 20% contribution to local film production costs through tax	• Section 481 - the tax incentive	• One-year, 100 percent income tax write-off for	• 1.5% tax on revenues from movie ticket	• Private sponsorship	• N/A

[21] http://www.mitc.com/PDF_and_Microsoft_Office_Files/CreativeEconomy-France.pdf (2005)
[22] http://cineuropa.org/countryprofile.aspx?lang=en&documentid=62866

	France	Hungary	Ireland	New Zealand	Poland	Turkey	Georgia
	• 5.5% tax on television earnings • 2% tax on video and online delivery services.	incentive scheme.	scheme for film and television made in Ireland.	investment in the production of films is available.	sales, cinema commercials, video sales, television ad revenue, cable and satellite channel earnings and gambling revenues.		
Co-production agreements	• Agreements with 44 countries on every continent. • Member of EURIMAGES	• Agreements with a large number of countries • Member of EURIMAGES	• A large number of international agreements. Most significant is with UK. • Member of EURIMAGES • European Convention on Cinematographic Co-production	• 7 bilateral co-production agreements or arrangements, with: Australia (1986), Canada (1987), France (1987), United Kingdom (1993), Italy (1997 revised 2004), Singapore (2004) and Germany (2005). • New Zealand also has non-binding arrangements on co-operation in the audiovisual industries with the People's Republic of China (2005), and Korea (2005).	• European Convention on Cinematographic Co-production (1994) • Member of EURIMAGES	• European Convention on Cinematographic Co-production • Member EURIMAGES	• European Convention on Cinematographic Co-production

4.4.1.a Commentary on matrix

It is clear from this matrix that most countries make use of financial / tax incentives to develop their film industries. In some countries these take the form of a direct tax on the revenue of media distributors (including box office receipts, television earnings, video sales and online revenues) – such an approach can be seen most strongly in France and Poland. Tax measures are also used by countries as an incentive to attract foreign productions, with tax breaks applied to the production cost for film projects, often with certain stipulations (such as a certain percentage of filming needs to be done in the country). Other measures include tax incentives for domestic companies to invest in film, with the provision of tax relief on that investment.

It is also evident that most countries assessed here have established co-production agreements with other countries, as well as belonging to key organisations such as EURIMAGES (which aims to promote the European film industry by encouraging the production and distribution of films and fostering co-operation between professionals).

Georgia can learn from the evidence from these other countries. While it is impossible to predict the output that such measures will have on the Georgian film industry, it is clear that with no action, the country will remain deeply uncompetitive in the global film market. In short, Georgia must apply a range of incentives to attract filmmakers to the country, and to develop and grow its own indigenous production capacity.

In the section that follows, we have applied the key lessons from other countries in order to formulate what we believe to be the most effective policy route for Georgia in achieving its ambition for its film industry.

5 Recommendations for development of film industry in Georgia

The following section details a list of recommendations for the development of the film industry in Georgia. They are separated into specific areas, and are designed to provide strategic, top-level guidance, informed by the local and international research.

5.1 Developing the Value Chain

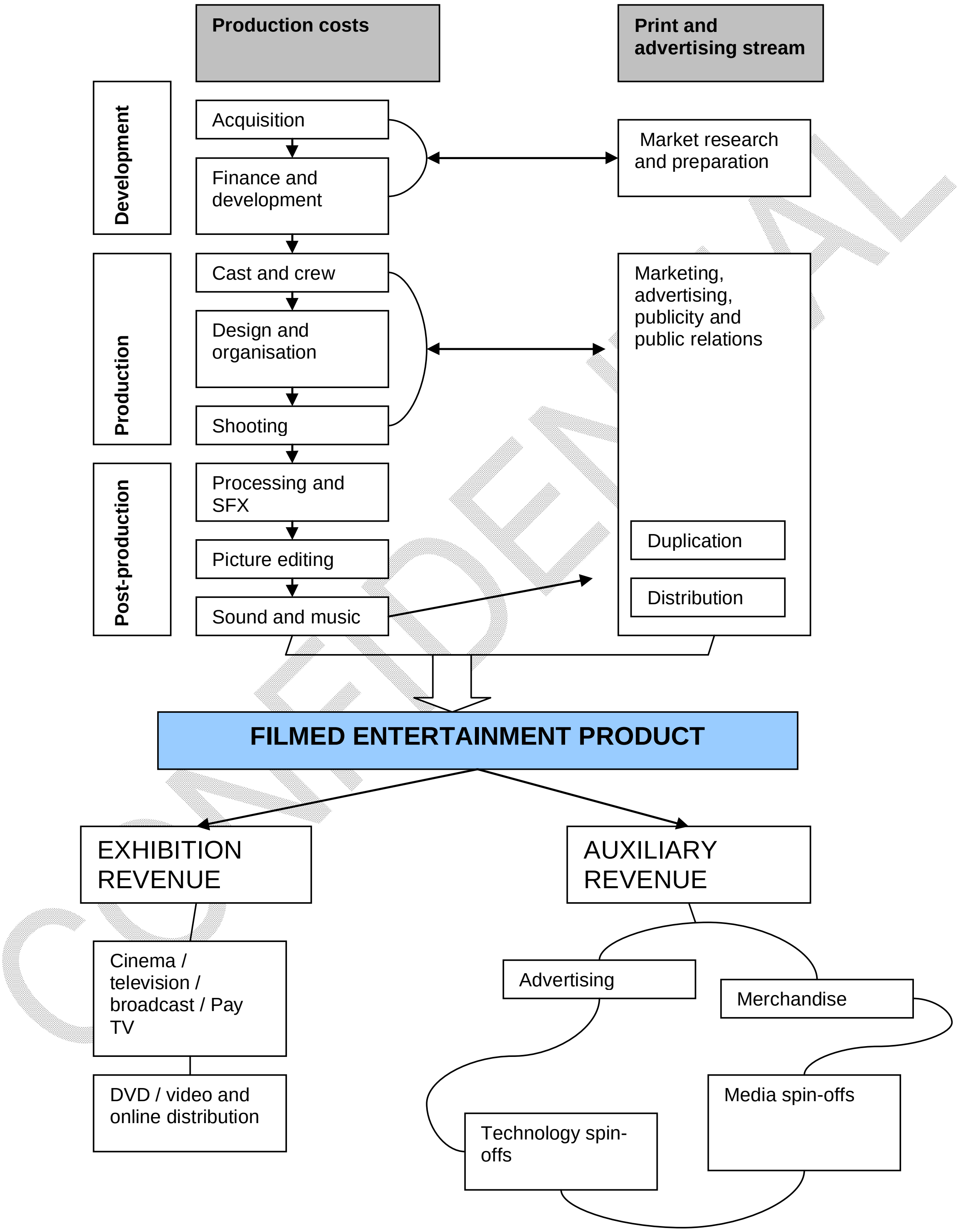
In developing Georgia's film industry, it is vital to focus on developing and strengthening the sectoral value chain. Indeed, this should be at the heart of addressing the challenges facing Georgian film development: both in terms of providing products which are valued by the public (the consumer), but also in terms of strengthening the ability of the sector to produce high-value goods for a global market. Put simply, the value chain is the chain of activities involved in the production of film. The film (the product) passes through all the activities of the chain in a sequential order, and at each stage the product gains some value.

In film, the value chain can be understood as being comprised of the following activities:

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

Figure 1 below captures the nature of this value chain, from development through to distribution and sales. The 'negative stream' refers to the 'negative' costs that are associated with producing the final film negative (including production costs, studio costs and capitalised interest). Print and advertising 'P&A' costs are those incurred in duplicating, distributing, publicising and generally developing the market for the film.

Figure 1: The Film Value Chain



This diagram shows the complex nature of the value chain within the film industry, and also the importance of not only focusing on adding value *after* the film is made, but also on ensuring that all aspects of the value chain add maximum value to the ultimate product, and also to the future development of the sector. In developing this value chain, pre-production is a key area where there are a number of opportunities for learning, skills development, and the development of an accomplished talent pool. This means it is vital for policymakers to focus on this area. Equally there is a need for specialist services such as legal (contracts) and financial – for example one of the UK's unique selling points is the presence of experienced law and accountancy firms to undertake this work on a local and global basis.

Currently, as the analysis in section 3 shows, the Georgian value chain is under-developed at all levels, but particularly in terms of development (project work, collaboration) and post-production.

By focusing on the value chain, it is important to recognise that **tax breaks and credits on their own cannot make a vibrant film culture;** rather there is a vital role that the state can play in terms of developing the industry through education and structures/policies which allow talented individuals and products to reach the market. By focusing on developing the value chain of the Georgian film industry, policy-makers will be able to address core issues impeding the success of the sector, and move towards greater sustainability, and long-term growth.

The report's specific recommendations for addressing current issues in the supply chain are outlined below:

5.1.1Training

Issue: There is a general lack of training and skills development infrastructure within Georgia. The local research undertaken for this study identifies strong skills shortage within the sector. Due to non systematic productions and lack of demand some skills are not available at all, or the level of skills is very low: e.g. professions such as film makeup artists, electric engineers, costume designers and other key members of a crew.

Furthermore, Georgian creative personnel within the film industry tend to be less open to co-operation on a local level. There is certain lack of trust towards the producer, as the talent (directors and screenwriters) have a tendency to think that Georgia does not have creative producers, who understand the specific challenges of creative work (this is in part a legacy of Soviet administration, as discussed earlier). This means that group work and skills transfer should be a key part of developing training. This could involve bringing know how from abroad to show the value of co-operation at all levels of the value chain, and supporting and building on the valuable work already being undertaken e.g. by IFA_SC and/or GNFC itself.

Rationale for intervention: Evidence from around the world shows the importance of having a developed infrastructure for training and developing skills.[23] Developing skilled individuals and providing a structured programme for industry professionals and new entrants to gain up to date knowledge of film production techniques is vital in such a fast-moving industry.

[23] See BOP Consulting (2008) Review of A Bigger Future – the UK Film Skills Strategy. London: UKFC.

Recommendation: Georgia needs to develop an education and training programme to enable the industry to compete globally on the basis of world-beating skills. This report recommends that Georgia develops a structured strategy for skills training in the following areas:

- **Careers information, advice and guidance.** Providing pathways to employment within the creative industries is vital in order to attract talented individuals into this sector, and enhance the creative capital of the Georgian film industry.
- **Developing further and higher education provision in this area**. Current FE and HE provision to equip young people with the skills and know- necessary to work in the film industry is very weak.
- **Training for new entrants, professional development for industry practitioners and support for companies.** Film, in common with all creative industries, is a very fast-moving sector, as a result of technological adaptation, with new modes of production, distribution and exhibition constantly emerging. Therefore, it is critical that GNFC is able to provide ongoing skills development and training for industry professionals at all levels in order to keep Georgian's film industry competitive.
- **Research and labour market intelligence.** Investment in skills training needs to be underpinned by robust evidence, which identifies needs and gaps in skills provision, and allows investment to be targeted and effective. Therefore, GNFC needs to institute a yearly skills audit of the industry in order to develop its skills strategy (see below).

Such a programme would need to be funded through a Film Skills Fund, which could be combination of lottery funding and through the additional funding sources suggested below in section 5.2.

Case Study 1: "A Bigger Future" – the UKFC's skills strategy

The United Kingdom Film Council's skills development programme *A Bigger Future* (undertaken with the sector skills body, Skillset) as an exemplar of international best practice in this area.

A Bigger Future was launched in 2003 by the UK Film Council and Skillset 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. Programme implementation began in 2004, and delivery is now in its final year.

A Bigger Future was the UK's first comprehensive national training and education strategy for the film industry. It encompasses four main strands:

- careers information, advice and guidance
- further and higher education
- training for new entrants, professional development for industry practitioners and
- support for companies
- Research and labor market intelligence.

In addition, it is underpinned by three 'golden threads': diversity, the nations and regions Of the UK and the implications of new technologies. The programme is financed

through
the Film Skills Fund, a combination of lottery funding and investment obtained via a levy on feature film productions.

Between April 2004 and March 2008, more than £29 million was allocated specifically to the delivery of A Bigger Future – an average of £7.3m per year. Of this, £25.6 million was delegated lottery funding and £3.4 million was from the Skills Investment Fund (SIF). Skillset has invested £21.4m to fund: Screen Academies, new entrants training schemes, industry-based training and approved screenwriting courses. This activity has encompassed more than 270 grants awarded to 96 organizations, although just 9 organizations have received more than two thirds of this investment, with the largest amount (25% of the £21.4m) going to the NFTS (National Film and Television School).

5.1.2 Exhibition

Issue: As described in section 3.4, currently Georgia has a very limited exhibition infrastructure, which largely operates as a monopoly, and offers little financial incentive for local film-makers. This is a primary reason why Georgian film-makers struggle to achieve significant commercial success domestically. Moreover, to a great extent, Georgian film-goers are largely 'hooked' on Hollywood product – this means that the major cinema chain in Georgia does not provide significant space for local film. There are few independent theatres in Georgia. This situation combines to the detriment of Georgian domestic film production.

Rationale for intervention: Creating a more developed exhibition and cinema network in Georgia will help create momentum for Georgian film production. While it is unlikely that the domestic market alone will be sufficient in the short-medium term to sustain Georgian film production economically, it is highly likely that if there were more outlets for exhibition of local film then demand would grow over time, and also there would be greater incentives for Georgian film-makers to create films of relevance to the domestic market.

Recommendation:

- It is vital that Georgia develops a strategic approach for increasing possibilities for the consumption of film, in co-operation with the cinema exhibition sector. This should involve developing film clubs, providing children in schools with opportunities to see films, creating links with universities and providing opportunities for public screenings.[24] Any cinema chain in Georgia should be interested in growing an audience, by providing opportunities for consumption. International exemplars show this to be the case. For example, Film Education in the UK, which runs programmes in schools, is entirely supported by the major cinema exhibitors because it enables them to build audiences, and also develops the cultural and entertainment value of cinema.[25]

[24] A good example showing the success of public screenings can be seen through the BBC's Big Screen initiative.
[25] www.filmeducation.org.

- Another key option for Georgia in order to develop its exhibition infrastructure would be to follow the example of the UKFC, and **develop a digital screen network**, utilising non-traditional spaces for cinema exhibition such as bars, arts venues. Digital screening cuts the cost of releasing films (a digital copy costs around one tenth of a 35mm print). That is why UK Film Council and the Arts Council England have created the Digital Screen Network – a £12 million investment to equip 240 screens in 210 cinemas across the UK with digital projection technology to give UK audiences much greater choice.[26]

5.1.3 Rights Rationalisation

Issue: Currently copyright ownership on all Georgian films from Soviet times belongs to the authors of those films. This decision was made by the board of "Georgian Film" – the former state studio of Georgia. In practical terms this means that if a person wishes to negotiate rights for any of those films he/she should go and talk to all authors of the film (director, screenwriter, author of dialogs, composer). This is highly complicated and acts as a severe impediment to indigenous production.

Rational for intervention: This material represents a vital aspect of Georgia's film heritage, and should be easily accessible for use by indigenous and foreign filmmakers. Exploitation of these rights is important commercially – currently they cannot be exploited on any basis because of the difficulties of negotiating with such a large number of rights owners.

Recommendation:

- It is vital that action is taken to organize this vital archival asset within Georgia and assign all the rights to an established trust. Currently, rights stay with hundreds of individuals which makes negotiation and use of that material (a vital part of Georgia's film heritage) impossible, in practical terms.

5.1.4 Distribution, Sales & Marketing

Issue: The Georgian local distribution system is under-developed. On one hand it is controlled by one private company and there is no competition in the film. The company is operating both as a distributor and as an exhibitor of films. On the other hand, there's no strategy of engaging with audience and further developing it, especially in the regions.

No local sales agents operate in Georgia. As a result, no Georgian films have been part of the wider European cinema circuit.

Moreover, the marketing tools of local films are underdeveloped.

Rationale for intervention: The existence of strong local distribution is a key criteria for the success of a film. Demand from a national audience and its local selling potential is an important issue for any foreign partner. Building up audiences and identifying their preferences is very important for convincing both local and potential international partners. Therefore, involving sales agents in project development is important.

[26] See http://www.ukfilmcouncil.org.uk/dsn.

Nevertheless, despite the current debate about whether digital distribution might diminish the role of a sales agent in a film production cycle, it is still vital for Georgian film to find their niche audience on international level. On this early stage of development, it is advisable that this is done via experienced intermediaries, e.g. sales agents.

Marketing and sales is therefore very important in film project development. It should draw attention to the identification of the target audiences, the relevance of a story, a release strategy. Marketing elements should be high on the agenda especially for films coming from “undiscovered territories” and by an unknown talent, as reaching international audience is harder for such films.

Recommendation:

- The existence of a project related marketing and distribution plan should be one of the key funding criteria from GNFC. Via this condition GNFC could ensure that producers start thinking strategically when developing own products. It would also ensure cooperation on local level among producers and distributors.

  It is evident that today not many companies are able or willing to cooperate with each other. However, the recommendations should be treated more as setting grounds for initiating relevant processes. When proper demand is in place, establishment of structures will be less complex. With this regard, GNFC could call for applications for individual proposals with a core focus on the distribution of films in the regions. Projects with the biggest potential to sustainable growth of the sector should be financed in order to facilitate emergence of small/medium business models connected to local (and international) distribution in Georgia.

- Another area which GNFC shall explore is the concept of digital distribution. GNFC should participate in the international debate about the potential of digital distribution. GNFC should focus on how emerging business models of digital distribution could benefit wider dissemination of Georgian films; and explore the possible business models for local practices. GNFC, as the strategic public authority could unlock opportunities for new business models and set pilot practices.

  A good example of this is **UKFC/NESTA Digital Innovation in Film project** which teamed-up 12 film businesses with specialist partners to help them digitize, market and distribute their films to audiences around the world in new ways. 12 film businesses are selected from across the UK to take part in this project that is designed to focus on business growth over the 18 months.

  The most relevant objectives of the programme are *to develop a targeted and time-limited programme of support capable of transforming the business models of content-based film companies in order to exploit new digital distribution opportunities* and *to enable the new/adapted business models to become investor ready.*

  Should relevant funding be obtained GNFC could pilot a project exploring digital distribution as a business model in Georgian content. The pilot could lead towards establishment of a stronger network and identification of strengths and weaknesses.

