



House of Commons
Culture, Media and Sport
Committee

The British Film Industry

Sixth Report of Session 2002–03

Volume I



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Report, together with formal minutes

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The Culture Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

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A list of reports of the Committee in the present Parliament is at the back of this volume.

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Image on front cover courtesy of Fox Searchlight Pictures, US publicity for *Bend it Like Beckham*.
Cover design by TSO

Images on back cover, from top to bottom, left to right:

Love Actually – Written and Directed by Richard Curtis, Produced by Duncan Kenworthy, Tim Bevan and Eric Fellner. © 2003 Universal Studios. All rights reserved.

This is not a Love Song – Directed by Bille Eltringham, Produced by Mark Blaney. Financed by UK Film Council, Footprint Films, Celluloid Dreams and Strange Dog.

Sylvia – Directed by Christine Jeffs, producer Alison Owen. Co-financed by BBC Films, the UK Film Council, Capitol Films and Focus Features.

Anita and Me – Directed by Metin Hüseyin Produced by Paul Raphael & Tristan Whalley. Co-financed by BBC Films, EMMI, the UK Film Council, Icon, Baker Street Media Finance (Take 3 Partnership), Portman Films, Starfield Productions.

Magdalene Sisters – a film by Peter Mullan, produced by Frances Higson. Co-financed by Scottish Screen, UK Film Council, Irish Film Board in association with Momentum Pictures. A PFP Films Production, in association with Temple Films & Wild Bunch.

Gosford Park – a film by Robert Altman, produced by Robert Altman, Bob Balaban & David Levy. Co-financed by Capitol Films, Sandcastle 5, Chicago Films, USA Films, UK Film Council.

28 Days Later – Directed by Danny Boyle. Produced by Andrew Macdonald. Co-financed DNA Films, Fox Searchlight Pictures and the UK Film Council with the assistance of the East London Film Fund and the European Regional Development Fund.

Bend it Like Beckham – Directed by Gurinder Chadha Produced by Deepak Nayar and Gurinder Chadha. Co-financed by Kintop Pictures in association with the UK Film Council, World Filmfoerderung Hamburg, BSkyB, British Screen, Helkon SK, The Works, Future Film Financing. A Kintop Pictures/Bend It Films/ROC Media/Road Movies co-production.

Importance of Being Earnest – Director Oliver Parker, Producer Barnaby Thompson. Miramax Film and Ealing Studios in association with UK Film Council and Newmarket Capital Group a Fragile Film.

Tomorrow La Scala! – Directed by Francesca Joseph, Produced by Ruth Caleb & Christopher Collins. A Home Movies Production for BBC Two, BBC Films & UK Film Council

Summary

There *is* a British film industry. While there is no acute new crisis — and many underlying strengths — there are longstanding chronic difficulties. Public policy has a role to play in strengthening the industry in order to generate substantial economic rewards and important cultural benefits.

The nature of the British film industry is perhaps not what we would wish it to be. Ideally, we would prefer the main activity to be indigenous production of films about Britain, a substantial proportion of which break out to achieve success in the global market. However, the reality is that the British film industry does three things:

- the most lucrative being the provision of services for the major Hollywood studios — attracted by UK talent, facilities and tax regime — to make high-budget and technically-demanding motion pictures;
- secondly, there are indigenous, usually distinctively British, films shot in the UK;
- thirdly, there are films shot abroad, under co-production treaties.

The relative quantum and value of these activities in 2002 were:

Inward features	19 films	£234 million
Domestic features	42 films	£165 million
Outward features	43 films	£133 million

The total trade surplus for film for the most recent year for which figures are available, 2001, was £254 million against a total export value of £700 million (made up of £468 million in royalties and £232 million of production services).

Indigenous British film production was described to us as an under-capitalised ‘cottage’ industry based around entrepreneurial individuals driving single-project vehicles. The industry has concentrated on production with insufficient emphasis on distribution. In this scenario rights are often pre-sold in order to get the film made in the first place; therefore any unexpected success does not reap proportionate rewards to fund further production or support less lucrative, but worthwhile, output. The UK Film Council and others stressed the crucial importance of finding ways to encourage the distribution of British films — including through the tax regime.

The success of the industry in grappling with these challenges is largely in the hands of creative, entrepreneurial and business talent in the private sector. However, there is a range of issues — the maintenance of an attractive tax regime; resources, assistance and strategic leadership offered by the UK Film Council; and improvements in training and development — where public policy is involved. These issues are the focus of this Report.

1 Introduction

Inquiry

1. We posed the question, “Is there a British film industry?”, in November 2002. The key areas which suggested themselves for examination were:

- a) the industry’s contribution to the UK economy;
- b) the importance of a capacity to make British films about Britain in Britain;
- c) the relationship between the film industry and the rest of the creative industries particularly the broadcasters;
- d) the nature of support for the industry from the Government;
- e) the structure and performance of the industry; and
- f) the performance and approach of the UK Film Council together with the British Film Institute and the Museum of the Moving Image.