- In order to strengthen the sales potential of local films, GNFC is currently acting as an intermediary itself and it brings local content to various film festivals. However, the establishment of more sales-focused company with long term sales strategies could be highly beneficial.

New Zealand Films Sales Agency could be the model to be examined as a possible exemplar to be followed. GNFC could establish a sales arm to its structure to ensure the availability of sales and marketing services to local producers, the availability of relevant legal advice, and the promotion of the films. This body could also facilitate investment of MGs in local productions from abroad and locally (at later stage). In France, for instance, minimum guarantees (MGs) are playing notable role in increasing financing. According to CNC distribution MGs and international sales MGs combined to represent 25% of the whole financing pie in 2008.

Generally. when the market is adequate the need for new business models in sales and distribution will emerge. Yet, currently, with irregular productions, weak local distribution, and other structural problems it is difficult to envisage a local sales company with sufficient funds for self sustainability. This means that any intervention will need to support this process through a short to medium term growth phase.

Priority Action Points

- Develop an education and training programme to enable the industry to compete globally on the basis of high-level skills
- Create more opportunities for film consumption by working in partnership with schools, universities, and developing a digital screen network in non-cinema venues
- Negotiate control of Georgia’s archive and assign all rights to an established trust
- Develop a funding strategy which finance films with a clear marketing and distribution plan
- GNFC should focus on exploiting the distribution potential of emerging business models for digital distribution for the wider dissemination of Georgian films

5.2 Funding

Georgia's annual state support for the national film industry has more than doubled from 2004's Euros 419,000 to the planned Euros 930,000 for this year. However, in order to compete with other countries around the world, more funding will be needed to develop the sector. Lack of funding for the sector is a critical issue holding back the development of the sector.

At the heart of the proposals set out below for increased funding are fiscal incentives to develop the sector. But it is important to recognise that fiscal incentives have two very different functions – first to encourage indigenous film-making, and second, to attract mobile international productions looking for a location to shoot part or all of their film.

In this section, we look at possible solutions to the funding crisis for Georgian film, including tax incentives, lottery funding and revenue taxation funding.

5.2.1 Developing a movie production and distribution support fund

Issue: GNFC is the only strategic body in Georgia that supports local filmmaking. However, it currently has an insufficient annual budget of Euros 776,901, which is small in comparison with other countries around the world (see 4.4.1). Most countries with a recognisable feature film industry support it through direct funding. In Europe, the average support per country through both direct funding of feature film and through tax credits is approximately $4 - $5 per capita.[27] Georgia's funding of film is currently far below this rate, compounded by a lack of tax credits currently.

Rationale for intervention: Greater funding is needed in order to allow GNFC to support the development of the film industry across all aspects of the value chain, in a strategic and sustained fashion.

Recommendation:

- **We believe that Georgia needs to explore additional funding options as a critical immediate action.** A key route which should be explored as a matter of urgency is developing a movie production and distribution support fund. This would follow a similar model as that established in 2005 in Poland, which provided Poland with an annual income of 25 million Euros for the development of its national film industry. In Poland, the fund works through the creation of a 1.5% tax on cinema and television advertising revenue, cable and satellite profits, broadband income and gambling revenue.

The introduction of a similar levy in Georgia would enable the creation of a content production fund. In order to reach increased levels of output in Georgia, and ensure that this output is economically sustainable in the long-term, there needs to be more closely targeted increase in the amount of direct support for production to ensure that higher budget, cross-platform and commercially viable projects are encouraged. Moreover, the total number of projects funded needs to increase significantly in order to increase output levels and build momentum. A key part of this production funding would need to be directed towards the following:

- Cross-platform content creation
- Commercial creative companies pursuing a number of projects
- Projects meeting the criteria for revenue generation.

If this recommendation was to be implemented, we recommend that GNFC as the national film institute should act at the agency which distributes the funds. Further research will be needed in order to scope out the technicalities, and to identify how much funding could be generated.

5.2.2 Developing Tax Incentives

Issue: Local funding available for films in Georgia is mainly only via public subsidy. The amount of finance is limited, and does not allow for regular productions, for instance on an annual basis. Foreign film-makers are put off using Georgia as a filming location because it is perceived as a difficult and potentially dangerous territory to film in. Furthermore, the local applicable tax regulations are also incoherent.

[27] Averages from Copenhagen Think Tank on European Film and Film Policy, Information Notes – Number 1: Public Funding of Production in Europe, June 20, 2006, available at < http://www.dfi.dk/NR/rdonlyres/1BE19F2D-F61F-403F-934C-B0AB2447D9D8/0/CTT_Information_Notes_300606.pdf>.

Rationale for intervention: Tax incentives act as a means of attracting foreign production into a country. Moreover, tax incentives for national companies act as a means of encouraging local companies to invest in domestic film production.

It seems unlikely that Georgia could become a film friendly location for foreign producers in short term period. It is not just a tax break that attracts a foreign producer. Any country that a production team might travel to should be equipped with up to date skills, equipment, infrastructure, etc Skills shortage is evident in Georgia and local infrastructure is not ready to host and accommodate more than two simultaneous productions of a feature films. If these and many related issues are not resolved, Georgia cannot count on growing international interest in filming within its territory.

It is also clear from the local consultation that GNFC funding is not enough for a film production and other funding options are not available.

Georgia seems to have fairly simplified and investment friendly tax system applicable nowadays. The local report regarding tax and financial issues highlights that the problem lies in application procedures of relevant taxes and not the kind of taxes themselves.

Recommendation:

- The picture as discussed above suggests that the core problem of developing the indigenous film industry in Georgia is not necessarily due to a lack of fiscal incentives. Rather, the pressing need in Georgia is to develop all aspects of the film production value chain. However in our consideration, clarification of existing tax applicability to the film business is of core importance.

  GNFC shall produce a Taxation Guideline to film businesses based on the current legislation. The local report regarding tax and financial issues highlights that the problem lies in the complexity of the application procedures for the relevant taxes and not the kind of taxes themselves. Therefore priority action is required here. GNFC should lead a strategic process of producing taxation guidelines to the local businesses, and ensure that all gaps which the tax report (produced alongside this report) are defined. This should be envisaged as a joint action of GNFC and relevant financial authorities, e.g. Ministry of Finance or Tax authorities. This will allow that local businesses function in coherent way with regard to taxation on regular basis.

- Another area to explore is incentivizing the private sector to invest in film businesses. The general economic situation of Georgia is not promising with this regard. However, the feasibility of a Hungarian model could be tested in the local context.

  This could follow the established model where a production company and a private sponsor (large companies, mainly) benefit from a tax incentive. In these circumstances, a corporate sponsor contributes 20% of Georgian production budget of a film to a production company. In its turn, the corporate sponsor benefits from the tax credit – offsetting the 20% contribution against their payable corporate income tax (this is a tax deductible cost). In this case the tax credit for a sponsor is a return on the investment. Whereas, for a production company it is a cash contribution to the budget. If a film is a co-production then a Georgian co-producer could benefit from the 20% tax rebate, and thus contribute to the overall film budget.

  Legally, the sponsors must not have a financial interest in the production company and should not benefit from any distribution revenues.

  In order to test the feasibility of this model the following technical issues should be resolved:

a) Both the local production company and the production itself must be registered with the local film body (e.g. in the Hungarian model this is the National Film office)

b) The local film body shall specify the direct Georgian cost for the qualifying film, which might be an upper limit for the tax incentive (In the Hungarian model the National Film office defines these)

c) Budget and production expenses must be checked and certified (In Hungary qualifying local expenditure is defined as any payment made to Hungarian taxpayers in relation to the production of a film. This is mainly done by submissions of production invoices to the National Film office).

d) A certificate shall be issued for a sponsor after reviewing the relevant invoices. Once the certificate is issued a sponsor can benefit from the tax relief on condition that the contribution has actually been made to the film production company (e.g. via a cash transfer).

- An alternate direct support to the film production companies could be based on the New Zealand model, if its feasibility is further explored by local tax experts:

  A Georgian film producing company could be income tax exempt if it produces a national film. In New Zealand the system is sophisticated and involves provisional/final certification, and compliance to the definition that the film is composed of "significant New Zealand content". In the embryonic state that the Georgian film sector is today, this kind of mechanism could not be easily introduced.

  However, as a general support mechanism, the Georgian Government could make film businesses income tax free for 3-4 years. This could be a pilot model for testing the viability of this process, and identifying the strengths and weaknesses of the scheme.

  The strategic reorganization of GNFC is vital here as well: It will need to be able to monitor and certify what kind of a company is a Georgian film production company. The income tax write off shall be based on the certificate issued by GNFC qualifying a company to be a Georgian Film Production Company and a film – a Georgian national film.

  The feasibility of the scheme will need to be examined by the relevant fiscal authorities in Georgia. As its local tax system is characterized as fairly simplified, additional tax rebates might not be welcomed.

- Development of the film infrastructure could be further incentivised by the Georgian government. Again the Hungarian model could be the basis for researching the best local alternative.

  The Georgian government could introduce certain tax allowances if local or foreign producers (companies) are investing in development of the film infrastructure. For example, in Hungary, a taxpayer may apply for development tax allowance lasting for up to 10 years, if the investment serving film and video production exceeds HUF 100 million (equals to 400,000 Euro). The Ministry of Finance issues the license of the tax allowance and the percentage varies depending on the location of the investment, e.g. 35% of an investment in Budapest. A taxpayer could also be granted accelerated depreciation on real estate and equipment (Scale of 15%-50% in Hungary). A similar scheme could be explored within the Georgian context.

5.2.3 Additional sources of funding

Issue: It may well be that further financial incentives are needed to create the necessary capital to develop the Georgian film industry in a strategic way. Furthermore, setting up the movie production and distribution support fund may provide too controversial with the commercial sector, and it may not be possible to get the legislation passed. Therefore, it is possible that Georgia will need to look to other potential revenue sources.

5.2.3.a Lottery Funding

Rationale for intervention: Lottery funding can provide a key source of additional funding for the film industry, as it has done in many other countries such as the UK and New Zealand.

National lotteries are state-designated lotteries run by or on behalf of national or local governments. A lottery is a form of gambling which involves the drawing of lots for a prize. Some governments outlaw it, while others endorse it by organizing a national lottery. It is common to find some degree of regulation of lottery by governments. They are used as a means to raise revenue in addition to taxes. In a number of countries, revenue from National Lotteries has been used to support and develop the country's film sector.

For example in the UK The UK Film Council uses National Lottery money to develop new filmmakers, fund exciting British films such as 'Touching the Void' and 'Vera Drake' and give audiences the opportunity to see the best of world cinema. The money that is generated from the National Lottery is devolved to regional screen agencies that use the money to fund production and development of film projects. The funding often takes the form of an equity investment, and recoupment of the investment is negotiated on a case-by-case basis. The UKFC also directly supports productions through its Development, New Cinema and Premiere funds.[28]

National Lottery funding has significantly augmented the amount of capital available across the broader field of cultural funding in the UK. Set up in 1994, the National Lottery has been expected to contribute more than £250m a year to arts funding and a similar amount to sports, charities, heritage and other activities. National Lottery funding can only contribute to capital projects (buildings, equipment, etc) not to revenue or ordinary arts production expense. However, because of UK Treasury rules, expenditure on film production is treated as capital expenditure because the final product is considered to be a capital asset.

Recommendation:

Georgia should explore the options of using Lottery funding as a model for the development of its film industry.

As well the film industry, Georgia's entire cultural sector could be supported through revenue from a state run lottery. However, as there is currently not a national lottery of this kind in Georgia, it will be necessary for policymakers to explore possible options using either existing sources of gambling revenues to support film-making, or developing

[28] For evidence of the success of this funding in the UK, see the following article, which details how Lottery funding has supported a range of internationally successful films - http://www.ukfilmcouncil.org.uk/12189.

a new lottery programme, which the requisite structure in place for a percentage of revenues from the lottery to go towards cultural programmes.[29]

Clearly, this would be a bold move, and the government would need to undertake substantial scoping and feasibility work separately from this report in order to take this proposition forward. However, there are opportunities here which should be explored by GNFC in partnership with the Georgian government.

5.2.3.b Public broadcasting funding

Rationale for intervention: As the international analysis shows, a number of countries have also secured streams of funding through financing from public service broadcasters. As such, public service broadcaster play in many countries around the world play an important role in financing and promoting indigenous production.

In the UK, Channel 4 and the BBC both provide capital funding for film projects. FilmFour, Channel 4's film department, has financed many famous films over the years and has acted as a powerful catalyst for British film. Formed in 1982, Channel 4 had a particular remit to invest in and produce innovative and experimental content, both in television and in film. Between 1982 and 2000 it virtually kept the British film industry going in very difficult times. This was achieved with small films that were both distinctive and unmistakably British.

For example, many of Mike Leigh's seminal films about British society were financed by FilmFour. Equally, in the 1990s, FilmFour invested in the huge hit Four Weddings and a Funeral and jumped aboard the Cool Britannia/Britpop bandwagon, providing 100 per cent funding for Shallow Grave and Trainspotting, visceral, youth-oriented films from a stellar team: actor Ewan McGregor, director Danny Boyle, producer Andrew MacDonald and writer John Hodge. Trainspotting, which cost a paltry £1.7 million to make, was a big worldwide hit, grossing 20 times its budget a ratio unheard of in the film world.

Recommendation:

GNFC should explore the options for developing funding streams for film projects through the main state broadcasting organisations. There are promising moves in this direction at present. For example, in a pilot film project, "Conflict Zone" was funded by GNFC, the public broadcaster and a private production company in Georgia, and is about to be released. Georgia is in the fortunate position of having a national public broadcaster, and could introduce a process whereby it invests in film projects.

A model to consider, but one that would need to adapt to local circumstances within Georgia, is the model from the Netherlands. See the case study below.

Case Study 2: Broadcasters' obligation to invest in film: the Netherlands model

The public broadcasting organisations in the Netherlands play a fundamental part with respect to the production of cinematographic films, produced by the Dutch film industry. These organisations are involved in the production of virtually all films of

[29] For a detailed account of the uses of National Lottery revenue for cultural funding in the UK, see Albert Moran (ed.) (1996) Film Policy: International, National and Regional Perspectives. London: Routledge.

this kind. Participation in cinematographic production takes place on a voluntary basis and, as from 2005; the public broadcasters have announced the adoption of a streamlined film policy which will cover their coordinated investments in cinematographic feature films. The contribution of public broadcasters takes the form of direct investment in film productions. In addition, funding institutions (CoBO and STIFO) exist which are specifically aimed at supporting projects involving a public broadcasting organisation. Although commercial broadcasting organisations have hitherto played a negligible role in this respect, the main commercial broadcaster in the Netherlands, RTL Nederland, has also recently adopted a voluntary policy of investment in cinematographic films.

The only existing provision in Dutch law which is relevant to this subject is contained in Section 170 Media Act, which concerns the Fund to promote Dutch cultural radio and television broadcasting productions (Stimuleringsfonds Nederlandse Culturele Omroepproducties - STIFO).[30] This Fund was set up in 1988 to provide financial support to public broadcasters for the development and the production of works of a high artistic quality. It is only open to public service, and not to commercial, broadcasters. Funding is among others also available for feature films, providing they are cultural programmes. The STIFO will only decide on the allocation of funding once an affirmative response has been received from the Netherlands Film Fund (the national agency entrusted with supporting film production and cinema in the Netherlands).[31]

Section 170.5 of the Media Act states that each year at least 1/16th of STER's revenue (i.e. the advertising revenue of the public broadcasting organisations) for that year is to be allocated to STIFO.[32] The total average amount of this contribution is EUR 16 million per year. It is important to note that the amount of 1/16 is to be considered as a monetary unit; the Ministry of Education, Culture and Science (OCW) provides directly an amount at least equal to 1/16 of STER's revenue. The Secretary of State had granted an amount of EUR 15.621.384, to be increased with a yearly 'accres' for the period 2004-2008.

Out of this amount, EUR 0.8 million is specifically earmarked for support by STIFO of public broadcasters' investments in artistic cinematographic feature films. In addition, STIFO also supports documentaries and animation films, a few of which are released in cinemas.

The Fund has been set up by the Dutch Ministry of Culture (following the Section 170 Media Act) but operates in an autonomous manner. It sets its own content policy, deciding internally which types of works and genres to support. The Ministry does not interfere with these choices, although the Fund is held accountable to it. STIFO's granting of support to feature films is therefore the result of an internal decision by the Fund and is not a legal obligation.

[30] *Mediawet* (The Media Act), *Staatsblad* (Official Gazette) 1987, 249, available at: http://www.cvdm.nl/pages/regelgeving.asp?m=w&
English version available at: http://www.cvdm.nl/pages/english.asp?m=a&

[31] For further information on the STIFO funding programme, see the KORDA databank at: http://korda.obs.coe.int/web/en/display_aide.php?aide_id=160

[32] See http://www.stimuleringsfonds.nl/

5.2.4 Priority Action Points

- Unlock additional funding options via creation of a 1.5% tax on cinema and television advertising revenue, cable and satellite profits, broadband income and gambling revenue. This will help develop the creation of a content production fund.
- Produce Taxation Guidelines to film businesses based on the current legislation. This shall be a result of joint work between GNFC and relevant fiscal authorities.
- Incentivise the private sector to invest in Georgian films through tax rebate when a private sponsor contributes 20% of Georgian production budget of a film to a production company. In its turn, the corporate sponsor benefits from the tax credit – offsetting the 20% contribution against their payable corporate income tax.
- Explore the possibility of Georgian productions being income tax exempt if they fulfil the requirement of being a 'national film' within specific regulations and a certain time frame.
- Introduce a development tax allowance if local or foreign producers (companies) are investing in development of the film infrastructure in Georgia.
- Introduce National Lottery funding as a model for the development the film industry, clearly if Georgian government supports the initiative.
- Develop funding streams for film projects through the main public broadcasting organisation as per the Netherlands model discussed in 5.2.3.

5.3 Developing the strategic support framework

As the local research carried out by ACT shows, currently the strategic support framework for the film sector is not developed sufficiently. GNFC plays a key role as the sector development agency, as far as it is able with a very limited budget. However, it is crucial that Georgia follows the model established in other countries with a dynamic film sector and strengthens the strategic support and development structure for the film sector. Below, the report outlines some ways in which this could be done in the short to medium term. These recommendations are clearly dependent on additional funding streams being secured through the implementation of the earlier funding recommendations.

5.3.1 Developing network capital

Issue: A major current weakness within Georgia's film industry is the lack of opportunities for networking, and sharing knowledge within the sector. This is largely due to the lack of strategic support resource which would be able to facilitate opportunities for developing 'network capital' within the sector.

Rationale for intervention: Recent research in this area shows that networking within the creative industries is a key driver of innovation, knowledge transfer and economic growth.[33] Developing networks enables firms to share know-how, and often takes place

[33] BOP and Volterra (2009) Network Analysis of Innovation Systems in the Manchester City Region. http://www.manchester-enterprises.com/research.htm

within geographic and virtual clusters which drive economic competitiveness.[34] Therefore, it is critical that Georgia acts to create spaces and opportunities for all areas of the value chain to come together, with other areas of the creative and digital industries, in order to

Recommendation: GNFC should work with universities and the industry in order to create knowledge transfer opportunities for all areas of the industry to come together and talk to each other about the opportunities and challenges it is facing. This could involve targeted events focusing on specific subjects (e.g. post-production, digital film-making, etc) with international speakers and experts invited, to allow sharing of industry know-how and cross-fertilisation between sectors (e.g. the digital content sector with the film production sector).

An interesting and successful model for creative industries networking is one run in London called In Sync, which works with industry networks & associations to produce a series of activities to encourage new thinking, innovation, commercial partnerships & creative collaborations.[35] By getting the value chain to work together in this way, GNFC will be able to focus on the economic development of the sector.

5.3.2 Location information

Issue: information about the locations, talent, crew, etc. is not properly organized in Georgia nowadays. It is an obstacle both for local and potential foreign producers willing to film in Georgia. Some private organizations do attempt to organize this info, but it's very fragmented and bank of recourses is still unavailable.

Rationale for intervention: In order to attract productions and facilitate external promotion of the country, as well as increase demand on local services and talent, comprehensive action should be taken. This will lead towards organised action in supporting exchange of information locally and internationally, improvement of location research, bringing up relevant issues high on the agenda of public bodies, generate sector specific guidelines, etc The result of the comprehensive action will be better promotion and marketing of a country, which should result in better direct and indirect employment opportunities, better use of services and potential increase in tourism.

Recommendation:

- European Film Commission Network (www.eufcn.net) is a non profit association which supports and promotes European film industry and culture. It has 60 members today from 20 countries. They undertake joint actions with the main aim to attract productions by providing services and assistance. Locally, they all act in the interest of their respective countries.

  It is recommended that Georgian relevant authorities consider this mechanism and explore ways of joining the network. On one hand, this will allow for knowledge transfer and sharing of experience of other countries. On the other hand, a local body will exist which will provide professional services mentioned above.

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[34] Pratt, A. C. (2002). 'Hot jobs in cool places. The material cultures of new media product spaces: the case of the south of market, San Francisco'. Information, communication and society, 5(1), 27-50; Porter, M.E. (1990, 1998) "The Competitive Advantage of Nations", Free Press, New York, 1990.

[35] http://www.01zero-one.co.uk/insync.htm

The kind of companies that are members of EFCN varies from public Film Funds or Centres (Bulgaria, Ireland, etc) to independent commission (France, Finland, etc) .Both kinds of organizations are as a rule financed by local authorities.

In the Georgian context, taking into account the strategic importance of the GNFC and unavailability of any other public organization in the sector, we recommend that GNFC initiates the dialogue with the EFCN in order to explore potential membership options.

A local arm of GNFC could be envisaged to be created with particular leadership and responsibility attached in the mentioned area. Forms of funding and particularities of the scheme should be further researched.

Case Study 3: Film in Serbia

Film in Serbia was in 2009 to promote Serbia a location for international co-productions.36 This is a joint effort of more than 20 Serbian film and production companies and the USAID Competitiveness Project. The launch of the website is a result of the fact that the film sector was identified as one of the key economic fields in Serbia. The next step of the USAID will be to establish Serbian Film Commission as an institutional, operative body.

This kind of funding options should be researched by GNFC as well, in particular looking for partnership with international organizations.

In this context GNFC will need to be able to provide evidence why it is economically viable to establish the Commission. Therefore, it has to focus and apply recommendations as per 5.3.3 – research and evidence.

In the case of Serbia, for instance, production costs 20% less than shooting in the Czech Republic or Hungary. It is the second busiest destination for foreign film productions. Serbia stands out in up-skilled crew and creative offerings. Serbian infrastructure is supported by state-of-the-art processing laboratory, special effects, large filming studio, and other relevant technicalities. English is spoken widely. Belgrade is spectacular destination for night life. The range of fiscal benefits offered for film production includes 18% VAT rebates for film productions.

5.3.3 Research and evidence

Issue: There is currently a significant lack of robust empirical evidence related to the creative industries within Georgia. This is a broad issue, and is particularly relevant in the film sector.

Rationale for intervention: The international experience of developing creative industries, and specifically an indigenous film sector, shows us the importance of collecting robust research and evidence. Most immediately, this information allows policymakers to understand the size of the sector, its economic impact, the barriers to growth and the potential for economic development. In turn, this information is used across the world to shape policy, to undertake an advocacy role for the sector across government and internationally, and to position the sectors interests on the political spectrum. It also allows policymakers to base investment decisions on a sound evidence base – critical in a time of limited resources.

[36] http://www.filminserbia.com/ProductionServices.aspx

Recommendation: Our strong recommendation is that GNFC establishes a research and policy department which undertakes (or commissions) research into the sector in a number of different areas. Clearly, this report is a good starting point. However, there is a need for in-depth empirical mapping research to be done, which will allow for a greater understanding of the size and impact of the sector, as well as how to develop a strategy for developing the sector based on evidence.

We recommend that GNFC institutes an annual research programme to understand skills issues, the needs of employers and the workforce, and investigates existing training provision within Georgia. We suggest that the model of Skillset in the UK is examined as an exemplar, which could be emulated.

Case Study 4: Skillset

In the UK, Skillset has commissioned a number of studies into skills needs within the film sector.37 Skillset provides the creative media industries with vital skills intelligence to help ensure that it remains stable and competitive.

For Film Production, Skillset undertakes the Feature Film Production Workforce Survey with the UK Film Council. This work involves measuring the size and shape of the industries, understanding the needs of employers and the workforce, investigating existing training provision and scoping out what the future holds. This is done because it is crucial for the industry and Government to understand the size and shape of the creative media industries.

The Skillset/UK Film Council Feature Film Production Workforce Surveys provide the perspective of the UK's 10,000 strong film production crew on: working patterns; training needs and experiences; qualifications; and demographics. In turn, this helps UKFC working with partners to ensure that funding for development is focused in the right areas. Evidence is crucial in this regard to make information-based decisions.

5.3.4 Co-production agreements

Issue: The only international treaty which is signed by relevant Georgian authority is European Convention on Cinematographic Co-productions. However, the Treaty was ratified in 2001 and has never been used as a mean of co-operation. Moreover, local producers have an understanding that Georgia is not part of any international treaty and/or co-production agreement. As Georgia is not an EU member state its access to the MEDIA programme is limited. Georgia is also not part of EURIMAGES.

Rationale for intervention: Co-production agreements as a rule widen funding opportunities for a film. Very often film is co-produced due to a potential to access more funding, rather than a specific creative collaboration. Creative co-productions do happen still, but the number of financial co-productions is always higher. The available funding

[37] Skillset is the Sector Skills Council (SSC) for Creative Media which comprises TV, film, radio, interactive media, animation, computer games, facilities, photo imaging and publishing. Its role is to develop skills, training and education policy; and to open up the creative industries to the UK's pool of diverse talent. Skillset conducts consultation work with industry, publishes research and strategic documents, runs funding schemes and project work, and provides information about the challenges that face the industry and what needs to be done to overcome them.

for the film sector in Georgia is insufficient. Co-production agreements could be an alternative way of unlocking funding streams. Yet, given the complex geo-political environment in the region, official regional co-operation seems unlikely nowadays.

In order to facilitate stronger co-operation of Georgian filmmakers with the European professionals, participation in various European initiatives is essential. One of the key issues would be association with the MEDIA Programme. This would provide better exposure for filmmakers and effective exchange of skills and know-how. With regard to increase of funding opportunities and collaboration with more experienced partners in Europe, membership to EURIMAGES should be considered as well.

Recommendation:

- It is very important for Georgian filmmakers to have a thorough understanding of the production and co-production opportunities existing in the country. The role of GNFC is crucial with this regard. It should ensure provision of concise information and further guidance for the filmmakers.

  Thus, before exploring any potential negotiations for future co-production on state to state level, GNFC shall ensure that European Convention on Cinematographic Co-productions is exploited as a mean of cooperation.

  As a first step, a local Competent Authority should be assigned to GNFC, which should then ensure that local filmmakers have good understanding of the opportunities. **It is advisable that an explanatory report is released for local filmmakers summarising the treaty.** Active co-operation with the other member states, and respective authorities, could also foster potential cooperation.

- In order to have further access to MEDIA funding it is strategically important to have close co-operation with MEDIA representatives. There are significant changes currently underway within the MEDIA programme, which reflect our globalized world. It is now calling for proposals reflecting cooperation between EU member states and so called, “third countries”. It is seen as a preparatory action towards a possible legal basis to create a programme of audiovisual cooperation between EU countries, Asia and the USA.

  It is important that GNFC participates in the ongoing consultation of “MEDIA International” (the next discussion is organized during Cannes Film Festival, 2009) and underlines a desire for collaboration. This would be a strategic move and would ensure unlocking of funding options. Support by GNFC of local initiatives that are applying for the pilot projects is essential.

- Implications of membership to EURIMAGES should be further explored. Apart from the co-production mechanisms that the membership unlocks, Georgia could benefit from the Exhibition Support as one of its objectives is “to increase the programming of European films in theatres in **EURIMAGES member States** that do not have access to the MEDIA Programme, notably the countries of central and Eastern Europe”. Obviously, in order to become a member and apart from financial and policy issues, there are operational requirements which shall be delivered, e.g. up to date legislation, a framework of international trade negotiations, technical infrastructure, etc.[38] Therefore, Georgia should prepare for EURIMAGES membership, and implementing the set of policy directions that have emerged from this report will be instrumental in this.

[38] See http://www.coe.int/t/dg4/eurimages/Source/Regulations/CriteresAdhesion_en.pdf.

- Local filmmakers are not aware of the KIEV Initiative that GNFC mentions as one of international projects it participates in. **It is advisable that a relevant Briefing Paper is published with this regard as well.** Specific focus should be granted on how the KIEV initiative fosters the regional co-operation along the Black Sea and the South Caucasus and the specific activities Georgian film is involved in, if relevant at this stage of the initiative.

- It has to be further explored which countries could be interesting for Georgia to sign official co-production agreement with. As a rule, the main idea behind official co-productions is the allowance that a film made in two countries benefits both countries. Official co-productions have a similar status as national films in the two countries and therefore, are entitled for financial incentives.

- When considering options of signing a co-production agreement with any other country, GNFC should consider if Georgia is able to offer attractive means of co-production. What can Georgia offer to a country in terms of skills, services, and so forth? If skills are underdeveloped, or infrastructure is weak, nothing will really attract a country to enter an agreement with Georgia. For instance, in France the Sarkozy government introduced a 20% tax rebate for international productions. In order to qualify, the minimum level of expenses in France needs to be 1m Euro and should not exceed 4m Euro. Thus, a co-producing country can benefit from a 20% tax rebate as well as having access to skilled personnel. With the further development of the film sector Georgia could be ready to start negotiations on different co-production agreements. Nowadays, however, the focus of the GNFC should be on developing a stronger local talent base and consolidating the sector.

5.3.5 Building wider sector co-operation

Issue: As local consultation shows the only body which is assigned a strategic role in the local film sector is GNFC. It is meanwhile the only funding organization as well. There's no practice of permanent co-operation with other governmental organizations, or indeed with other parts of the cultural and creative sector, which could lead to availability of better operational systems, and drive development.

Rationale for intervention: Filmmaking is a collaborative process. Various human resources are involved for the production of a final product. Collaboration is very important on every stage of filmmaking, from a development to exhibition. This is not only true to the producing cycle. The local picture is very weak on the side of funding bodies, guidance available, and networking and learning opportunities.

Recommendation: GNFC should lead the strategic work of exploring partnership opportunities locally. It should initiate dialogue with relevant authorities in public sector responsible for tourism, investments and other relevant areas in Georgia. The model of Turkey could be explored for local practices, where the Department for Tourism of Turkey funds the promotion of local films to A listed festivals in Europe.

Investment New Zealand also supports various activities along with New Zealand Film Commission. Similar relevant strategic partnerships should be explored in Georgia as well. Potential partners could be the Mayor's office, regional public authorities; etc. The focus of cooperation should lie in joint working in order to create better conditions for the local sector to grow into an economically sustainable industry.

Inter-sectoral co-operation is very important as well. There is also a need for GNFC to engage with the existing cultural infrastructure to build wider cultural partnerships as well. For example, there is a strong tradition of performance and writing in Georgia – these sub-sectors should be connected up with the film sector in order to drive talent development and creativity. Georgia has vibrant culture of theatre and literature, thus constant exchange of skills and organizational development could be a key to a success as well.

5.3.6 Priority Action Points

- Develop a knowledge transfer network to facilitate closer collaboration between the film industry, the creative and digital industries and the HE and commercial research base
- Join the European Film Commission Network to develop the film location service and drive inward investment through film production
- GNFC's research and policy should develop the evidence base for the film sector and make information based decisions
- Explore the possibility of joining EURIMAGE, to participate with the MEDIA programme, and exploit possible coproduction opportunities through European Convention on Cinematographic Co-productions.

6 Conclusion

This report shows that there is need for urgent action to develop an adequate strategic framework for the development of the Georgian film industry to guide development across all aspects of the film value chain.

The revitalization of the film sector in Georgia started two years ago and is still in progress. There is much ground to cover and it will still take a substantial amont of time to make the Georgian film sector an economically viable industry. However, we believe that if the recommendations in this report are followed, then the transformation of the sector will be deep and lasting.

Clearly, **financial incentives are critically important**. If a suitable tax break is introduced in Georgia then this will fundamentally change the behaviour of producers (ensuring the transparent provision of budgets, the production of relevant detailed invoices, and so forth), creating a more entrepreneurial and professional culture. GNFC can aid this process by introducing a set of internal changes focusing on the certification of productions, and by developing a set of clearly established criteria for the qualification of funding for national films, for example. Our recommendations also provide a means by which the film sector can generate essential revenue for public investment, through tax credits, lottery funding, and direct taxation of public broadcasters, amongst a range of means.

These are important steps. However, if the Georgian government's ambition is to position the country as a film friendly one, it should be strongly noted that whilst important, tax breaks alone are not an adequate solution. **Genuine attention must be given to**

developing technical and commercial skills within the sector, **as well as recognising the crucial importance of infrastructure and political stability** as factors that strongly influence the decisions of foreign producers to bring productions to international locations. Tax breaks are only one part of a much wider set of the requirements.

This recognition is vital, not least because the trend towards foreign producers shooting film in favourable territorities is now clearly established. For example, in the 1990's Prague was a major location destination for US majors as well as other independent producers. Today, similar productions go to Hungary, Bulgaria and even former Yugoslavian territories, such as Serbia. All those countries, and indeed other territories, are competing for the same share. Thus, **Georgia should not just offer a favourable tax regulation, but more importantly a range of highly professional services, such as crew, hotels, communications, studio infrastructure, foreign language speaking talent, low bureaucracy on filming in public locations, and a commitment to the health and safety of production teams**. Developing these assets is a priority action if Georgia is going to successfully compete with Hungary or other film friendly countries. Therefore, public policy attention must be focused on the need for training, skills and education, as well as tax credits. Equally importantly, attention should be granted to the strengthening of local distribution and to facilitating the emergence of a more commercial and ambitious approach amongst Georgian filmmakers.

Ensuring a progressive approach towards distribution for Georgian productions is also vital. As an absolute priority, local distribution must be strengthened. It is highly unlikely that Georgian films will become economically viable via international distribution only. Moreover, no foreign partner is interested in a film if the country of origin cannot provide local box office figures. Therefore, **finding ways of strengthening local distribution within Georgia, and capturing box office figures, will be of crucial importance**.Futhermore, apart from conventional distribution models, we strongly recommend that the emerging opportunities presented by digital distribution should also be explored. This model could provide an easier means for local productions to reach international markets.

Strategic and organisational development of the film support framework is also vital. The findings of the local consultation undertaken for this report, as well as the international analysis, shows that there must be an organization to be in charge of the control of the strategic development of film sector in Georgia. It is logical for this to be GNFC, as it has already impressively demonstrated its capacity to be an agent of positive change for the sector.This means that **GNFC must be strengthened as a leading public authority**. It must analyse the evidence presented in this report, and quickly move to define priorities for the local context.

Strengthening GNFC's capacity to commission and undertake research will be crucial to the successful development of the sector. The decisions that need to be made to develop the sector must be based on a longitudinal programme of research in order to build the evidence base, and to be able to make informed decisions based on timely information. Therefore, the recommendations within this report will need to be further researched and their feasibility should be tested within local context. All international comparisons provided in this report and any other sources should be carefully considered, but used for the reference only. In order to decide what could be the best local practice for Georgia further feasibility research will need to be undertaken with regard to the specific interventions (tax break, lottery funding etc) . Decisions should be made that connect to the wider cultural and economic realities of Georgia if they are going to make a transformative difference.

Of course, solutions to the issues facing the Georgian film industry cannot be imported in an ad hoc fashion from abroad. The best options will always emerge from consultations and lessons learned. However, the stage is now set for the GNFC to take the strategic recommendations within this report to the next level, and to consult with national government. The evidence presented from the international experiences of individual countries will be vital as a learning tool to inform policy decisions in this area. We hope that the evidence and recommendations presented within this report will act as a catalyst for the progressive renewal of the Georgian film industry, and set the stage for a cultural policy which facilitates a framework to support and develop the creativity and passion of Georgian film-makers.

Appendix 1 - Convention on Cinematographic Co-production

Council of Europe, Strasburg, 2/10/1992

A cinematographic Co-production is a mean of cultural co-operation in Europe.

The aims of the Convention are to promote the development of European multilateral cinematographic co-production, to safeguard creation and freedom of expression and defend the cultural diversity of the various European countries.