2. We received over 100 written submissions, and a large number of other papers, from a very wide range of witnesses. In February 2003, before commencing taking oral evidence, we had an informal meeting with Sir Alan Parker, Chairman, and John Woodward, Chief Executive, UK Film Council.

3. We took oral evidence from: the Writers’ Guild of Great Britain; the Producers’ Alliance for Cinema and Television (PACT); individual producers — Jeremy Thomas, Barnaby Thompson and Michael Kuhn; the Directors’ Guild; director — Gurinder Chadha, the New Producers’ Alliance (NPA), Working Title; the Motion Picture Association (MPA); the British Screen Advisory Council (BSAC); ScottsAtlantic; Tim Adler, the Editor of Screen Finance; Lord Attenborough; the Association of Independent Exhibitors (AIFE); the Cinema Exhibitors’ Association (CEA); the BBC and ITV; Women in Film and Television (WFTV); film franchises: Pathe, The Film Consortium and DNA¹; the Film Distributors Association, UIP and Momentum Pictures; Skillset, the sectoral training and development agency; the National Film and Television School (NFTS), Equity and BECTU; Stelios Haji-Ioannou, of easyCinema; the Secretary of State for Culture, Media and Sport and DCMS officials; Channel 4; the British Film Institute (*bfi*) and the Film Archive Forum; and, finally, the UK Film Council.

4. We also took evidence from the eminent film critic and author, Mr Alexander Walker, who sadly died on 14 July 2003 while this Report was being prepared. While we find we cannot embrace the whole thesis presented by Mr Walker, his evidence was valuable, entertaining and perceptive.

1 Three film franchises were awarded in 1997 with a total of £92 million worth of Lottery funding from the Arts Council of England.

5. Full details of the oral and written evidence we received are set out at the back of this Report and the evidence itself is published in separate volumes (HC 667, 2002–03, Volumes II and III).

6. As part of the inquiry the Committee visited Ealing, Pinewood and Leavesden studios, and CGI post-production house, Framestore CFC, for informal discussions and first-hand experience of a sample of the extremely impressive, and very busy, film production facilities available in the UK. To our regret a further visit to Angels Costumiers had to be foregone at the last minute due to the pressure of parliamentary business. Members also visited the British Council to discuss the role of film in the Council's promotion of Britain's culture. We were extremely grateful for the preparations and efforts made by all our hosts to contribute to our inquiry. A list of UK visits that took place can be found in Annex B.

7. In addition to this UK programme the Committee visited Los Angeles in June 2003 for discussions with representatives of the US film-making community — the independent sector and academia — as well as senior executives at the major Hollywood studios. This visit was facilitated by the British Film Office and HM Consul General in LA. We were very grateful to the staff of both these offices, and to all our hosts, for an invaluable programme of discussions which illuminated the global context in which the British industry operates and provided important evidence relating to the incentive value of the UK's current tax regime. See Annex B.

8. Details of government and lottery funding that has been available for film since 1999 (provided by DCMS) can be found in Annex C. Two further annexes deal with two important comparisons:

- i. between the tax regimes of the UK's mainly English-speaking competitors for inward investment — Australia, Canada, the Republic of Ireland and New Zealand; and
- ii. on a range of film sector indicators between selected European countries.

2 Background

What is a British film?

9. Most people would define a ‘British’ film with reference to obvious cultural elements such as: a setting in the UK or a focus on British people abroad; a predominantly British cast; a storyline about some aspect of British life — past, present or future — or notably by, or based on a work by, a British author. Recent examples include *Billy Elliott*, about a boy in North East England, and *Bend it Like Beckham*, about a girl from West London, both portraying particular social issues. The nationalities of scriptwriter, producer, director and, perhaps especially, the ‘investment’ seem less obviously significant. However, both artistic and financial considerations serve to complicate this issue.

Statutory definition

10. Under present legislation a film certified by the Secretary of State for Culture, Media and Sport as qualifying as ‘British’ can benefit from advantageous tax treatment (dealt with in detail later in this Report). These incentives were designed to encourage the indigenous industry as well as attracting inward investment in the form of overseas productions. A large number of projects in both of these categories simply would not have been made, or not made here, without these incentives.

11. There are two ways that a film may qualify as ‘British’ — either under Schedule 1 to the Films Act 1985, examples include the *Bond* and *Harry Potter* films, or by satisfying the terms of an international co-production agreement to which the UK is a party.² Under the Films Act, for a film to be certified as ‘British’ by the Secretary of State for Culture, Media and Sport, a number of tests must be met:³

- a) *The maker test*: the film must be made by a company that is registered and centrally managed and controlled in the UK, in another state of the European Union/European Economic Area or in a country with which the European Community has signed an Association Agreement;⁴
- b) *The production cost test*: 70% of the production cost of the film must be spent on film-making activity in the UK;⁵

2 British Film Office website: www.britfilmsusa.com/d_incentives_qualifying.php

3 Synopsis of eligibility criteria under Schedule 1 of the Film Act 1985 from www.culture.gov.uk

4 Iceland, Liechtenstein, Norway belong to the European Economic Area in addition to the countries of the EU. The EC has Association Agreements with Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia. The “maker” means the person (or company) undertaking the arrangements for making the film.