In order to obtain co-production status, the work must involve at least three co-producers, established in three different Parties to the Convention. The participation of one or more co-producers who are not established in such Parties is possible, provided that their total contribution does not exceed 30% of the total cost of the production. The co-produced work must also meet the definition of a European cinematographic work set forth in Appendix II to the Convention:

European elements	Weighting Points
Creative group	
Director	3
Scriptwriter	3
Composer	1
	7
Performing group	
First role	3
Second role	2
Third role	1
	6
Technical craft group	1
Cameraman	1
Sound recordist	1
Editor	1
Art director	1
Studio or shooting location	1
Post-production location	
	6

In the first unit, equal importance is accorded to scriptwriting and direction. As for the script, the three points may be distributed on the basis of the nationality of each, between the creator of the original idea, the adaptor, the scriptwriter and the writer of the dialogues. As regards the performing unit, calculation of the number of points is based on actual days present during the shooting. For the technical craft group the point is allocated to the studio, the location being taken into consideration only where a studio is not used.

Once these conditions have been fulfilled, the Convention assimilates all co-productions, which have been given the prior approval of the competent authorities of the Parties, with national films; i.e. they are entitled to the benefits granted to the latter.

Further details about production percentages, financial co-productions, etc. are available at: http://conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=147&CL=ENG

Appendix 2 – International Comparator Countries

France

About France

Metropolitan France is situated in Western Europe, bordering the Bay of Biscay and the English Channel between Belgium and Spain and southeast of the UK. It also borders the Mediterranean Sea, between Italy and Spain. It is made up of 26 regions, which cover 547,030 square kilometres (211,209 sq mi) and it has the largest area among European Union members. France possesses a wide variety of landscapes, from coastal plains in the north and west to mountain ranges of the Alps in the south-east, the Massif Central in the south-central and Pyrenees in the south-west. At 4,807 metres (15,770 ft) above sea-level, the highest point in Western Europe, Mont Blanc, is situated in the Alps on the border between France and Italy.

France has a population of just over 64 million, which is predominantly comprised of persons of European descent and is predominantly Roman Catholic. French is the common language of everyday usage, with rapidly declining use of regional dialects and languages (Provencal, Breton, Alsatian, Corsican, Catalan, Basque, Flemish).

Politically, the French Republic is a unitary semi-presidential republic with strong democratic traditions. The executive branch has two leaders: the President of the Republic, currently Nicolas Sarkozy, who is head of state and is elected directly by the general public for a 5-year term, and the Government, led by the president-appointed Prime Minister, currently François Fillon. The French parliament is a bicameral legislature comprising a National Assembly (Assemblée Nationale) and a Senate.

France has a modern, highly developed economy. It is ranked as the sixth largest economy by nominal GDP with an estimated nominal GDP of $US 2,593.78 billion. It is a founding member of the Euro, which replaced the French franc in 2002.

France's economy combines extensive private enterprise (nearly 2.5 million companies registered) with substantial government intervention. The government retains considerable influence over key segments of infrastructure sectors, with majority ownership of railway, electricity, aircraft, and telecommunications firms.

According to the OECD, in 2004 France was the world's fifth-largest exporter and the fourth-largest importer of manufactured goods. In 2003, France was the 2nd-largest recipient of foreign direct investment among OECD countries at $47 billion, ranking behind Luxembourg but above the United States ($39.9 billion), the United Kingdom ($14.6 billion), Germany ($12.9 billion), and Japan ($6.3 billion). In the same year, French companies invested $57.3 billion outside of France, ranking France as the second most important outward direct investor in the OECD, behind the United States ($173.8 billion), and ahead of the United Kingdom ($55.3 billion), Japan ($28.8 billion) and Germany ($2.6 billion).

Large tracts of fertile land, the application of modern technology, and EU subsidies have combined to make France the leading agricultural producer and exporter in Europe. Wheat, poultry, dairy, beef, and pork, as well as an internationally recognised foodstuff and wine industry are primary French agricultural exports. EU agriculture subsidies to France total almost $14 billion.

6.1.1Basic overview of tax system

A person who is tax resident in France is liable to pay tax on the worldwide income (*impot sur le revenue*).Some income, such as earnings, pensions, rental income and some other forms of investment income is taxed at progressive scale rates that range from 0 percent to a top rate of 40 percent. There is also a fixed rate of income tax of 18 percent at source on bond or bank interest and on capital gains.

Most of the transactions are suffering VAT at 19,6%.

A wealth tax is due every year by individuals holding net assets exceeding 790 000 €.

There are two local property taxes, called the *taxe d'habitation* and the *tax foncière*. The rates of tax vary across the country, due to the varying rates of tax imposed by the regional and local governments.

The *taxe d'habitation* is payable by the occupier of a French residential property, who was occupying the property on 1st January.

The *taxe foncière* is payable by the owner of a French home. The tax is also payable on undeveloped land. If you sell property in France then Capital Gain Tax at the rate of 16% is payable. Residents are also liable for social charges of 11%.

Further information available at: http://www.worldwide-tax.com/france/france-vat-taxes.asp

Cultural policy overview

The cultural sector in France employs approximately 2% of the work force. In contrast, the EU average for cultural employment is 2.4%.[39] Recent figures from 2003 show that the contribution of the cultural and creative sector to French GDP is 3.4%, or €79,424 million.[40]

France has a long tradition of patronage of the arts by central government, from royal times through to Republican. However, it is only since the Fifth Republic was established by President De Gaulle in 1958 that all cabinets have included a Minister of Culture. The *Ministère de la Culture et de la Communication* is the main Government Department responsible for culture and the arts. The Ministry is in charge of eight areas: heritage; museums; libraries and archives; theatre; the visual arts; cinema; music and dance; books and reading. French cultural policies have the following priorities: increasing access, improving quality of the arts, use of IT to improve access to the arts, 'diversité culturelle' (pluralism and protection of French language).

Other Government Departments are also involved in supporting culture, notably the *Ministère des Affaires Etrangères via Cultures France* - which is more or less equivalent to the British Council.

There are three layers of local government administration in France - 'communes' (cities and towns), 'départements' and 'régions'. The local arts budgets of departments and regions are five times bigger than they were at the start of the 1980s, and the arts budgets of districts have doubled. 50.1% of arts funding comes from central government and 49.9% from local authorities (which divides up into 40.6% from district councils, 7.3% from departmental councils and 2% from regional councils). In tandem with the funding allocated by central government, these budgets allow local authorities to play a vital role in cultural activities.

Film Policy

Film policy in France has evolved in order to develop and protect the indigenous production sector, largely against the overwhelming global dominance of Hollywood. Tax breaks and subsidy funds are at the heart of French film policy.

Cinema has a special status in France, and French policy-makers have been able to ensure that it remains not only an art and an industry, but also a cultural force in the modern world. Clearly presented as an alternative to the dominant Hollywood model, French cinema owes its uniqueness to a strong regulatory framework and a comprehensive, sophisticated support system developed over time. It has served industry professionals well, both within the French context and internationally. **In 2005, there were 240 French film productions, half of which were co-productions with international partners.** Although this success can be in part explained to France's protectionist attitudes towards its domestic industry, France has an established tradition of welcoming foreign artists and is at the forefront of European initiatives to develop and promote European cinema.

[39] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-77-07-296/EN/KS-77-07-296-EN.PDF
[40] KEA European Affairs (2006), *The Economy of Culture in Europe*. Brussels: KEA.

France also has more film festivals that any other country. With 35 *art at essai* cinemas supported by the CNC (out of a total of 371 screens in 2004), Paris is probably the most international cinephile city in the world.

In recent years, the French support system has come under the scrutiny of outsiders (the European Commission and the WTO), for its protectionist stance.

The following are film specific national cultural-sector agencies owned and/or supported by the French Government:

- Created by the law in 25 October 1946, the Centre national de la cinématographie (CNC) is a public administrative organization, set up as a separate and financially independent entity. The centre comes under the authority of the ministry of culture and communication and Véronique Cayla is its director general. The principal missions of the CNC are :
  - regulatory
  - support for the film, broadcast, video, multimedia and technical industries,
  - promotion of film and television for distribution to all audiences
  - preservation and development of the film heritage
- Mediatheque des Trois Mondes (MTM) – organization supported by CNC and the Ministry for Social Affairs, which offers a wide range of fioms dealing with immigration, exile, integration and other social issues.
- Support schemes for production are also implemented by tax relief measures (SOFICA) and organizations like the Institut pour le financement du cinéma et des industries culturelles.

6.1.1.a Co-production agreements

France has co-production agreements with 44 countries on every continent. Films made under official co-production agreements represent a substantial percentage of French film production. Today the UK is France's major European partner (co-producing 23 majority French films in 2003, 13 in 2004).

Specific interventions for film

- The CNC operates the *compte de soutien*, a support fund financed today by a level of 10.9% on the sale of all cinema tickets in France, irrespective of the nationality of films, a 5.5% tax on television earnings and a 2% tax on video and online delivery services. Since the 1950s, France has operated automatic and selective aid mechanisms for film production, distribution and exhibition. Of the estimated CNC *compte de soutien* budget for film in 2006 (€251.6m), 60% goes into automatic aides, and 40% to selective aids. The automatic aid must be reinvested in France and, for a production company, in a CNC-agreed film. Although automatic aids tend to reward success (by favoring commercially successful producers), selective aid mechanisms provide support to a cultural strategy by giving special treatment to new directors, and to auteur of films with artistic merit.
- France also operates a number of financial instruments for the sector based on tax relief. Support schemes for production are implemented by tax relief measures

(SOFICA) and by organizations like the Institut pour le financement du cinéma et des industries culturelles.

- A private company, the IFCIC, provides French state credit to fund films. The company guarantees loans provided by specialist investors and commercial banks. IFCIC was charged by both the Ministry of Culture and Communication and the Ministry of Finance with contributing to the development of the culture industry in France by making it easier for sector companies to obtain bank financing. IFCIC, a neutral and independent institution, is a private-sector limited company entrusted with a service of general interest. Its capital is owned by French banks, large public financial institutions (Caisse des Dépôts and OSEO), and French State. The banks that work with IFCIC are given not only financial guarantees in the event that companies should fail, but also risk analyses that are specific to the cultural industries, in particular where short-term loans for film and audiovisual projects are concerned. IFCIC typically guarantees 50% of the loans obtained. This means that when a company fails, the bank's losses are cut by half.
- Tax breaks are offered through film financing companies that operate under Societes de Financement du Cinema at de l'audiovisuel (SOFICA). Companies investing in SOFICAs can write-off up to 50% of tax on their investment. Individuals can invest up to 25% of their income with a 100% tax write-off. Any tax relief given must be paid off by the individual or company within a maximum of five years after their acquisition. The main SOFICA companies include media groups such as Gaumont, Caisse des Depots and Le Studio Canal Plus.
- There is also a selective subsidy scheme - *Avance Sur Recettes* - that is open only to French-language films. Other, less common, incentives cover creative development, re-writing, international co-productions, music rights and short films

Outcomes / Impact

French cinema owes its specificity to the strong regulatory framework and comprehensive, sophisticated support system developed over the years. It has served industry professionals well, both within the French context and internationally. In 2005, there were 240 French film productions, half of which were co-productions with international partners.

France also has more film festivals that any other country. With 35 *art at essai* cinemas supported by the CNC (out of a total of 371 screens in 2004), Paris is probably the most international cinephile city in the world.

Hungary

About Hungary

Population: 10,197,119 (UN, 2008)
Area: 90,030 sq km
Capital: Budapest
GDP: $ 164 billion (2008)
Main Exports: Machinery, Transport Equipment and Chemicals

Major Trading Partners: EU, USA, Russia

After the collapse of the communist block in 1989, Hungary's economic transition after to market economy was relatively smooth. Within four years, following the above period, 50% of countries enterprises were privatized. By 1998 Hungary was attracting nearly half of FDI (Foreign Direct Investment) flowing into the region.

In 2009 Hungary's economic situation looks less promising. A high level of both private and state borrowing left the country particularly vulnerable to the credit crunch of 2008. In October of 2008 year the government was forced to appeal to international financial institutions such as the International Monetary Fund and the World Bank for massive loans in a bid to stave off economic collapse.[41]

Basic overview of tax system

The tax rate in Hungary for an individual income tax is 18% to 36% - the higher the income is the higher the rate of tax is payable. Corporate tax in Hungary is fixed at 16%. There is an additional 4% solidarity tax.

An individual pays tax on his income as a wage-earner or as a self-employed person Capital gains in Hungarian companies are added to regular income. The rate of tax imposed on capital gains is identical to the tax on regular company income. Individuals pay 25% for capital gains and other investment income.

The rate of Hungary corporate tax is 16%, plus a 4% solidarity tax. The employer is obligated to deduct tax at source from a salaried worker and to allocate an additional sum for social insurance.

The following forms of income are exempt from tax if they are received by an individual:

- Interest on deposits, including savings.
- Interest on government securities and securities of companies.
- Food vouchers to an employee, up to a limit.
- Gains from Hungarian or EU stock exchanges.
- Scholarships, subject to certain conditions
- Gain from sale of real estate held for 15 years or more.

The tax system in Hungary permits tax relief in the form of a deduction (a reduction in the taxable income) and in the form of a direct credit of the amount of tax payable (tax credit).

An individual may receive a tax credit in the following circumstances:

- A credit as a resident - a credit for employment income of up to 18% of wages, on condition that the annual income does not exceed HUF 1 million.

[41] More details at http://news.bbc.co.uk/1/hi/world/europe/country_profiles/1049641.stm.

- A credit for children - up to HUF 4,000 per child per month, for families with at least 3 children.
- Payments to insurance funds - a credit of 30%. Up to a limit.
- Repayment of loans for a residence - a credit up to a limit.
- Donations to public institutions - a credit of 30% of the amount paid up to a limit.

In most cases, Hungary Value Added Tax is payable at a rate of 20%. There is a reduced 5% rate that relates mainly to products and services such as books and medicines.

Property Tax is a tax imposed by a local authority on land and buildings.

- Buildings - to an upper limit of HUF 900 per square meter per annum, or 1.5% of the market prices of the asset.
- Land - to an upper limit of HUF 200 per square meter per annum, or 1.5% of the market prices of the asset

The rate of inheritance tax is up to 40%.Subject to certain conditions

As for Communal Taxes:

- An annual per capita payment - with a maximum of HUF 2,094 per employee.
- Business Tax - 2% per annum of net sales - after due adjustments.

Further information available at http://www.worldwide-tax.com/hungary/indexhungary.asp

Cultural policy overview

Hungary's public system for development of national cultural policy is fairly centralized, with Ministry of Education having the core cultural competence.

The Ministry monitors Hungarian art, media and audio-visual output, and uses public administration means to support its institutions, organisations and creators. It promotes Hungarian artistic production and works of art abroad and international ones in Hungary.

Important elements of Hungarian cultural policy are: functioning of the national cultural institutions, presentation of Hungarian culture abroad and presentation of universal culture in Hungary, as well as the reform of the system of financing culture. With regard to the latter, concern is focused on involvement of the corporate world.

Several large scale cultural investment and human development projects launched in 2008 under the national framework programme – the *New Hungary Development Plan* – and financed through the European Structural Funds. Actual work on most of the projects will start in 2009. Plans include the restoration of built heritage, improving the library system, enhancing the adult education capacities of houses of culture, etc. European investment grants will be used in the most concentrated way in Pécs, linked to the preparations for the European Capital of Culture programme in 2010.

Film policy

In 2003, Hungary launched fundamental reforms in the areas of motion picture industry and culture. It was recognised that Hungarian motion picture culture and relevant professions could only be boosted by a simultaneous development of the motion picture industry. The Act on Motion Picture adopted in 2003 (Act II of 2004) provided a specific regulatory framework for the reform measures to revive the motion picture industry as a branch of the economy.

The *Law on Motion Pictures* was introduced in 2004. It altered the environment of film making. The law took into consideration the limited capacity of the local market of Hungary and put strong emphasis on establishment of international compatible film sector via introduction of effective state subsidies.

Hungarian model of film funding system follows European Co-production Treaty and applies extended point based film classification. Three categories are identified:

- Hungarian Film Production
- Co-production with Hungarian participation
- Other production with Hungarian participation

This classification makes it easier to define classification of actual national or co-produced pieces, and also determines the rates of subsidies. *Hungarian Film Production* and *Co-production with Hungarian participation* are entitled to the same subsidies. The third category comes into effect when applying indirect subsidies such as tax exemption.

Those productions in which Hungarian participation does not reach the level required by the law can only expect indirect subsidies except if they can qualify as financial co-production based on an international contract. Through the point system employed by the act it is possible for a production to be classified as a Hungarian production even if the producer is foreign, on condition that the Hungarian participation in the production (writers, talents, production locations, etc) is high enough to achieve the necessary points to qualify as national film.

6.1.1.b Motion Picture Public Foundation of Hungary

The Hungarian Motion Picture Public Foundation was established in 1998. The central role of this body was reinforced by the Law of 2004. Among its basic principles are: support of the production of Hungarian films of all genres, enhancement of the distribution of productions of the Hungarian as well as the universal cinema and the representation of the Hungarian cinema profession in Hungary and abroad.

MPPF supports all initiatives which will result in the realisation of the above objectives. For the effective and fair distribution of its resources, the Foundation has set up a competitive system in the framework of which applications are assessed by professional juries**.**

MPPF provides public subsidies to companies. It's eligible to subsidize up to 80% of production budget. 100% subsidizing is also possible if that is justified by artistic and financial reasons. These percentages only mean the maximum and the subsidizing organization is free to set the subsidy rate at a lower level within their own internal regulations.

The act preserves the circle of subsidies originating from the central budget for Hungarian productions and co-productions with Hungarian participation. But since the Hungarian film maker in many cases is only present with financial contribution- thus based on the classification of the point system the given production would not qualify for co-production title - the act gives the opportunity for such productions to receive direct subsidies as well if in the given national relations the film can be regarded a co-production. (The European Co-production Treaty makes it possible for such productions to be recognized as financial co-productions).

There is a section according to which the subsidizing organization can proclaim that the grantee is obligated to spend at least 80% of the given subsidies in Hungary. This section also has EU relation.

MPPF established **Magyar Filmunió** in 1992 for the promotion of the Hungarian films abroad. The main fields of activity of the company:

- Organisation of the participation of Hungarian films (feature films, shorts, documentaries and animation) at international film festivals
- Organisation of retrospective screenings and national film weeks abroad
- Organisation of the Hungarian National Film Festival
- Contact and collaboration with international professional organisations and with national cinema and audiovisual organizations world-wide.
- Organisation of conferences, workshops and meetings of the audiovisual sector
- Action as a switchboard between Hungarian industry professionals and their partners abroad.

MPPF also established **The Hungarian Film Commission** in 1998 with the support of the Ministry of National Cultural Heritage in order to provide location services and promote Hungary as a film location.

6.1.1.c The National Film Office

The National Film Office was established with the goal and authority of over sighting the film profession. It has to main tasks:

- Film Classification, registration and data confirmation
- Offering film professional services.

The National Film Office has the responsibility of issuing the subsidies and confirming the tax exemptions of film investments. Special Act defines the conditions upon which companies granting the subsidies with film production purposes or investing in film productions are eligible for tax exemptions.

6.1.1.d National Film Archive

This body is the trustee of state owned films, which belong within the circle of national film assets. The condition of executing the decree is as follows: to acquire the ownership rights of Hungarian film writers' copyrights and ownership of copies that, at present, are in possession of film studios and film profession companies, which belong to the enterprise assets of SPE Ltd; and then after the legal and accounting examination and evaluation of the film assets, pass the ownership rights over to the Hungarian Film Archives.

Specific interventions for film

In 2008 special revisions have been made to Hungarian *Film Law* to make it more compatible with EU regulations. Revision applied to state support to film makers, including the investment tax credits. Several of the criteria for public support were defined more strictly and the limits of state subsidies were set for the coming years.

6.1.1.e Tax incentive and refund

Hungarian film incentive system is intended to increase the number of films produced - partly or entirely - in Hungary. It also aims to increase the production capacity of the country and the number of experts employed in this sector, thus to generate a positive impact on the entire economy.

The tax incentive system achieves this by:

- Offering financial refund and investment opportunities to encourage foreign film producers to come to Hungary to make films as they may reduce their film production costs this way;
- Generating additional resources for co-productions and national films by encouraging Hungarian enterprises to make investments for motion picture production.
- Through the tax incentive system, the amount of contribution/investment available in Hungary is 20% of local film production costs (in Hungary).
- Contributions and investments come from the pre-tax profits of business associations in Hungary which intend to reduce the amount of tax they would be required to pay by way of offering contribution/investments for the purposes of motion picture production in Hungary.

Such corporate taxpayers:

- <u>Can reduce their tax base by the amount (or 50% of the amount) of their contribution/investment</u>
- <u>Can reduce the amount of tax payable by the amount of their contribution/investment; thereby they can make considerable tax savings.</u>

The table below illustrates the benefits of contribution/investment for tax savings purposes, providing two examples of imaginary enterprises. Both companies in the examples have produced 1000 units of profit before tax, but the first offers a contribution for film production purposes while the second does not.

Table 7: Tax saving benefits of contribution for film production purposes in Hungary

	Taxpayer <u>providing</u> <u>contribution</u> for film production purpose	**Taxpayer <u>not providing</u> <u>contribution</u> for film production purposes**
Taxpayer's profit before tax	1,000	1,000

Amount of contribution for film production purposes	100	0
Tax base	900	1,000
Tax payable	(900 x 0.16) - 100 = 44	1,000 x 0.16 = 160
Amount of payments made	144	160
Savings	16	

If the taxpayer also receives some share of the revenues from the film in return for the investment, the tax base may be reduced by 50% of the amount invested.

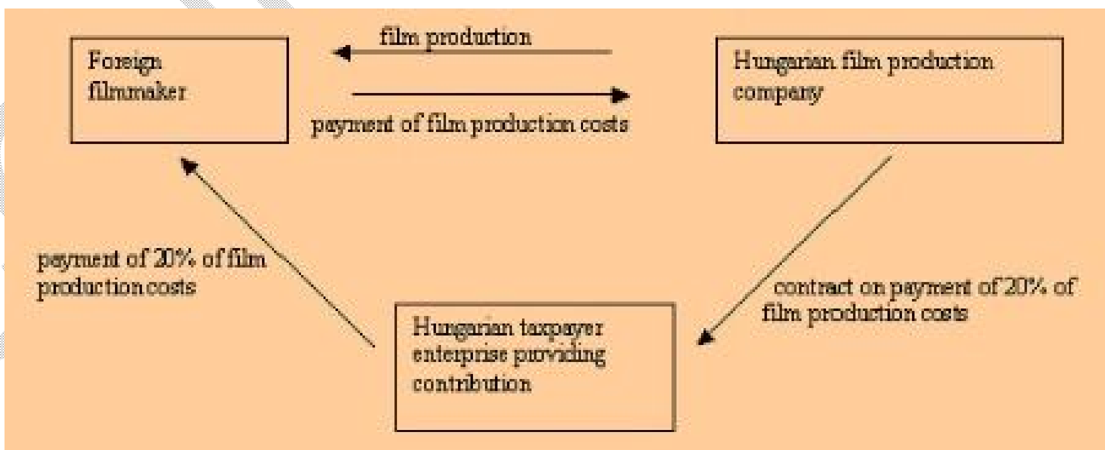
The Act on Motion Picture makes a distinction between two types of production from the view point of the tax incentive:

4. <u>Films produced to order (production services):</u> productions made in Hungary by foreign filmmakers with the participation of a commissioned Hungarian film production company.

This model is intended to support films where the budget of the film is fully available (typically by a foreign filmmaker or studio), but the objective is that the foreign filmmaker reduces production costs in Hungary via the refund.

In this case the refund is directly received by the foreign filmmaker, to be provided by the domestic corporate taxpayer. The taxpayer provides such refund for the film producer exclusively for tax reduction purposes.

Figure 2: Hungarian film tax refund model



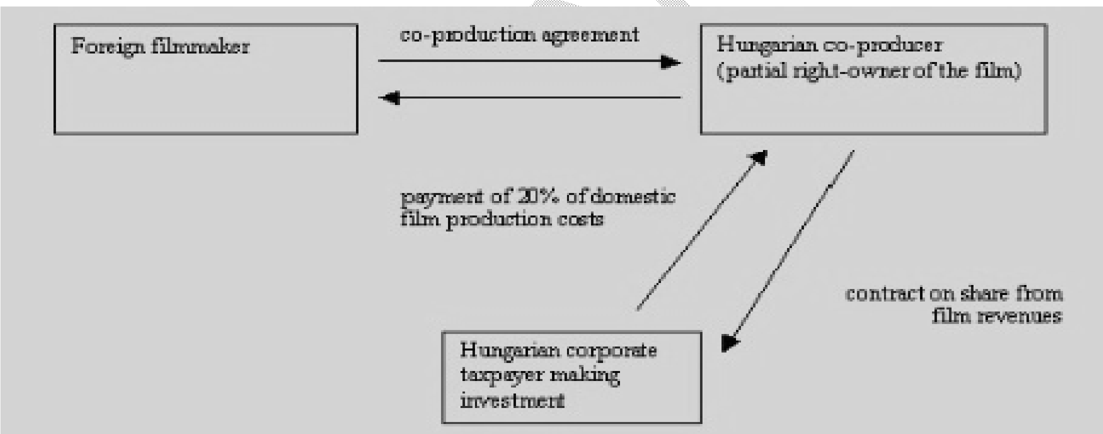
The parties are mutually bound by contractual relations. The Hungarian film producer company undertakes: to register itself and the production at the National Film Office; to order and provide the services and goods required for producing the film according to the contract concluded with the foreign filmmaker and to use the services undertaken in Hungary.

The Hungarian taxpayer takes obligation to pay 20% of film production costs in Hungary to the foreign filmmaker having completed production in Hungary (or a phase thereof) and having received the respective tax certificate issued by the National Film Office. The Hungarian taxpayer providing such contribution may be involved in the scheme by both the Hungarian production company and the foreign filmmaker.

5. Films not produced to order (co-productions or Hungarian films): productions made by a Hungarian film production company alone or in co-production, with the financial involvement of domestic investors.

This model is intended to support films where the producers cannot provide the total budget of the film and therefore they intend to involve external private sponsors as well. In this case the funding (investment) is received by the Hungarian production company (co-producer) of the film from the domestic corporate taxpayer. In return for the investment, the taxpayer not only receives a tax incentive but it will have a share of the revenues from the film as well (the minimum thereof is not specified).

Figure 3: tax relief for Hungarian films not produced to order



6.1.1.f Investment in infrastructure

The new system also encourages investments into infrastructure for film production purposes by tax incentive. Companies making such investments of at least HUF 100 million will receive a tax incentive of 35 to 50% of the amount invested depending on the region of the country where the investment is made (Budapest: 35%, Pest County: 40 %, Western Transdanubia: 45 %, the rest of Hungary: 50 %).

The applicable tax law makes it possible to apply favourable depreciation rules to buildings (studios, sound-stages, etc) and machinery/equipment for film production purposes. In case of machinery and equipment solely for film production purposes, the rate of depreciation is 50%, while in the case of buildings it is 15%.

Outcomes / Impact

The most important feature of the new legislation is the tax credit applicable to film making. This change has already yielded positive results for Hungarian Film industry:

- In recent years number of co-production films made in Hungary has grown

- A US-Hungarian joint venture is building a large film studio in the countryside
- Investments in film shooting has tripled since the law was enacted and reached HUF 24 000 million by 2006 (ca. Euro 96 million) Two thirds of this funding was allocated to full or partial Hungarian productions

Ireland

About Ireland

Ireland is situated in Western Europe, and occupies five-sixths of the island of Ireland in the North Atlantic Ocean, west of Great Britain. It has a population of 4,156,119 and is made up of 26 counties.

Ireland is a republic based on a parliamentary democracy. It is a small, modern, trade-dependent economy. It has the fifth highest GDP per capita in the world. It also has the highest quality of life in the world, ranking first in the Economist Intelligence Unit's Quality-of-life index. Ireland's GDP based on the official exchange rate is (purchasing power parity) is $285 billion.[42] GDP growth averaged 6% in 1995-2007, but economic activity dropped sharply in 2008 and Ireland entered into a recession for the first time in more than a decade with the onset of the world financial crisis and subsequent severe slowdown in the property and construction markets.

Agriculture, once the most important sector, is now dwarfed by industry and services. Although the export sector, dominated by foreign multinationals, remains a key component of Ireland's economy, construction most recently fuelled economic growth along with strong consumer spending and business investment. Property prices rose more rapidly in Ireland in the decade up to 2006 than in any other developed world economy. Per capita GDP also surged during Ireland's high-growth years, and in 2007 surpassed that of the United States.

The Irish Government has implemented a series of national economic programs designed to curb price and wage inflation, invest in infrastructure, increase labour force skills, and promote foreign investment. In 2008 the COWEN government moved to guarantee all bank deposits, recapitalize the banking system, and establish partly-public venture capital funds in response to the country's economic downturn. Ireland joined the euro on 1 January 2002 along with 11 other EU nations.

Basic overview of tax system

In Ireland the tax rates for an individual are 20% and 41%, depending on the income rate. From January .2009 there is also an income levy, 1% for annual income up to EUR 100,000, 2% for income between EUR 100,001- EUR 250,120 and 3% for income above EUR 250,120. There are reduced rates of tax for certain income earners. In Ireland the standard corporate tax rate in 2009 is currently fixed at 12.5%.

42 http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)

The rate of tax payable on capital gains is 22% for individuals.

The following forms of income are exempt from income tax, subject to certain conditions:

- Income from horse breeding and racing greyhounds raised in Ireland.
- Income from copyright on works defined as having an artistic or cultural value.
- Shares distributed to an employee by his/her employee according to an approved plan, subject to a limit.
- Income from forestry works.
- Rental of room/s in main residence, subject to annual ceiling.
- Dividend received by a resident Irish company from another Irish company.
- For individuals, gain from the sale of principal residence.
- For individuals, an annual EUR 1,270 tax exemption from capital gain.
- Certain leasing income of farm land.

In most cases, VAT in Ireland is 21.5%. There are reduced rates of VAT of 4.8%, and 13.5%. VAT is charged on assets and services in Ireland as well as on imports into Ireland. The minimum turnover for registering with the VAT authorities is EUR 37,500 (for services) and EUR 75,000 (for goods). VAT returns are made once every two months. In certain cases, it is possible to make a return once a year. The following products and services are exempt from VAT:

- Export.
- Health and medical services.
- Children's clothing.
- Insurance and banking services.
- Food.
- Agricultural fertilizers.
- Tax is payable on an inheritance in Ireland, and on gifts.

Further details available at http://www.worldwide-tax.com/ireland/indexireland.asp

Cultural policy overview

For the first thirty years of its existence the Irish state did not have any formal mechanisms for cultural policy development. In a country with little tradition of patronage, institutional or otherwise, the arts were seen as a luxury, which the new state could not afford. However, the *Arts Act* of 1951 and the subsequent appointment of the Arts Council (*An Chomhairle Ealaíon*), as an autonomous arm's length agency, was the first expression of an awareness to address the area of cultural development. The transfer of responsibility in 1975 for the funding of a number of major arts bodies to the Arts Council consolidated the Council's status as the state vehicle for the arts.

The publication in 1987 of the Government White Paper, *Access and Opportunity*, reconfirmed the role of the Arts Council but the promised doubling of funding by 1990, via the National Lottery, failed to materialise. The advent of a new stream of funding from the Lottery (from 1987) did, however, provide some relief to the Arts Council. Twenty-eight percent of the overall funding of the Arts Council from 2001 to 2006 has come from the National Lottery and is subsumed into the overall grant-in-aid to the Council.

It was not until 1993 with the establishment of the Department of Arts, Culture and the Gaeltacht that the planning context for the arts in Ireland took a step forward. This Department was the first significant attempt by government to bring the state apparatus for cultural support under the aegis of one body and also most importantly, gave the sector full ministerial representation. Now the Department of Arts, Sport and Tourism has responsibility for the arts, capital development, Irish art abroad, public art, the film industry and the national cultural institutions. It has responsibility for the formulation, development and evaluation of policy in these areas. Developments in local government have brought about significant advances in regional arts provision. In 2008, the government appointed a Minister of State to assist the Minister in handling the arts portfolio.

As part of a number of Departmental initiatives embracing broadcasting, heritage, film and the Irish language, the Arts Council was invited in 1995 to prepare the first plan for the arts. This resulted in the doubling of funding to the Arts Council. In addition, a programme of significant capital investment in the physical arts infrastructure throughout the country was launched by government (using EU structural funds). The appointment of specialist arts personnel by local authorities also accelerated in the 1990s.

Subsequent to 1995, government funding for the arts has been provided on the basis of a planned approach by the Arts Council. Coinciding with the economic boom experienced by Ireland, government funding has grown to the point where in 2006 the Arts Council received exactly what it requested from government. The National Development Plan 2007-2013 has made provision for a total of €1.13 billion for the arts and culture. However the Arts Council's high-profile campaign for a budget increase to €100 million in 2008 has not been successful. Some arts organisations in the country have described this as a crisis and there will clearly be challenges for the Arts Council as Ireland enters a period of recession. Despite recent advances, the funding of the arts, along with the necessity to engage other government departments, notably Education, successfully in arts development, remain the primary issues for the arts in Ireland.

Film Policy

The Irish film industry has grown significantly in recent years, and it has a developed and mature film policy which effectively supports national production. However, despite notable successes, it has suffered major barriers to growth in the last 5 years, following changes to the tax incentive scheme, and the emergence of cheaper filming location alternatives, often in Eastern Europe. Table 8 shows how much the state spent on the film sector in 2006 and 2007.

Table 8: State cultural expenditure: by sector, in euro, 2006 and 2007

Field / domain / sub-domain	Total 2006	Total 2007	% total

Cultural institutions	47 956 000	50 297 000	14.86%
Heritage	87 690 000	98 182 000	29.00%
Libraries	12 316 000	17 949 000	5.30%
Various art forms supported by the Arts Council (literature, music, visual arts, drama, multi-disciplinary arts / combined arts)	75 849 000	77 329 000	22.84%
Cultural development / projects	27 444 000	44 774 000	13.23%
Film	19 426 000	22 159 000	6.55%
Expenditure on cultural activities abroad	2 327 000	4 202 000	1.22%
Other expenditure on culture	23 552 000	23 645 000	6.98%
Total	**296 200 000**	**338 537 000**	**100.0%**

Source: Department of Arts, Sport & Tourism 2008.

The following are film specific national cultural-sector agencies owned and/or supported by the Irish Government:

- **Bord Scannán na hÉireann/the Irish Film Board** aims to ensure the continuity of production and availability of Irish films to home and international audiences. It provides loans and equity investment to independent Irish film-makers to assist in the development and production of Irish films.
- **Access Cinema** provides support to Film Societies throughout Ireland
- **Filmbase** is a support organization for independent film and video makers in Ireland. Filmbase fulfils this role by facilitating Training & Development; Facilities Hire, Information Services; Representation & Lobbying for the low budget film sector. Filmbase also publishes Film Ireland magazine and runs two Short Film Award Schemes.
- **The Irish Film Institute** is a company limited by guarantee with charitable status. Core funding from the Arts Council is specifically dedicated to the Irish Film Archive, IFI Education and contributes to the management and maintenance of the Irish Film Centre. In 2007 it received €867,000 in revenue funding from the Arts Council. Its funding for 2008 has been announced as €898,148. In 2007, the IFI successfully sought funding from the Department of Arts, Sports and Tourism to part-finance the future refurbishment of the IFI centre and to fund the move of the Archive master vaults.
- **The Cinemobile**, one of the most adventurous projects of the National Millennium Committee, is a magnificent, state-of-the-art 100-seater mobile cinema. With over 100,000 visitors to date, the Cinemobile brings the magic of the movies to your doorstep.

The Irish Film Board

Bord Scannán na hÉireann / the Irish Film Board (IFB) is Ireland's national film agency. The agency supports and promotes the Irish film industry and the use of Ireland as a location for international production.

The IFB is directly involved in the creative process of Irish films from script to screen, providing investment for the development, production and release of Irish feature films, television, animation, documentaries and short films. This funding process has helped

Irish Film Board projects to pick up more than 100 awards at key film festivals, including Cannes, Berlin, Venice and Toronto.

The Film Commission arm of the agency attracts direct inward investment by assisting international producers with their needs while on location in Ireland. The Location Services Unit provides comprehensive information about all aspects of filming in Ireland, from tax incentives to locations, casting, crews, equipment and facilities.