5 If the costs of one or two people are deducted from the total labour costs (as described in c) then the same costs must be deducted from the total production before the 70% test is applied.

c) *The labour cost test:*

- i. 70% of the total cost (minus — if desired — the cost of one person whose nationality must be non-Commonwealth/EU/EEA/Association Agreement country) must have been paid to citizens or ordinary residents of the Commonwealth, EU/EEA or a country with which the European Community has signed an Agreement; and
- ii. 75% of the total labour cost — after deducting the cost of two persons whose nationality must be non-Commonwealth/EU/EEA/Association Agreement country, and one of whom must be an actor⁶ — must have been paid to citizens or ordinary residents of the Commonwealth, EU/EEA or a country with which the European Community has signed an Agreement.⁷

d) *Previously filmed material:* no more than 10% of the playing time of the film should comprise a sequence of visual images from a previously certified film or from a film by a different maker.

12. Co-production treaty agreements are used to pool ‘creative, artistic, technical and financial resources among producers of treaty countries’,⁸ spread risks, and allow eligible films to benefit from the available incentives in both or all treaty countries. The producers from each country involved in co-production must raise an appropriate share of the total production cost: for bilateral agreements, no less than 40%; for convention agreements, no less than 20%; and for multilateral agreements, no less than 10%.⁹

13. Given that one explicit aim of statutory arrangements (of which British qualification is a part) is to attract overseas productions to make films in the UK it is unavoidable, indeed perhaps desirable, that a number of qualifying films will have limited culturally-British credentials. **We recommend that, in reviewing the tax regime for film production within the UK, the Government assesses whether there is a case for the introduction of new terminology to assist the classification of films according to country of origin distinguishing cultural content and financial provenance.**

Cultural definition

14. There appears, therefore, to be no official definition of a culturally-British film. As we were told, “the film industry is a mixture of commerce and culture, business and art”,¹⁰ and this mix, together with the transnational (predominantly transatlantic) nature of the British industry, serves to complicate clear demarcations on the basis of country of origin. The UK Film Council’s Statistical Yearbook relies on the statutory definition but includes data and

6 The actor should not be engaged in making the film in any other capacity.

7 The exceptions within the stipulations relating to labour costs are in recognition of the potential for the large fees paid to single star performers, or prestigious directors, to make meeting these tests extremely difficult if not impossible.

8 www.britfilm.com/resources

9 www.britfilusa.com/d_incentives_qualifying.php (07/07/03)

10 Ev 39 Vol III

references identifying nationalities within co-productions where possible. The British Council runs 'britfilms.com' which contains its directory of British films. The Council regards a British film as one where the film had a minimum of three of the following six criteria: 1. British producer; 2. British production team; 3. British director; 4. predominantly British cast; 5. a subject matter that informs the British experience; 6. a British identity as defined by the *bfi* in the release review in *Sight & Sound* (or earlier Monthly Film Bulletin). The *bfi* in *Sight & Sound* define a film nationality according to the production company or companies that hold the copyright to the film (under the assumption that the most significant production companies involved, either financially or creatively, are those given the copyright). As evidence from the *bfi* shows, this itself is a complicated judgement to make.¹¹

15. One clear distinction that might be put forward is the language that the film is originally made in. But with both the Oscars and BAFTAs distinguishing only between 'films', *i.e.* English-speaking films, and 'foreign language films' this does little to solve the transatlantic difficulty and nothing to cater for culturally-British films made in other languages. For example the 2001 British-qualifying film *Solomon and Gaenor* won an Academy award in the foreign language film category – Welsh and Yiddish – but remains a quintessentially British, and British-qualifying, film.¹²

16. None of the criteria set out in law are aimed at the subject matter of the film and some British-qualifying films (*i.e.* *Judge Dredd*, *Gladiator*, *Troy*, *Lara Croft Tomb Raider* or *One Hundred and Two Dalmatians*) therefore do not focus on stories an audience would recognise as particularly 'British'. The reverse situation, a culturally 'British' film that would not meet the statutory tests, would probably be unheard of were it not for the previous criteria which required any studio used for photography or sound recording to be in the UK. However, in 1995 *Sense and Sensibility* failed to qualify as British — despite its obvious British provenance, scriptwriter, locations and cast — because of post-production work carried out abroad. The criteria have been revised since then.¹³

The importance of a national film industry

17. The evidence is clear that the British film industry is extremely important to the country, both culturally and economically.¹⁴

Economy

18. The potential global market in 2002 represented a \$63 billion spend on filmed entertainment:

11 Ev 101-102 Vol III

12 QQ 4-6

13 Report by the Advisory Committee on Film Finance, July 1996

14 See Q 168

Table 1: Global spend on filmed entertainment by region:

Market	Spend in 2002 - \$ billion
North America	33.5
Europe	15.0
Asia / Pacific	12.5
Latin America	1.7
Middle East / Africa	0.5

Data Source: UK Film Council (briefing for CMSC), 2003

The UK's share of this market was 5% (including *all* British-qualifying films): low in comparison to the 80% achieved by the US; but high in contrast to the 15% captured by the rest of the world put together.

19. The British film industry generates significant returns for the UK economy through indigenous film-making (£165.25 million in 2002¹⁵), through inward investment (£234.3 million in 2002¹⁶), through film exhibition (£755 million in 2002¹⁷); through DVD and video rental and sales (£2.55 billion in 2002¹⁸), and through UK film exports (£700 million in 2001¹⁹; £3 billion over the last 5 years). The UK Film Council estimates that a successful UK film will make up to 65-70% of its revenues outside the UK.²⁰

20. In the last five years UK films have generated up to £1.7 billion in overseas investment²¹ and £1.1 billion in domestic investment, in total nearly £3 billion. Although not directly comparable, the total cost of all film-related tax relief over this period was in the order of £860 million.

21. The spin-off effect on, and benefits to, tourism throughout Britain have also been identified by VisitBritain, who have been marketing Britain abroad using a Movie Map of famous locations amongst other initiatives.²²

15 Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 67, Table 12.1.

16 Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 67, Table 12.1.

17 UK Box Office gross earnings. Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 14, Table 1.2.

18 Total value of the UK's rental and retail business. Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 53, paragraph 10.1.

19 Film exports were made up of £468 million in royalties and £232 million in film production services). Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 47, paragraph 9.1.

20 UK Film Council briefing, 2003

21 Ev 184 Vol II

22 Ev 2 Vol II. The Movie Map can be found through www.visitbritain.com

22. Of the 23 million people who visited the UK in 2001 — spending approximately £11.3 billion — VisitBritain (formerly the British Tourist Authority) estimates that approximately 20% visited the UK because of the way it is portrayed in films or on television.²³ The flow-on-effect from film (i.e. the use of services and purchase of goods by the industry) is thought to be that for every £1 spent on film, there is a £1.50 benefit to the economy.²⁴

23. Film is also a key part and driver of the mix of creative industries which have thrived in Britain since the creation of television and film. The creative industries, as a whole, are a major success story for the UK. They are a significant contributor to the economy, accounting for about 7.9% of GDP (of which film contributes approximately 0.3%) and are growing significantly faster than the economy as a whole. In December 2001, estimated aggregate employment across these industries totalled 1.95 million.²⁵ The UK Film Council emphasised that the film industry was increasingly part of the UK's high-tech sector using, and developing, high-end skills, innovative techniques and new technologies.

24. It is worth noting however, that the Department's memorandum noted that “while the economic contribution of film is welcome, film is a relatively small industry compared to many others. The main reason for Government supporting film, therefore, is its cultural importance. Film is probably the most accessible art-form. The Government believes that it is vital that we continue to make great films in Britain and about Britain, and that a wide variety of films can be seen in British cinemas.”²⁶

Culture

25. In common with the Government and many of our other witnesses, the British Film Institute (*bfi*) told the Committee that film and the moving image were important for reflecting British culture back to British society and out to the world.²⁷ Ms Mia Bays argued that:

“Films as diverse as *Billy Elliot*, *Trainspotting*, *Bend It Like Beckham* and *Four Weddings and a Funeral* contribute to the widely accepted fact that Britain is one of the world leaders in film-making talent; but they also allow us to reflect on and transform our own notions of a national identity.”²⁸

26. The UK Film Council, established in April 2000, as the UK's strategic agency for film, agreed with Government that its key aim is: “to stimulate a competitive, successful and vibrant British film industry and culture, and to promote the widest possible enjoyment and understanding of cinema throughout the Nations and Regions of the UK.”²⁹ The Council

23 BTA official quoted at <http://www.britishcouncil.org.co/english/infoexch/ukfilm.doc>

24 Ev 227 Vol II

25 Ev 186 Vol II

26 Ev 187 Vol II

27 Ev 206 Vol II

28 Ev 76 Vol III

29 Ev 221 Vol II

believes that film promotes our national identity and culture around the world and the Secretary of State for Culture, Media and Sport told us that:

“There is a role for Government in promoting creativity, in supporting innovation and in building, through investment in culture, a sense of national identity and enthusiasm for culture ... It is an intrinsically good thing that we have good challenging films for people to see.”³⁰