The IFB was reconstituted in April 1993 under the Film Board Act 1980, and as amended in 1993, 1997, and 2000. The annual budget for the IFB is voted annually by Dáil Éireann and has a capital budget of €20.4 million million in 2009. Bord Scannán na hÉireann/the Irish Film Board is under the aegis of Department of Arts, Sport and Tourism.

Specific Interventions

The amount of grant-in-aid made available for 2008 to the IFB by the Department of Arts, Sport & Tourism for capital funding purposes is €20,000,000. Of this, some €3,000,000 will be deployed to support training (€1,350,000 via a grant to Screen Training Ireland) and a variety of ancillary film industry activities. The great majority – approximately €17,000,000 – will be used to enable the development, production and distribution of new Irish work for the screen.

The IFB is the key organization providing film specific interventions summarized below:

Development:

- Fiction Development Loans
  Funding for producers to enable them to commission screenplays and undertake all practical work necessary to prepare a feature film project for production
- First Draft Loans
  Funding for writers, or writers and directors, to enable the writing of first draft feature film screenplays
- Animation Development Loans
  Funding for animation companies to enable them to undertake all concept, design and story work necessary for the development of an animated feature film or TV series
- Multiple Project Development (MPD)
  funding for selected live-action and animation production companies to enable them to develop slates of projects, with an emphasis on feature films, at their own discretion over a two-year period. Note: 10 companies were awarded MPD funding at the beginning of 2007 and this programme is currently closed to new applicants until sometime in 2008/9

Production

- Fiction
  BSÉ/IFB reserves funding for feature film production (not including animation or documentary) across three distinct categories:

1. Irish Production
   Films originated and creatively led by Irish talents – directors, writers, producers –

the content of which will generally express Irish culture in some way, and the practical management of which is primarily in Irish hands.

2. Creative Co-production
Films originated outside Ireland in which an Irish producer is involved as a creative collaborator and provider of a minority of the finance needed; where the film is structured as an official co-production and where there is a commitment by a funding body in the principal producer's country to provide reciprocal support for an Irish film

3. International Production
Films and TV drama originated and principally managed from outside Ireland which uses Ireland as a location and/or production base, with local production services provided by an Irish producer.

- Animation
Funding to enable the production of animated feature films and TV series

- Documentary
Funding to enable the production of documentary films, with increasing emphasis on feature-length creative documentaries capable of reaching an international audience through theatrical and festival exposure

- Short Films
BSÉ/IFB currently has five schemes for the production of short films:
    - Signatures (live-action, max 12 minutes)
    - Frameworks (animation, 5-6 minutes)
    - Reality Bites (documentary, max 12 minutes)
    - Short Shorts (live-action or animation, up to 3 minutes)
    - Virtual Cinema (live-action or animation, up to 2 minutes)

- Regional Support
Supplementary funding to act as an incentive to most types of fiction film and TV production already funded by BSÉ/IFB (not Short Films or Catalyst Project films) to shoot outside the Dublin-Wicklow area in the Republic of Ireland

- Completion
Funding to enable the completion of a fiction film, animation or documentary (but not a TV drama or short film) which has reached post-production stage or later without BSÉ/IFB support, but which has run out of money

- Catalyst Project
In 2007 BSÉ/IFB committed the majority of the funding (in partnership with the BCI, the Arts Council and TV3) for three feature films to be made on ultra-low budgets as part of this training and production scheme devised in collaboration with Screen Training Ireland and Filmbase.

- Documenting the Arts
BSÉ/IFB contributes funding via the Arts Council to this annual scheme to enable the making of up to six creative, arts-based documentaries

Distribution

- Print Provision
Funding to enable (a) the making of theatrical prints of both feature length and short

films (whether or not production has been supported by BSÉ/IFB) for the purpose of official screening at one of a list of approved festivals, and (b) the making of theatrical prints of short films offered a release in Ireland

- Prints & Advertising
  Funding for Irish distributors to help defray the theatrical release costs in Ireland of feature films supported by BSÉ/IFB
- New Distribution/Exhibition Support
  BSÉ/IFB is considering new ways of intervening in order to increase audiences for Irish films, particularly within Ireland, and expects to consult with the industry on any proposals during 2008

Tax credits

The IFB also offers tax credits to companies filming in Ireland, under **Section 481**, which is a tax incentive scheme for film and television made in Ireland. It applies to Feature Films, Creative documentaries, Television Drama and Animation. Under Section 481, projects can derive a benefit, net of all fees, of up to 28% of their qualifying expenditure. This benefit is based on the cost of EU cast and crew working in Ireland, and goods and services purchased in Ireland, up to a maximum value of 80% of the global budget. There is a £50m ceiling on qualifying expenditure per project.

Outcomes / Impact

The Irish film industry employs more than 4,300 people and contributes €107m a year to the economy.[43]

Just under 400 feature films, television drama, documentary and animation productions have been completed since the introduction of a film and television production tax incentive for individual investors, and the reconstitution of the Irish Film Board in 1993. Irish feature films have achieved international recognition winning awards at the most prominent international film festivals. Irish cast and crew are considered in the premier league of film and television talent including actors (Colin Farrell, Cillian Murphy, Jonathan Rhys Meyers, Liam Neeson and Fionnuala Flanagan) and directors (Neil Jordan, Jim Sheridan, John Moore, Kirsten Sheridan and Damien O'Donnell).

Since it was reconstituted in April 1993 under the Film Board Act 1980, The IFB has been directly involved in the creative process of Irish films from script to screen, providing investment for the development, production and release of Irish feature films, television, animation, documentaries and short films. This funding process has helped Irish Film Board projects to pick up more than 100 awards at key film festivals, including Cannes, Berlin, Venice and Toronto.

Ireland also has a very high rate of cinema admissions (the highest in Europe). The biggest multiplex chain in Ireland is Ward Anderson, with other cinemas being owned by United Cinemas International, Cineworld, and Vue. One of the largest Irish owned independent cinema chains is Storm Cinemas, with cinemas currently in Belfast, Limerick, Waterford, Navan, Naas, Portlaoise and Cavan. In autumn 2005, a new

[43] http://www.timesonline.co.uk/tol/news/world/ireland/article990940.ece

multiplex cinema chain, Movies@, entered the market. There is also a large video rental market, dominated by Xtravision, a subsidiary of Blockbuster Video.

There have been recent notable successes in the Irish film sector. For example, *The Wind That Shakes the Barley* released in 2006 became the highest-grossing independent Irish film of all time taking over €3.5M at the Irish box office. Levels of production values are also rising, with the economic value of Irish Film Board supported projects increasing fro €35 million in 2005 to over € 120 million in 2006. However, the indigenous industry has not yet succeeded in penetrating the €100 million Irish box office market. This is in spite of strong growth in Irish cinema attendances, predicted to reach 20 million admissions in 2010 (85% higher attendance / capita higher than overall EU).[44]

Changes to UK tax incentives and the implementation of a new tax credit scheme in 2006 means that the UK has moved from being a co-funder to a competitor, having a significant impact on Irish feature film activity in recent years. Since the expiration of UK sale and leaseback, Ireland has attracted very few incoming feature films. This means that the current context is one of uncertainty, and shows how vulnerable indigenous film markets are to global pressures.

Recent research also shows the additional economic benefits of the screen industry to Ireland's economy. For example, according to Tourism Ireland, 10% of all tourists visiting Ireland for the first time do so as a result of seeing "Ireland" on screen.[45]

New Zealand

About New Zealand

Population: 4,280,000 (UN, 2008)
Area: 268,680 sq km
Capital: Wellington
GDP: $ 128.7 billion (2008)
Main Economic Sectors: Services, Manufacturing, Construction, Farming
Major Trading Partners: Australia, US

New Zealand is an independent parliamentary democracy within the British Commonwealth. New Zealand has a modern, developed economy with an estimated nominal GDP of US$128.1billion (2008). The service sector is the largest sector in the economy (68.8% of GDP), followed by manufacturing and construction (26.9% of GDP) and the farming/raw materials extraction (4.3% of GDP). NZ is a country heavily dependent on free trade, particularly in agricultural products.

[44] Irish Film Board (2007) *Creating a Sustainable Irish Film and Television Sector: a review of section 481 relief*.
[45] Irish Film Board (2007) *Creating a Sustainable Irish Film and Television Sector: a review of section 481 relief*.

Basic overview of tax system

The income tax rate is 30% of world-wide taxable income, net of allowable deductions, for companies tax resident in New Zealand, or if non-resident where income is sourced from New Zealand (

Progressive tax rates (19.5% to 33%) apply for taxable income under this amount.

Goods and Services Tax (GST) is a value added tax levied at 12.5% on the supply of goods and services in New Zealand. Financial services (primarily debt and equity instruments) and domestic accommodation are exempt from GST.

GST is charged at 0% on the export of goods and services.

New Zealand operates under a self-assessment tax regime, whereby taxpayers are responsible for calculating their own tax obligations, paying the tax to the Inland Revenue and filing their tax returns. The self-assessment regime is buttressed by audit activity, and penalties regime.

A company is deemed to be corporate tax resident in New Zealand if it is either:

- Incorporated in New Zealand, has its head office or centre of management in New Zealand, or
- Control of the company by its directors is exercised in New Zealand.

New Zealand businesses incurring at least $20,000 of expenditure on R&D a year in New Zealand may be eligible for a tax credit of 15% of the allowable expenditure from the 2008-09 income years.

Further details available at http://www.filmnz.com/production-guide/taxation.htm

Cultural policy overview

The cultural sector in New-Zealand has been growing in importance in recent years. The sector employs approximately 6% of the work force and the growth rate of employment is exceeding that of the economy as a whole. Over 5% of all businesses belong to the sector.

New Zealand's regulatory system for the support of cultural sector is based on the "arm's length" model of other Commonwealth countries. According to this model, the government owns and funds cultural agencies and appoints their governing boards, which are required to perform functions prescribed by a Parliamentary statute. Within the limits of this statute, each agency acts autonomously in determining and implementing policy. The government also funds organizations that it does not own, such as ***New Zealand Film Archive***.

In order to increase the support to the culturule sector in 2008 Government introduced Cultural Recovery Package which initially injected $80 into the sector and pledged additional $20 million for the each of the following three years. By providing this funding Government emphasized to main goals such investments would serve by creating new jobs, bringing benefits to tourist sector and strengthening New Zealand's national identity.

The Ministry for Culture and heritage was established in 1991 and has the primary responsibility for the cultural sectors. It has a mandate to achieve following goals:

"The most efficient use of public resources, to maximize understanding and appreciation of, access to and participation in New Zealand culture, and to promote the enhancement of New Zealand's cultural identity."

The Ministry administers government funding to a number of statutory bodies in the cultural sector, and manages the Crown's relationship with them. This kind of film related organizations are:

- *Creative New Zealand (Arts Council of New Zealand)*
- *New Zealand Film Commission (NZFC)*

A proportion of cultural funding (currently approximately 5%) is also provided by the New Zealand Lottery Grants Board (LGB) whose statutory role is to distribute the profits of government-run national lotteries for charitable purposes. At the request of the government the Lottery Grants Board allocates fixed percentages of its income to Creative New Zealand, the New Zealand Film Commission, the New Zealand Film Archive and Sport and Recreation New Zealand. In the past Lottery Grants Board grants for these agencies have been substantially greater than the funding provided to them through Vote Arts, Culture and Heritage. Since 2000 Vote Arts Culture and Heritage funding has matched and in some cases exceeded LGB funding.

Film policy

In recent years New Zealand screen industry has seen a major growth. First official annual survey of the screen industry showed that the sector comprised of 2,058 businesses, of which over 90% were involved in production or postproduction.

New Zealand Government owns and supports number of film specific cultural agencies:

- ***New Zealand Film Commission*** is responsible for encouraging the making and distribution of New Zealand films and the development of New Zealand films. It is not a producer of films, but supports their production through investment, and marketing; and through support for infrastructural and development initiatives.
- ***New Zealand Film Archive*** collects preserves and exhibits New Zealand's moving image heritage. The Archive is a charitable trust, independent of government. It appoints its own Board of Trustees.
- ***Film New Zealand*** is a member of the Association of Film Commissioners International (AFCI) and is national film locations office facilitating access both nationally and internationally to New Zealand as one of the world's best screen production destinations. It is an independent, industry-led organisation, governed by a Board of Trustees representing industry and government.
- **The New Zealand Screen Council** is an industry organisation charged with facilitating growth in the screen industry. It operates across a range of fronts including business development, broadband, taxation, education and training, new media, government funding and research.
- **Creative New Zealand is Arts Council of NZ**. It invests in the development of the arts and opportunities for all New Zealanders to participate in and have access to the

arts. It develops new audiences and markets for New Zealand arts domestically and internationally.

New Zealand Film Commission

The New Zealand Film Commission (NZFC) was established in 1978 by an Act of the Parliament.

NZFC does not itself produce films, rather it provides loand and equity financing to New Zealand film-makers to assist them in the development and production of feature and short films. NZFC organizes high profile New Zealand participation at major international film festivals and markets. Through its sales agency - NZ film - NZFC is also involved in the sales and marketing of the national film products. It also assists with training and professional development within the industry by partnering with other industry organizations.The NZFC has the statutory responsibility *"to encourage and participate and assist in the making, promotion, distribution and exhibition of films"* made in NZ by New Zealanders on NZ subjects. It provides financial assistance only to films with significant New Zealand content as defined in the Act; this definition includes official co-productions

NZFC has yearly targets of investing in at least four feature films (including digital and larger budget and nine short films. In 2008 this target was exceeded by organization led investments reaching out to 12 feature films.

Its annual budget depends on availability of public funding and the returns on film investments. Total budgeted income in the 2008/2009 financial year is $15.778million. 23% per cent of the NZFC's budgeted income comes from the Government, 61% from State Lottery profits, and the remainder from film earnings and interest. The NZFC has budgeted to invest $10.07 million in the production and development of feature films in the current 2008/2009 year. It has also committed $1.6 million for the production of short films, and $2.5 million for the promotion and marketing of features and shorts.

NZFC decisions are made by an eight-member board appointed by the Minister for Arts, Culture and Heritage. Board members represent the film industry and the wider business and arts community. It has staff of 19 is headed by an Acting Chief Executive.

Co-Production Agreements

New Zealand currently has seven bilateral co-production agreements or arrangements, with: Australia (1986), Canada (1987), France (1987), United Kingdom (1993), Italy (1997 revised 2004), Singapore (2004) and Germany (2005). New Zealand also has non-binding arrangements on co-operation in the audiovisual industries with the People's Republic of China (2005), and Korea (2005).

Film co-production agreements allow approved projects to gain status as official co-productions, entitling them to the benefits of national films in each of the co-producers' countries. Benefits include access to film financing and incentives within the existing legislation of each country, and government facilitation such as temporary immigration for nationals of the other country and temporary entry of equipment. In New Zealand the main benefit accruing to national films is qualification for financial assistance pursuant to *section 18 of the New Zealand Film Commission Act 1978*.

Specific interventions for film

NZFC is the key organization providing film specific interventions summarized below:

- **NZFC's Short Film Fund -** is managed by three executive producer groups who are appointed annually to select at least three short films with budgets of approximately $100,000. The executive producer groups accept submissions from filmmaking teams directly and assist with the development, production and the delivery of the films to the Commission.

  Short Film Post-Production Fund provides $110,000 annually for finance for delivery requirements for short narrative films to screen at identified qualifying festivals. Each submission may apply for up to $30,000.

- **Screen Innovation Production Fund** is a partnership between The NZFC and Creative New Zealand to provide opportunities for new and compelling screen works. The purpose of the Screen Fund is to provide grants to emerging or experienced moving-image makers for innovative moving-image productions. There is a cap of $25,000 for an application. First-time applicants are encouraged to develop projects with a budget of $15,000 - $17,000.

- **Independent Filmmakers Fund** is a new cooperation between NZFC and Creative New Zealand and is established to invest in exceptional, innovative, high quality, non commercial projects by experienced film and moving image makers striving to engage audiences throughout New Zealand and beyond. Annually this fund will award grants for production and/or post-production proposals. NZFC and Creative New Zealand will contribute a total of $540,000 towards grants for the June 2009 funding round.

- **Single Project Development** applications are accepted from New Zealand producers who have an appropriate level of experience in film drama production. Decisions are divided into three tiers:
  - ✓ *Staff Committee* - A group of senior staff members who consider applications for early-stage projects up to a cumulative maximum of $40,000 and generally not exceeding $20,000 per application.
  - ✓ *Development Committee* - A group consisting of two industry professionals, a Board representative and CEO, with Development Department in attendance, who consider projects with genuine production potential up to a cumulative maximum of $110,000.
  - ✓ *Board* - NZFC Board who consider applications for advanced development, packaging and financing for projects nearing production up to a cumulative maximum of $150,000 total development funding.

- **"1st Writers Initiative" -** run in September of each year. Any screenwriter in New Zealand who has not previously received development funding may submit a screenplay regardless of whether or not they have a producer. The selection of scripts to participate in the workshop will be made by NZFC development staff in conjunction with a script consultant and three independent assessors. Six screenwriters are selected to attend a 2 day workshop in September each year.

- Three types of **Devolved Funds** available:

  Devolved Development Fund - is for experienced feature film producers with substantial credits. Up to $250,000 can be given for a two year period for use on writers and script development.

Producer Overhead Fund - is for producers with at least one successful feature film credit. $50,000 may be given for a one-year period for use on overhead costs associated with script and project development.

Writer Awards - this scheme is for experienced writers with at least one screenplay credit on a New Zealand feature film that has received theatrical distribution. Writers may apply for $50,000 for a non-renewable one-year period.

- NZFC is committed to allocate the major part of its budget to **Feature Film Production.** This is to ensure the ongoing production of quality New Zealand films that appeal to diverse cinema audiences locally and overseas. Applications for production financing are considered by the Board of NZFC with advice from senior staff and independent assessment. Decisions are made at the Board's regular meetings held six times a year.
- **Film Fund 2** was set up in July 2006 by NZFC, as the new structure for financing and managing investment in larger-budget New Zealand feature films. It aims to support the development of the talent base of experienced, successful New Zealand filmmakers by enabling them to make feature films of a larger scale than those usually able to be supported by NZFC. Film Fund 2 aims:
    - ✓ To develop New Zealand talent to the point that international commercial investors will be willing to finance future productions by those filmmakers.
    - ✓ To attract other sources of financing to the New Zealand film industry, including off-shore capital.
    - ✓ To foster jobs for successful producers, directors, writers, actors and production crew who might otherwise be forced to look for opportunities offshore.