27. As history demonstrates, film — amongst other art forms — can be a powerful weapon for propaganda (and film production in totalitarian societies has usually been subject to strict state control). The positive side of this coin is the ability of a national industry to provide and promote multiple perspectives on historical events, societal mores and norms. Mr Anthony Minghella, himself a distinguished and highly successful film director as well as Chairman of the *bfi*, told us,

“Fiction becomes this sort of cultural bank balance that we can draw from. We can momentarily be a young woman, an old woman, a black person, an Asian person, a Chinese person, and look at the world and argue a position that is not our own for a while — inhabit a position that is not our own.”³¹

This experience benefits the audience and, when in a British context, allows people around the world to identify with the story being told. This promotes the image of Britain abroad — an antidote to the domination of English language cinema by Hollywood with its occasionally relaxed attitude to historical accuracy (think *Braveheart*).³² Helkon SK wrote that, “it is ... important that British culture and British values are represented in the films that British people and the world watch.”³³

The British film sector

Employment

28. The UK has a wide and deep pool of film-making talent: acting, writing, producing and directing as well as all the skills needed behind the camera and in post-production. The Chairman of the UK Film Council, Sir Alan Parker, described the creative skills in the UK as ‘outstanding’ and the technicians and craftspeople as “the finest ... anywhere”.³⁴ This was supported by many of the Committee’s witnesses and interlocutors in the US and the UK during informal meetings.³⁵

30 Q 542

31 Q 581

32 Ev 228 Vol II

33 Ev 63 Vol III

34 Building a Sustainable UK Film Industry. A presentation to the UK film industry. Sir Alan Parker CBE, Chairman, UK Film Council, November 2002; also see Q425 [Mr McGarry]

35 Visit to US

29. Many of the skills needed in film are, to a large extent, interchangeable between that sector and the UK's large television and theatre sectors. Broadcasters described television as the training ground for technicians and actors who go on to work in film.³⁶ Work on films can be periodic; so employment on a casualised and freelance basis between projects in television, film, advertising and theatre seems to be the norm in order to maintain regular income.³⁷ The number of employees within the film industry, at any time, can therefore fluctuate greatly. Estimates of employment numbers for 2002 are provided below.

Table 2: Total Workforce of film and related Industries 2002³⁸

Domain	No. of personnel
Film and video production	29,986
Film and video distribution	4,901
Film exhibition	16,084
TOTAL	50,971

Data Source: UK Film Council Statistical Yearbook, 2002

Infrastructure

30. In addition to the rich UK talent pool there is a range of impressive film-making studios such as Pinewood, Shepperton, Leavesden and being developed at Llanilid under the leadership of Lord Attenborough. There are also cutting-edge post-production facilities available in the UK with companies such as Framestore CFC offering world class special effects to global customers.³⁹ In 2002 the total value of UK film production was £421.45 million.

Distribution

31. Distribution is the management of the release of the content created by production — the 'film' — to realise revenues. Management of this 'value' chain, involving negotiating muscle and skill, the sequencing of the various windows, the investment in advertising and print production (physical copies of the film) is the key to maximising returns. The opportunities are: theatrical release in cinemas (the success of which can dictate subsequent demand); airline exhibition and hotel pay-per-view; home video and the now extremely important DVD release; pay-per-view / video-on-demand on TV; pay-TV; and finally free TV.

36 Ev 113 Vol III

37 Ev 122, 155 Vol II. Ev 35 Vol III

38 Labour Force Survey. Data covers all persons engaged (employers, employees and self-employed). Video and motion picture workers are not separated in the official data (Standard Industrial Classification 9211).

39 Q 187

32. Distribution is therefore a key part of the global film industry but one which is dominated by US companies; including in the UK market.⁴⁰ The table below sets out the pattern of distribution in the UK in 2002 (for theatrical release). It shows the domination of 90% of the market by the five US companies and Entertainment, the top UK distributor. It is worth noting that, of the top-performing UK films (British-qualifying), 12 out of 20 were distributed by US-based companies and, of the overall top-performers, only five out of 20 were distributed by a UK company. This reflects a weakness in the British film industry that lies at the heart of the UK Film Council's diagnosis and prescription for the sector as we discuss below.

Table 3: Distribution in the UK and Republic of Ireland, 2002

Distributor		Market share - %	Films released	Box office £ million	Films in top 20	Films in top 20 UK films
20 th Century Fox	US	17.9	28	146.08	4	2
Entertainment	UK	16.6	19	135.89	4	1
Warner Bros	US	15.4	24	126.11	3	1
Buena Vista	US	15.2	36	124.62	3	4
UIP	US	12.5	29	102.55	1	5
Columbia Tristar	US	12.3	31	100.94	4	0
Pathe	UK	2.1	22	17.39	0	3
Momentum	UK	1.9	20	15.53	0	1
Helkon SK	UK	1.8	4	14.66	1	1
45 others	Mixed	4.3	207	33.82	0	2*

*Data Source: UK Film Council Statistical Yearbook, 2002 - * Icon and FilmFour*

Exhibition

33. In 2002 the UK had 3,258 screens in 668 cinemas — more than at any time since the early 1960s. 70% of screens were in multiplexes with 5% of the total dedicated to specialised (non-mainstream) programming. Four of the UK's cinemas had digital projection — out of the world's total of 113 such venues (with 125 screens). There were 176 million cinema admissions in the UK, a rise of 13% on 2001 and the highest figure since 1971. The total UK box-office in 2002 was worth £755 million, a 17% increase on 2001, and a rise of 275% over the decade.⁴¹ More than two-thirds of the UK population attend the cinema at least once a year, and one in

40 Q 48; Ev 34 Vol III

41 Ev 226 Vol II

four go once a month. **More people go to the cinema in the UK than go to football matches.**⁴²

34. It can be clearly seen that the exhibition sector in the UK is in good health and continuing to grow. However, it is clear that UK audiences, as elsewhere, are choosing to see Hollywood productions, and co-productions, more than other films. Assigning country of origin to films is problematic but it is clear that:

- a) US films (including co-productions with the UK and others) in 2002 accounted for 49% of releases and 91% of box office revenues;
- b) UK films (including co-productions with the US and others) in 2002 accounted for 21% of releases and 24.4% of box office; but
- c) without US co-productions, UK films accounted for 15% of releases and 6.2% of revenues.

Mr Stelios Haji-Ioannou, Chairman of easyGroup, has recently set up easyCinema in Milton Keynes. With this venture he is attempting to break the mould of current exhibition by varying seat prices. In evidence he described the challenge this presented.⁴³ Since his evidence, press reports indicate that easyCinema has now received a first run release of *Down with Love* from 20th Century Fox which will allow the variable ticket price business plan to be tested.⁴⁴

Consumption of filmed entertainment through DVD, home video and TV

35. DVD and home video rental and retail are a vital part of the value chain supporting film production. In 2002 the value of this market, at £2.55 billion, was three times the value of UK theatrical releases. It is well documented that DVDs are the fastest-selling electronics product of all time with DVD sales in 2002 increasing by 111% on the previous year. It was clear that, far from being a threat to cinema-going, revenue from the home video/DVD market has provided a vital boost to film production in recent years. DVD in particular has proved so important that indications given to us were that mainstream distributors were reducing the window for theatrical release to get the film on to DVD and into the marketplace as soon as possible. Three hundred and forty-five million videos and DVDs were either rented or bought in the UK in 2002 (with feature films accounting for the vast majority of these figures). Curiously, the rental market does not reflect the pattern of release in cinemas (for the relevant period) while the sales market for 2002 almost wholly duplicates the list of top-grossing box office films for 2001-02. Sales of DVD players and of video cassette recorders virtually kept pace in 2002 at about 3.7 million units of each being bought.

36. Audiences for films on the terrestrial channels remain significant. While the popularity of film with peak time audiences was not high compared to other genres, TV audiences compare well with cinema audiences. The average audience for a peak time film showing was 4.2

42 UK Film Council (briefing for CMSC), 2003

43 QQ 465-466; 471

44 Sunday Telegraph (Business), page 1, 07/09/2003.

million on BBC1 (film representing 7% of peak time programming) and 4.7 million on ITV (6% of such programming). This compares favourably with the median cinema audience for the top 50 films of last year at around two million (which is also roughly the peak time audience for a film on BBC2, Channel 4 or Five). There were also about 10 million cable/satellite/digital subscribers in the UK representing about 40% of TV-owning households in 2002. Multi-channel TV accounted for 22% of the audience share in this year. Sky Premier's average peak time audience is just under 100,000.

Public sector activity

37. There are a number of public sector bodies involved in the film sector. The Secretary of State told the Committee that :

“the role of Government is to set the right kind of regulatory environment and I think that through the structure of tax incentives, we have been successful in doing that and attracting substantial inward investment. The second, of course, is to make the UK an attractive place for companies to come and make films. So obviously understanding the skill and training needs of the industry and using the apparatus of the Public Service, particularly Learning and Skills Councils, the employer-led skills set, are ways in which the industry can increase its sustainability, both through recruitment of young people, training and securing the necessary sort of technical resources in order to underpin the viability of the industry ... I think that there is a role for my Department to allocate core funding to the UK Film Council.”⁴⁵

38. Within England, the DCMS has delegated most of the responsibility for film to the UK Film Council, established in 2000. The Council was an amalgamation of the Arts Council of England's Lottery Film Department, the British Film Institute (*bfi*), the British Film Commission, and British Screen Finance and its associated companies.⁴⁶ The UK Film Council received a grant-in-aid of £24.1 million and £32.441 million of Lottery money in 2002–03.⁴⁷ The core tasks of the UK Film Council are to create a sustainable film industry in the UK and ensure film culture and education are accessible to all.⁴⁸ On a day-to-day basis, the UK Film Council has two main functions: to develop UK film policy/strategy and to advise Government on all film issues including policy implementation; and to administer a total of £56.54 million of Lottery and Exchequer funding to deliver specific objectives.⁴⁹