In considering whether to advance production (or advanced development) funding towards a feature film project, FF2 shall have regard to the following operating guidelines, which shall be applied flexibly on a case-by-case basis by FF2 (this is not an exhaustive list):

a) The film-makers shall comprise a New Zealand Producer and a New Zealand Director

b) Each film-maker shall have already completed at least one feature film project

c) Generally, the budget for the film shall be in excess of NZ$6million

d) FF2 will consider proposals for 20% or more of budgets up to around $20million

e) Generally at least 40% of the budget is to be contributed by way of an offshore attachment (with a commitment from at least one reputable theatrical sales agent)

f) FF2 will encourage funding from other sources;

g) The funding may be made available by way of equity, loan, contracted payment, sales advance or by any other means which the Members of FF2 consider appropriate in a particular case;

h) Generally a conditional production financing commitment will be made for an initial period of four months, and up to six months if sufficient progress is made

i) Generally FF2 will plan for investment in one or two feature films receiving funding in any one year

In making its decisions FF2 will also give consideration to the following factors:

i. Quality of script and project;

ii. Evidence of market potential in major international markets (including a distribution agreement in New Zealand and Australia);

iii. Contribution to New Zealand's national cinema;

iv. Sales rights available to NZ Film;

v. Credit risks associated with financing partners;

vi. Level of FF2 contribution relative to budget size; and

vii. Commercial terms of proposed deal and recoupment prospects for

FF2 (and thus NZFC);

Film Fund 2 is the successor to the New Zealand Film Production Fund, which was set up as a Trust in June 2000 with a government grant of $22million.

- The NZFC considers **feature film post-production financing** applications in the following categories when there is a market for the film:

  Digital Feature Films requiring post-production for either a film or a digital finish.

  Documentary Features requiring post-production financing.

  Feature films shot on film requiring post-production financing and/or transfer to 35mm.

- **Large Budget Screen Production Grant**. Eligible productions may access this Grant when the Qualifying New Zealand Production Expenditure (QNZPE) reaches the following thresholds:

  QNZPE must be at least NZ$15 million. QNZPE is generally defined as the production expenditure incurred for, or attributable to: goods and services provided in New Zealand; the use of land located in New Zealand; and the use of a good that is located in New Zealand at the time that good is used in the making of the screen production. QNZPE does include costs of all cast and crew while in New Zealand.)

  In the case of television series, individual episodes which have completed principal photography within any 12 month period and with a minimum average spend of NZ$500,000 per commercial hour, may be bundled to achieve the total of NZ$15 million.

  Large budget screen production grants are exempt from income tax.

- **Festivals and Awards programme** provides financial assistance to recognized industry individuals or organizations towards the cost of either: Festivals which provide the public with a diverse selection of feature film programming to encourage informed debate and which give opportunities to new talent; or Awards events which recognize excellence and reward achievement in all aspects of feature film production.

- **Producer's market assistance** is intended to assist producers with feature film projects in advanced development to attend Cannes, AFM and other key markets at which the Film Commission has a presence.

- **Industry Infrastructure** professional film organisations that directly represent and provide specific initiatives or activities that develop feature film producers, writers and directors.

- **NZ Films Sales Agency** is the sales arm of the New Zealand Film Commission, and for over 30 year financed and sold films from NZ directors. It provides finance via sales advances, along with strategic sales and marketing services. Agency's abilities include the documentation, execution and collection of sales supported by in-house legal team.

Certification and taxation

The Film Commission is restricted in the application of its funding by the terms of its implementing legislation which require that funding be made available only to films containing significant New Zealand content. The Film Commission will therefore only accept funding applications from New Zealand producers.

The Film Commission is authorised to provide both provisional and final approval as an official co-production for film and television projects, provided the project meets the required eligibility criteria.

Before a feature film production is eligible to receive funding from the Film Commission, it must first qualify as a New Zealand Film. It will do so if it is assessed by the Film Commission as containing significant New Zealand content as set out in *Section 18 of the New Zealand Film Commission Act 1978*:

> *1. In carrying out its functions, the Commission shall not make financial assistance available to any person in respect of the making, promotion, distribution or exhibition of a film unless it is satisfied that the film has or is to have a significant New Zealand content.*
>
> *2. For the purposes of determining whether or not a film has or is to have a significant New Zealand content, the Commission shall have regard to the following matters:*
>
> *a. The subject of the film.*
>
> *b. The locations at which the film was or is to be made.*
>
> *c. The nationalities and places of residence of:*
>
> *i. The authors, scriptwriters, composers, producers, directors, actors, technicians, editors and other persons who took part or are to take part in the making of the film; and*
>
> *ii. The persons who own or are to own the shares or capital of any company, partnership, or joint venture that is concerned with the making of the film; and*
>
> *iii. The persons who have or are to have the copyright in the film.*
>
> *d. The sources from which the money that was used or is to be used to make the film was or is to be derived.*
>
> *e. The ownership and whereabouts of the equipment and technical facilities that were or are to be used to make the film.*
>
> *f. Any other matters that in the opinion of the Commission is relevant to the purposes of this Act.*

Certification will generally be given in two stages. A 'provisional certificate' may be issued by the Film Commission upon review of a proposed film project. This provisional certification is intended to give assurance that the film will qualify for a one-year write-off if produced according to the proposal certified by the Film Commission. The provisional certificate is valid for 12 months, and then it will lapse. If requested in writing, the certificate may be extended for a further period.

A 'final certificate' will be issued once the film is completed and the producer has demonstrated that the criteria have been fulfilled. Film production expenditure incurred in relation to any film 'other than a New Zealand film' shall be 50 percent deductible in the year the film is completed, and 50 percent in the following income year.

Expenditure incurred in producing a film classified as a New Zealand Film is generally fully deductible in the year in which the film is completed. Expenditure incurred in producing or acquiring other films is generally deductible over two years commencing from the year in which the film is completed.

One-year, 100 percent income tax write-off for investment in the production of films is available. This kind of films must have 'significant New Zealand content. The write-off is available in the year in which the film reaches 'double-head fine-cut'.

Expenditure incurred in producing a film classified as a “New Zealand Film” is generally fully deductible in the year in which the film is completed.

Expenditure incurred in producing or acquiring other films is generally deductible over two years commencing from the year in which the film is completed.

Outcomes / Impact

In the 30 years since the NZFC was established, over 200 feature films have been made in New Zealand, more than 140 of them with NZFC finance. In the preceding 30 years, fewer than 20 feature films were made in NZ.

The Lord of the Rings trilogy was the most high profile production even though other films contributed to the strong growth in employment in motion picture production.

Poland

About Poland

Poland is in Central Europe. It is bordered by Germany to the west; the Czech Republic and Slovakia to the south; Ukraine, Belarus and Lithuania to the east; and the Baltic Sea and Kaliningrad Oblast, to the north. Its total area is 312,679 square kilometres (120,726 sq mi), making it the 69th largest country in the world and 9th in Europe. Poland has a population of over 38 million people, giving it the eight-largest population in Europe, and the 33rd most populous country in the world. It has a population density of 122 inhabitants per square kilometre (328 per square mile).

Politically, Poland is a democratic country, ruled by an elected President, with a constitution that dates from 1997. The government structure centres on the Council of Ministers, led by a prime minister. The president is elected by popular vote every five years. The current president is Lech Kaczyński, the current prime minister is Donald Tusk.

Poland is considered to have one of the healthiest economies of the post-communist countries, with GDP growing by 6.1% in 2006. Since the fall of communism, Poland has steadfastly pursued a policy of liberalising the economy and today stands out as a successful example of the transition from a state-directed economy to a primarily privately owned market economy.

Basic overview of tax system

Poland's taxation of an individual's income is between 18% and 32%. Individuals can choose under certain conditions, paying a flat rate of 19% on business income. In Poland corporate tax is 19%.

There is no special tax rate for capital gains in Poland. Capital gains are usually added to the regular income of an individual/company and based on the normal tax rates. Despite this, if real estate is sold more than 5 years after it was purchased the capital gain is exempt from tax. Sale within 5 years from the date of purchase is taxed at 19%.

Individual's capital gain from sale of shares is taxed at a final tax rate of 19%. In Poland dividend income is taxed at 19% rate.

Poland's corporate tax for the year 2008 is 19%.

- A company is a Polish resident if registered in Poland, or managing its activities in Poland.
- The following income is exempt from tax when received by an individual:
- The sale of real estate, after it has been held for a certain period (see above "Capital Gains")
- Lotteries
- Profit on the sale of a residential apartment, on condition that the consideration is used within 2 years for the purchase of an alternative residence in Poland.
- Dividend received by one company from another company in the same company group.
- Receipts from insurance.
- Receipts from donations.

Most forms of tax relief are granted in the form of a deduction from taxable income:

In most cases, Value Added Tax is payable at a rate of 22%. There are reduced rates of 7% and 3% for certain products and services. If the annual turnover is less than EUR 10,000, the owner of the business is exempt from VAT registration.

Some products and services are exempt from VAT:

- Health services.
- Milk products.

- Insurance and banking services.
- Mail and stamps.
- Educational, art and science services.
- Provision of services for export.

Further information available at: http://www.worldwide-tax.com/poland/indexpoland.asp

Cultural policy overview

Since Polish independence in 1989, cultural policy has followed a largely neo-liberal model, based around the development of a market economy. This echoes the wider political and ideological shift within Poland following the political and economic transformations which occurred as the country became a post-communist state following the first parliamentary elections which were held in Poland in 1989.

The new principles for organising and financing cultural activities were formulated in 1993 and presented in the governmental document, *The Principles of State Cultural Policy*. This document sets out the Polish government's plans to:

- encourage the growth of democracy and the strengthening of civil society;
- make it easier for artists and institutions to convert to the market economy;
- protect its most precious cultural assets;
- Introduce and encourage legal solutions which will facilitate the development of new forms of cultural activity.

Polish cultural policy therefore seeks to achieve the following goals:

- decentralisation - shifting power from the central administration to the regional level, and from the regional to the local level;
- public financial support for selected cultural institutions and crucial cultural events;
- Support for the development of non-public cultural institutions and funding mechanisms which could supplement the public funding of culture.

These goals are in support of the principles formulated in 1993. In 2003, efforts were made to prepare Poland for gaining access to EU funds, especially Structural Funds. In this context, emphasis has been placed on developing regional approaches to the development of culture. Cultural identity and the protection of national heritage have been given top priority since 2005. The year 2006 saw a continuation of a significant shift in the overall state policy related to heritage and establishment of a "historical policy" commenced during the previous year.

Film Policy

Polish film policy aims to develop Poland's own film industry, and also encourage inward investment through location filming, and co-productions.

The **Act on Cinematography** was passed in July 1987. Since then, work has been carried out to develop new market principles, financing models and regulations as amendments to the Act. These amendments are pending.

In recent years, there has been increased interest from the private sector to invest in the development of the film industry in Poland. As such there has been a transformation from the former state controlled film production industry to one based on co-operation between the public and private sector. Interest from the private sector to invest in film production is not based on any new kind of specific legal or tax incentive.

In the past, the Committee on Cinematography distributed budgetary funds for the financing of film productions and subventions for film houses. About 20 feature films and 546 short films were produced in 2000. The main co-production partners were the public broadcasters or foreign companies. The Committee was dissolved in spring 2003. Work on amendments to the Act on Cinematography had been initiated several times in recent years without any result.

A new draft bill was elaborated in 2005. It was, however, voted down by the Social Democratic Party SLD government, led by Leszek Miller, on the 30th of June 2005.

In its current status, the Act provides for state support to the film industry and its main premise is to ensure the endowment of film production and promotion, as well as popularisation of film culture.

The following are film specific national cultural-sector agencies owned and/or supported by the Polish Government:

- **The Polish Film Institute** (PISF) was set up through the Act on Cinematography and is responsible for the fulfilment of Polish cultural policy in the film sector. PSIF is the newest film institute in Europe, established in 2005 in accordance with the new cinematography law, passed by Polish Parliament. It is set up similarly to the mechanisms of film industry support existing in many countries of Europe.
- **Krakowska Fundacja Filmowa** is the main organiser of Cracow Film Festival existing from 1961. The Foundation was officially registered on the July 3rd, 2003 and started its activity in December 2003. It was established in order to increase the possibilities on different fields related to film: besides the Cracow Film Festival, the Foundation also organises other film events. The main goals of the Foundation are popularisation of the film and culture, film education, promotion of high quality films both in Poland and abroad, assisting in the professional and artistic development of film-makers and the support of the artistically ambitious film projects. They are convinced that their practice in organising one of the oldest and most renowned festivals dedicated to documentaries, shorts and animations allows them to carry out the project in the best possible way, leading to a large number of interesting agreements and transactions, especially in regard to long-term co-operation with industry organisations, directors and producers in addition to their in-depth knowledge of the short and documentary film environment.
- **Film Promotion Agency.** The main objective of the Film Promotion Agency, which was founded by Krakow Film Foundation, and is funded by the Polish Film Institute, is to promote Polish documentary, animated and short films in Europe and all over the world. We aspire to create complex information centre dedicated to Polish shorts of any genre. The Agency shall implement its aims through:
    - completing extensive video library available for film and television professionals,

- preparing advertising materials for films represented by the Agency,
- submitting sets of films to international film festivals and markets, free of charge,
- preparing set of most interesting Polish titles that shall be screened in Poland and abroad, promoting films among distributors and commissioning editors from TV stations,
- organizing Krakow Film Market,
- creating complex database of international trainings, scholarships, competitions and sending information about them to our subscribers,
- Organizing monographic screenings of documentary, animated and short films abroad.

Polish Film Institute

The Polish Film Institute (PISF) was set up through the Act on Cinematography and is responsible for the fulfilment of Polish cultural policy in the film sector. PSIF is the newest film institute in Europe, established in 2005 in accordance with the new cinematography law, passed by Polish Parliament. It is set up similarly to the mechanisms of film industry support existing in many countries of Europe. It manages its own grants and funds that it raises through its own initiatives. The institution is responsible directly to the Minister of Culture and National Heritage. The institution also has a Board appointed by the minister which comprises eleven people chosen from the film community. The PFI’s income comes from: budgetary subsidies, income from exploitation of films where the Institute is the owner of copyright and donations. In addition, the Act assures the Institute profits from public and private entities' income in the amount of 1.5% of their particular income sources.[46] These are:

- from cinema owners' income received from film and commercial projections
- from film distributors' income received from the sale and rental of films
- from television broadcasters' income from commercials
- from operators of digital platforms' income from programme fees
- from cable television operators' income from access fees for television programmes
- from the public broadcaster from its annual income

Statutory duties of the Polish Film Institute with respect to state policies in the film sector:

[46] The PFI manages its income according to an annual financial plan. The co-financing granted by the Institute for film production cannot exceed 50% of the film's cost and respectively the amount of 4 000 000 PLN in the case of feature films, 500 000 PLN in the case of documentaries and animated films, and 2 000 000 PLN for documentaries addressed primarily for a cinema audience. It has been decided that grants for “difficult films” can cover up to 90% of their budget. The criteria upon which the co-financing is granted are: artistic merit, cultural significance, reference to tradition and European diversity and economic conditions.

4. to create opportunities for the development of Polish film production and co-production;
5. to stimulate and support the creation of all film genres in Poland, in particular art films, including film project preparation, film production and distribution;
6. to support activities aimed at giving Polish audience access to the widest range of Polish, European and world films;
7. to support film debuts and artistic development of young film makers;
8. to promote Polish film production;
9. to subsidize ventures within the framework of preparing film projects, film production, film distribution and promotion, as well as promoting Polish contemporary film culture, including film production by Polish communities abroad;
10. to support the preservation of film archives;
11. To encourage the development of Polish independent cinema potential, especially of small and medium-sized enterprises operating in the film industry.

Specific Interventions

In order to achieve these aims, the director of the Polish Film Institute offers the following programmes, as set out in Table 9 below.

Table 9: The Polish Film Institute's Programmes

PROGRAMME	PRIORITY	ALLOCATION (million PLN)	TOTAL (million PLN)	%
Project development	Development	3.5	4.3	4.8
	Grants for screenwriters	0.8		
Film production	Directorial debuts	11.3	62	68.7
	Feature film productions	40.2		
	Documentary film productions	3.5		
	Animated film productions	4.0		
	Supporting Poland film industry	3.0		
Dissemination of film culture		7.5	7.5	8.3
Promotion of Polish film abroad	Promotion abroad	3.5	3.5	3.9

Development of cinemas and film distribution	Support for the activity of cinemas and film discussion clubs	3.0	8.348.304,00	9.4
	Development of film infrastructure	2.5		
	Films distribution and promotion	2.848.304,00		
Professional training	Training and information schemes	3.651.696,00	3.651.696,00	4.0
Awards (annual awards, script competitions)		1.0	1.0	1
TOTAL		**90.3**	**90.3**	**100**

The details of these PFI programmes are as follows:

- **Project development.** The objective of the programme is to improve the quality of scripts and film projects of all film genres, in particular international co-productions, through financial support of their professional development. Total allocation of funds = 4.3 million PLN. Of this 3.5 million PLN goes to priority 1 – development. The remainder funds grants for screenwriters.

- **Film Production.** The objective of the programme is to encourage the development of the Polish film creation; to support the directorial debuts; to create opportunities for the development of Polish films and film co productions; to stimulate and support the creation of all genres of films in Poland, in particular art films; and to support the development of the Polish film industry through setting foreign film productions in Poland. The 'Film Production" Operational Programme has an allocation of 62 million PLN.

- **Dissemination of Film Culture.** The objective of the programme is to promote film culture; to create opportunities for the development of film creation; to concentrate the practitioners and culture theorists around problems of culture development and dissemination; to protect, preserve and digitalize film archives; and to design and implement programs intended for film school students and graduates that facilitate their professional debut. The PFI funds this programme with an allocation of 7.5 million PLN.

- **Promotion of Polish Film Abroad.** The objective of the programme is to present Polish film and Polish filmmakers' achievements abroad; to promote Polish films and Polish filmmakers' achievements abroad; and to set up strategies for international cooperation in film industry. PFI funds this programme with an allocation of 3.5 million PLN.