39. The UK Film Council has created nine Regional Screen Agencies across the English regions, with funding of £7.5 million per annum. Their role is to support local creative, industrial, and educational activities, including the regional film archives, but their records of achievement, so far, are variable. Screen England, made up of the chief executives of the nine

45 QQ 525, 541

46 Ev 221 Vol II

47 See Annex C

48 Ev 189 Vol II

49 Ev 221 Vol II

RSAs with the UK Film Council, argues that the UK's most successful films are often regionally based and that the RSAs have key roles in: assisting productions; identifying individuals for 'fast-tracking' into the national film arena; and, alongside DTI, DCMS and regional government offices, stimulating growth in the regional screen industries.

40. Through Skillset, the sector skills council for the audio-visual industries — working with the UK Film Council and the industry — the training needs of the sector are being addressed for the first time with a strategy in September 2003.⁵⁰ This is a vital area that many in the industry identified to the Committee as in need of increased resources and future development.⁵¹ The principle elements of the training and development strategy are outlined in full below.

41. As was identified above by the Secretary of State, the Chancellor of the Exchequer has a pivotal role to play in relation to the tax relief provided for the film industry in the UK. Such relief is provided under Sections 40, 41 and 42 of the Finance (No. 2) Act 1992 (collectively 'Section 42' relief) and Section 48 of the Finance (No. 2) Act 1997.⁵² The former is a longstanding mechanism for attracting large budget films (over £20 million) to the UK. Section 48 was the response of the Chancellor to calls, including recommendations in a report by the National Heritage Committee in 1995, for more support for indigenous British films costing £15 million or less. This mechanism included a 'sunset' clause with the accelerated relief ending in 2005.

42. The Film Export Advisory Group was set up to provide co-ordination and information to the British film industry and Government on film-related export activity. Membership includes: the British Council, Visiting Arts, PACT, Trade Partners UK (an associated public body of the DTI — see below), the UK Film Council (including the British Film Institute), Invest UK, AFMA Europe (the representative association of the independent US film sector), film sales companies and industry experts.⁵³

43. British Trade International (BTI) was established in May 1999 and coordinates the work of the Department of Trade and Industry (DTI) and the Foreign and Commonwealth Office (FCO) on trade development and promotion of inward investment. BTI has over 2,500 staff in over 200 posts overseas, in the UK (London and Glasgow) and in the English Regions. It has two operating arms, Trade Partners UK (TPUK) and Invest UK through which it delivers its services.⁵⁴ The film unit within BTI is working closely with the UK Film Council and the Film Export Advisory Group to produce an export strategy for film for the future. The Film Export Advisory Group report, on how best to stimulate and support film exports, is due later this

50 Q 425 [Ms Caine]

51 QQ 19,41, 76, 148 [Mr Dawson, Mr McVay, Mr Bloore, Mr Castro]; Ev 34 Vol III

52 UK Tax Incentives for Film and Music- Baker Tilly Media Brief. www.bakertilly.co.uk

53 Ev 46 Vol III

54 Ev 88 Vol III

year, 2003.⁵⁵ Whether this structure works and is productive, is an issue that the Committee may return to.

44. The British Council is involved in promoting British films abroad as part of their wider cultural activities. When Committee members visited the British Council we were told that its primary role is to provide previews of British films for the selectors from major film festivals around the world, enabling them to find British films to include in the festivals. Amongst other things, the Council is also involved in arranging and promoting film premieres for British films all over the world, either working with the local distributors or directly with the film-makers.⁵⁶ The Council also maintains an online directory covering the industry and its output (referred to above — *britfilms.com*).

55 Ev 46 Vol III

56 British Council website: <http://www.britishcouncil.org/arts/film/whatwedo.htm> also see Q 612

3 British films

The challenge

45. The challenge facing the British film industry has been identified a number of times in the past, by the National Heritage Committee in March 1995,⁵⁷ by the Department in responding to that Report, by the Advisory Committee on Film Finance in July 1996,⁵⁸ and the by Film Policy Review Group in 1998.⁵⁹ In 1996 the Advisory Committee said:

“The British film industry is at present poorly organised to take a substantial share of the world film market. It is largely comprised of small independent producers. The distribution and exhibition sectors are dominated by multinational media companies. This contrasts with the situation in the US, where film is one of the country’s largest industries and where the Hollywood studios integrate production and distribution (and, overseas, exhibition), giving them almost total control over the value chain. US dominance is reflected in their 85–90% share of the growing UK cinema market.