- **Development of Cinemas and Film Distribution.** The objective of the programme is to support activities aimed at giving Polish audience access to the widest range of Polish, European and world films; to support cinemas and create appropriate conditions for efficient functioning of film institutions; to support distribution of Polish films. The Polish Film Institute funds the 'Development of Cinemas and Film Distribution' Operational Programme with an allocation of 8.348.304,00 million PLN.

- **Improvement of Professional Skills.** The objective of the programme is to elevate qualifications and professional skills of those involved in the film industry. The main focus is placed on skills which have a considerable impact on artistic and technical quality of the film, as well as on economic potentials of the film market. The Polish Film Institute funds the 'Improvement of Professional Skills' Operational Programme with an allocation of 3.651.696,00 million PLN.

Outcomes / Impact

The public policy that has been pursued in Poland to develop its film industry can be said to have mixed outcomes. In terms of the number of films produced in Poland, available figures from the PFI, in Table 10 below, show that the number of feature films produced has increased between 2004-06, but that there has been a drop in the number of other genres such as documentaries and animated films.

Table 10: Number of films produced in Poland, 2004-2006

Year	Feature films	Documentaries	Animated films	Educational films	Total
2004	19 (3)*	36	10	1	**66**
2005	28 (4)	35	26	4	**93**
2006	37 (2)	30	6	0	**73**

Source: Polish Film Institute. Figures in brackets represent the number of international co-productions.

Moreover, research by the European Audiovisual Observatory shows that cinema attendance within Poland has increased only modestly in recent years (see Table 11).

Table 11: Cinema Attendance in European Countries (2004-2008)

Cinema Attendance in European Countries (2004 - 2008 provisional)

in millions

Country		2004	2005	2006	2007	2008 prov	% change	Source
European Union member countries (EU 27)								
AT*	Austria	19,4	15,7	17,3	15,7	15,5	-1,3%	FAFO / Österreichisches Filminstitut / OBS
BG	Bulgaria	3,1	2,4	2,4	2,5	2,8	12,1%	National Film Center
CZ	Czech Republic	12,0	9,5	11,5	12,8	12,9	0,4%	Ministry of Culture / UFD
DE	Germany	156,7	127,3	136,7	125,4	129,4	3,2%	FFA
DK	Denmark	12,8	12,2	12,6	12,1	13,2	8,9%	Danish Film Institute
EE	Estonia	1,2	1,1	1,6	1,6	1,6	0,2%	Estonian Film Foundation
ES*	Spain	143,9	127,7	121,7	116,9	108,0	-7,6%	ICAA / OBS
FI	Finland	6,9	6,1	6,7	6,5	7,0	7,4%	Finnish Film Foundation
FR	France	195,5	175,5	188,8	177,7	188,8	6,2%	CNC
GB	United Kingdom	171,3	164,7	156,6	162,4	164,2	1,1%	Cinema Advertising Association / Nielsen EDI
HU	Hungary	13,7	12,1	11,7	11,1	10,2	-8,5%	National Film Office
IE	Ireland	17,3	16,4	17,9	18,4	18,2	-0,7%	Carlton Screen Advertising / Nielsen EDI
IT*	Italy	116,3	105,6	106,1	116,4	111,6	-4,1%	Centro Studi Cinecittà Holding / Cinetel / OBS
LT	Lithuania	1,5	1,2	2,5	3,3	3,3	-1,4%	Baltic Films
LV	Latvia	1,7	1,7	2,1	2,4	2,4	-2,7%	National Film Centre
NL	The Netherlands	23,0	20,6	23,4	23,1	23,5	1,7%	NFC / NFF / MaccsBox - NVB & NVF
PL	Poland	33,4	23,6	32,0	32,6	33,8	3,4%	boxoffice.pl
PT	Portugal	17,1	15,8	16,4	16,3	15,9	-2,5%	Instituto do Cinema e do Audiovisual
SE	Sweden	16,6	14,6	15,3	14,9	15,2	1,5%	Swedish Film Institute
SK	Slovakia	2,9	2,2	3,4	2,8	3,3	18,2%	Slovak Film Institute
EU 27 - est. total		**1013**	**899**	**932**	**917**	**920**	**0,3%**	**European Audiovisual Observatory**
Other European countries								
CH	Switzerland	17,2	15,0	16,4	13,8	14,0	1,5%	Swiss Federal Statistical Office
NO	Norway	12,0	11,3	12,0	10,8	11,9	9,7%	Film & Kino
RU	Russian Federation	67,4	83,6	91,8	106,6	123,9	16,2%	Russian Film Business Today
TR	Turkey	29,7	27,3	34,9	31,2	38,5	23,6%	Sinema Gazetesi

* 2008 estimated by European Audiovisual Observatory

Source: European Audiovisual Observatory

Also, market share for Polish film has failed to increase significantly between 2004-2008 (see Table 12).

Table 12: Market Shares for National Films in European Countries

Market Shares for National Films in European Countries (2004 - 2008 provisional)

in %

Country		2004	2005	2006	2007	2008 prov	change percentage points	Source
European Union member countries (EU 27)								
AT	Austria	~	2,7%	2,6%	1,9%	6,0%	4,1%	Österreichisches Filminstitut
BE*	Belgium	6,3%	5,8%	6,5%	7,5%	10,0%	2,5%	Ministère de la Communaute Francaise
BG	Bulgaria	~	~	~	1,2%	4,8%	3,6%	National Film Center
CZ	Czech Republic	23,8%	25,1%	30,1%	35,2%	39,6%	4,4%	Ministry of Culture / UFD / OBS
DE	Germany	23,8%	17,1%	25,8%	18,9%	26,6%	7,7%	FFA
DK	Denmark	23,7%	32,4%	24,8%	27,0%	33,0%	6,0%	Danish Film Institute
EE	Estonia	5,4%	5,1%	9,2%	14,3%	7,3%	-7,0%	Estonian Film Foundation
ES*	Spain	13,4%	16,7%	15,5%	13,4%	14,2%	0,7%	ICAA / OBS
FI	Finland	17,0%	15,0%	23,9%	20,0%	22,6%	2,6%	Finnish Film Foundation
FR	France	38,4%	36,6%	44,6%	36,5%	45,7%	9,2%	CNC
GB*	United Kingdom	23,4%	33,0%	19,1%	28,5%	31,0%	2,5%	UK Film Council
HU	Hungary	10,3%	15,4%	18,7%	13,3%	10,2%	-3,1%	National Film Office
IT*	Italy	21,6%	25,7%	25,8%	32,0%	29,3%	-2,7%	Centro Studi Cinecittà Holding / Cinetel
LT	Lithuania	2,9%	6,3%	1,1%	2,6%	5,5%	2,9%	Statistics Lithuania / Baltic Films
LV	Latvia	3,7%	1,8%	1,7%	7,4%	6,8%	-0,6%	National Film Center
NL	The Netherlands	9,2%	13,2%	11,3%	13,5%	17,8%	4,2%	NFF / MaccsBox - NVB & NVF
PL	Poland	8,7%	3,4%	15,9%	24,7%	25,4%	0,7%	Min. Cult / boxoffice.pl / OBS
PT	Portugal	1,3%	3,2%	2,7%	2,8%	2,5%	-0,3%	Instituto do Cinema e do Audiovisual
SE	Sweden	23,3%	22,6%	18,8%	21,6%	20,0%	-1,6%	Swedish Film Institute
Other European countries								
CH	Switzerland	2,5%	5,9%	9,5%	5,1%	3,0%	-2,1%	Swiss Federal Statistical Office
NO	Norway	14,9%	14,0%	16,6%	17,2%	22,5%	5,3%	Norwegian Film Institute / Film & Kino
RU	Russian Federation	12,1%	29,7%	25,7%	26,3%	25,5%	-0,8%	Russian Film Business Today
TR	Turkey	38,4%	41,8%	51,8%	38,0%	59,2%	21,2%	Sinema Gazetesi

* estimated data

Source: European Audiovisual Observatory (OBS)

Turkey

About Turkey

Turkey is democratic, secular and social state committed to the Atatürk nationalism and based on separation of powers: Legislative power - Turkish Grand National Assembly, Executive power - President and Council of Ministers and Judicial power - Independent courts and supreme judiciary organs. It population is 75.8 million (UN, 2008). Capital is Ankara but the largest city is Istanbul. Land is over 779,452 sq km.

Main exports of Turkey are: clothing and textiles, fruit and vegetables, iron and steel, motor vehicles and machinery, fuels and oils. GNI per capita: US $8,020 (World Bank, 2007). Major language is Turkish.

Turkey became an EU candidate country in 1999 and, in line with EU requirements, went on to introduce substantial human rights and economic reforms.

Basic overview of tax system

The tax system in Turkey is progressive. - The higher income, the higher the rate. The 2008 individual tax rates vary from 15% - 35%.

The tax rate applicable to corporations in Turkey is 20%.Capital gains tax in a corporation is usually added to the regular income of the corporation. In general, capital gains in Turkey, whether for an individual or for a company, is added to the regular tax.

The rate of standard tax is identical to the rate of normal income tax on the income of an individual - that is from 15% - 35%.

The standard rate of tax for a corporation is 20%.When calculating capital gains; the purchase price of the asset sold is adjusted in line with the rise in the index from the date of purchase to the date of sale. Capital gains tax is calculated only on the real profit.

The employer's social security contribution is 19.5% of the salary (to the limit specified in law). The employee's contribution is 14% of the salary. Employers pay additional 2% to unemployment fund, employees pay additional 1%.

Tax must be deducted at source from the following payments to non-residents according to the following table:

- Dividend - 15%.
- Interest - 10%.
- Royalties - 20%.
- Professional services - 20%

Turkish law exempts the following forms of income from tax:

- Profits from private pension funds, up to a limit.
- For individuals income from sale of shares.

- For individuals, dividend income, up to YTL 19,800 per year.
- A capital gain made by an individual on the sale of Turkish securities (traded on Istanbul stock exchange) that he had held for at least 1 year before the date of sale.
- For individuals, income from sale of immovable property held for 5 years or more.
- For companies, dividend paid by a resident company to a Turkish company.

Turkey grants tax reliefs to:

- Undocumented expenses paid in foreign currency abroad, up to 0.5% of gross income.
- Bad debts, subject to certain conditions.
- Donations to certain organizations, up to 5% of taxable income.
- Medical expenses made by employees.
- Rent expenses.

In most cases, VAT is 18%. VAT is charged on assets and services in Turkey as well as on imports into Turkey. Exports are not subject to value added tax.

The tax rates for gifts are 10%-30% of the value of the asset. The tax rates for inheritance are 1%-10%.Tax of 5% is payable. The tax rates for gifts are 10%-30% of the value of the asset. The tax rates for inheritance are 1%-10%. Inheritance tax is paid over 3 years, two payments being made each year.

Annual property tax of 0.1%-0.3% is payable on land and buildings. A tax of 1.5% is payable on the sale of real estate. The tax is paid by the vendor and by the purchaser.

Further information available at http://www.worldwide-tax.com/turkey/indexturkey.asp

Introduction

It is complex to gather evidence about the cultural and film policy of Turkey. On one hand limited information is available in English language. On other hand, the kind of information available on the website of Ministry of Culture and Tourism and other relevant state bodies mainly provides historic overview of Turkish cinema. Successful Turkish films are listed almost everywhere, yet no specific data is available about the state subsidizing system, and other film specific interventions.

Due to this, the report provides overview of the available information only. The last is gathered through English language websites, informal consultations and press coverage.

Cultural policy overview

Parliament plays an important role in the fields of culture, art and cultural heritage in Turkey. The Ministry of Culture and Tourism is the main government body responsible for formation and implementation of the policies for culture.
The aims of the cultural policy are:

- Protection and development of national culture
- Strengthening and enhancement of the cultural structure
- Dissemination of cultural activities

The effort is taken to structure the Turkish cultural policy In line with EU cultural priorities, to enhance cooperation with other countries including EU member states and with relevant International Organizations (UNESCO, Council of Europe). Turkey intends to increase access to culture for all parts of the community. Therefore one of the first priorities of Turkey is to initiate and support the development of a database of cultural statistics, compatible with EU practice.

Film policy

The General Directorate for Cinema and Copyrights is part of the Ministry of Culture and Tourism of Turkey and is responsible for the film sector. On January 23, 1986, a new cinema law was adopted. It aimed to ensure support for those working in cinema and music. A reorganization of the film industry began in 1987 to address problems and assure its development. The Ministry of Culture established the "Professional Union of Owners of Turkish Works of Cinema" in the same year.

The General Directorate of Copyrights and of Cinema was founded in 1989 as well as a Support Fund for the Cinema and Musical Arts. This fund is used to provide financial support to the film sector.

Informal interview with Gokhan Ozdemir, Country Manager, KODAK

Since 2002 the feature film market has been growing. In 2002, the production companies realized that if they produce quality films Turkish people love to watch their own stories rather than foreign productions. Such companies started to produce more feature films, and established themselves as strong productions.

With the increase of the quality and quantity local titles started to get a tangible portion of the box office. Meanwhile, the government adopted a law which allowed certain tax breaks for companies sponsoring films. This law attracted companies like Coca Cola, Shell, Turkcell and others to be the sponsors of various features.

Meanwhile, a huge competition started between TV channels in TV series. The number of series produced in a year suddenly increased to 80 from 10. This allowed production companies to have a regular income. They could also spend more on feature productions.

There are around 1400 screens in Turkey. Almost 1000 of them have been refurbished during the last three years. The titles are released around 150-200 copies in average (Max. 500).
Turkish film industry developed gradually and now it is an established industry here. In 2008, 230 foreign feature films were released. The number of local titles was 50. These 50 local titles got 60% of the box office. This is a very important figure. It's unprecedented kind of a box office split even in any other country (except for China -they put limitations on foreign films, and Russia - they dub everything, so that any kind of texture is lost).

The Cinema Association (SESAM) gives a list to Ministry of culture for obtaining of government supported. Ministry of culture chooses projects that they will support.
In average, the total amount each year given by Ministry of Culture is around $6m. There are different segments in this list. The biggest support is given to the experienced production companies: the amount of support per each project in this segment is $300k.
There are other segments in the list too: New director, documentary, short film. But these projects get max $60k.

The subsidy is not given straight away. There's a criteria to meet. For example, if you started the production, you get X% of the support. When you start the post production you get Y%. When you release it you get Z%. Funding is provided in certain instalments.
After you release a film, you have to pay the total amount back to government in 6 months unless you win a festival in Turkey, or you are accepted to an international festival outside the country.
Main players do not even apply for government support. As anywhere in the world, this support is mainly demanded by the festival type filmmakers. One of them won the best director in Cannes 2008. But if you look at the audience they get in Turkey, they cannot live with that figures only.
People shoot more and more feature films because:

- they earned a lot from TV series
- They see that they can earn from the box office, 37m people paid for the tickets and watched films in movies, $250m rev. in total.
- Companies have tax advantage as sponsors
- Government support, especially for the festival (non-commercial) type of filmmakers.

In terms of general cultural policy I don't think there is an agenda for a wider cultural policy of Turkey.
Government supports culture as

- They want to be welcomed in this glittering world as individuals.
- They want to support the potential that allows people to be employed.
- They want to show EU that they value art...

At the moment, Feature films are just for entertainment unless an individual director follows his dreams. 40 out of 50 feature films were either comedy or romantic-comedy.

Specific interventions for film

There are number of organizations connected to the Cinema Sector in Turkey. Some of those are still strongly associated with the Ministry of Culture:

- The Turkish Film Council is an organization established to assist on-location film and video production and to contribute to the development of Turkey's film culture. It serves as a networking link between the U.S. and Turkish film industries. The council provides useful information to filmmakers planning to shoot in Turkey, as well as to those interested in distributing their films in the U.S. By building relationships within the US, council strengthens the partnership between the U.S. and Turkish. Council's tasks are:

  Providing contacts and relevant information to local and visiting filmmakers;

Communicating the developing needs of filmmakers and the film industry to municipal and state institutions;

Co-ordinating the work of institutions, companies and people who are involved in providing film production services to visiting filmmakers;

Serving as mediator in disputes.

- FIYAP — Association of Film Producers - was founded in Ankara on August 2005 officially with 28 founder members for the purpose of bringing film producers together and to ensure the Turkish cinema sector improvement and put it to the uppermost level at the international platform. It has been carried out its activities under supervision and control of the Republic of Turkey of the Ministry of Culture and Tourism. As a state-recognized organization, FIYAB administers the exploitation rights of film producers in accordance with the Law on Intellectual Property Rights No 5846. FIYAB is a collecting society which is subject to supervision and control by the Ministry.
- TURSAK, Turkish Foundation of Cinema and Audio-visual Culture, is an autonomous, non-profit organisation, founded in 1991, with the participation of 275 members, active and well-known in the fields of cinema, television, fine arts, literature, mass media, business and politics. The Foundation aims to maintain an outstanding supporting role in the fields of cinema and audio-visual culture through its wide-ranging attempts in spreading the concept of cinema as an art form and as an essential aspect of the culture. It also aims to encourage the use of audio-visual means on behalf of enrichment and diversification of cultural identity of the public.

  Other industry organizations are:
- SODER — Cinema Actors' Association
- SESAM — Professional Union of Film Producers, Importers, Cinema-owners
- FILM YON — Film Directors' Union
- SINEKAM-DER — Association of Cameramen, Set Workers, Technical Assistants and studio workers
- Film Makers' Professional Committee of Film Producers, Importers, Cinema Owners and Video Distributors

Outcomes / Impact

According to the press coverage Turkish movie production industry currently attracts $15 million annually from the private sector. Some 38 films were shot last year and around 40 Turkish films are expected to be shot by the end of this year. Total cost of shooting 40 movies a year adds up to approximately $50 million. Sponsors covered about $10 million of that total amount and provided equipment support worth $5 million. All of the films have sponsors. Excluding some expensive productions, shooting a film in Turkey costs anything between $1 million and $2 million on average.

The head of the Film Producers' Professional Association, FİYAB calls for further reforms in order to increase the support of the private sector to Turkish cinema. Even if according to the Turkish sponsorship law companies' sponsorship to movies is subtracted from tax assessment, it is not subtracted from an income tax. The Head of FIYAB calls for further tax reforms on this matter.[47]

[47] http://www.hurriyet.com.tr/english/finance/10302216.asp?scr=1