British producers are generally under-capitalised and raise money for their productions on a film-by-film basis. This places them in a weak negotiating position with distributors who usually acquire the valuable rights in the films they distribute, those films which are successful benefit exhibitors and distributors before the producer realises any profit. It also means that producers are unable to spread risk across a slate of films, offer proven financial management and produce a recognisable track record to attract investors.”⁶⁰

46. In 2003 — despite the success of the tax regime encouraging production — it seems little has changed with respect to the underlying structural weakness of the industry. The UK Film Council has developed a devastating diagnosis that is worth quoting at length:

“As the commercial success of the US film industry demonstrates, a winning film industry is distribution-led. Money spent in development and production is earned back through international distribution via a series of sequentially-ordered release “windows”; first cinemas, then video/DVD, then pay and free television. Profits are taken, and the monies from distribution are eventually reinvested upstream in new production, creating a virtuous circle. A valuable library of underlying rights to films is thus created, which can be exploited over many decades. Distribution ‘pulls’ production and the combined efforts create a significant profit-centre.

Unfortunately, the indigenous commercial UK film industry remains resolutely production-led. In the absence of UK-based global distributors, most domestic UK film production is financed at arms length from the distribution sector and relies on

57 HC 57 (1994-5)

58 Report to the Secretary of State for National Heritage, July 1996, Chapter 3 - The Structure of the industry.

59 ‘A Bigger Picture’, the Film Policy Review Group, 1998.

60 Report to the Secretary of State for National Heritage, July 1996, p 3.

international film sales to connect the product with individual distribution in each territory. The majority of productions are thus financed by a mix of supply-side measures, including subsidies, sales to UK terrestrial broadcasters, and by ‘pre-selling’ ad hoc packages of intellectual property rights through sales agents.

In the UK, films are not ‘pulled’ into production by a single distributor or sales agent with a global reach, but ‘pushed’ into production by highly entrepreneurial producers. And, even where a distribution interest has been generated, the producer’s links to distribution are often mediated through a third-party, the sales agent, who generally deals, not with one distributor, but many covering different territories. As a consequence, the linkage between the production base and the cycle of market exploitation (cinema, DVD/video, pay/free TV, secondary markets) is structurally weak. In the majority of cases, revenues generated by a film are not recycled directly back into UK production, but instead reside with off-shore distributors who have no direct relationship at all with the UK production base.

The scattered and fragmentary nature of this financing model contrasts sharply with the integrated model which forms the basis of US studio financing. The ‘cottage industry’ approach of the UK production sector, comprising scores of film companies, is remarkably successful at delivering excellent, culturally significant but ultimately unprofitable British films. This industrial structure also fails to deliver a consistent flow of films such that risk can be spread across a slate of projects. This inability to run a portfolio of films to mitigate financial risk acts as a very strong disincentive to private investment into the UK production sector. Obviously, this approach also does nothing to build the significant corporate structures which are essential to achieve a sustainable industry.”⁶¹

47. The consistency in the analysis of the industry’s difficulties is striking. An added problem, identified by many witnesses, was a lack of support for the industry from UK broadcasters: as both producers and exhibitors (see below).⁶²

48. Thus the British film industry is seen as an under-capitalised, risky, ‘cottage’ industry⁶³ made up of many single project vehicles not grounded in the vital distribution function through which revenue for future productions — the slate — is realised. The proceeds from sales (after deducting VAT⁶⁴) are split between the exhibitor and the distributor. The exact percentages are negotiated between the exhibitor and the distributors and the Committee heard that the distributor can receive anything between 25–40% depending on the film and the exhibitor with whom they are dealing.⁶⁵

61 Ev 230-1 Vol II

62 Ev 63, Ev 77, Ev 87 Vol III

63 Q 74 [Mr Kuhn]

64 Q 260

65 Ev 142 Vol II also see Q116

49. The Cinema Exhibitors' Association told us that "The majority of cinemas in this country would be paying anywhere between 40 and 50%"⁶⁶ to the distributors of film in 2002, not 30-35% as Mr Stewart Till from UIP told the Committee.⁶⁷ Once the distributor receives their cut, the costs of prints and advertising are deducted and the 'profits' are usually split 30/70 between the distributor and the producer after marketing costs have been deducted.⁶⁸ If the producer has to pre-sell the rights to the film then the amount they received back from the distributor is not as much as 50% of the profits and therefore, there is very little money, even from a successful film, being ploughed back to the producer and back into the UK film industry.⁶⁹

50. Indigenous production in the UK is a largely independent sector with an abundance of companies within it. Companies are often set up solely to produce one film and this means there is an acute problem: companies do not often succeed in obtaining and retaining a catalogue of films. This can clearly be seen in Table 4 which looks at the number of films produced by individual companies:

Table 4: Film production company activity, domestic UK features and UK co-productions shot abroad, 2002

No. of Companies	No. of features
1	7
4	2 each
16	3 each
139	1 each

Data Source: *Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 71, Table 12.5.*

This produces a lack of stability in UK production. There is the *sui generis* example of Working Title Films; who have an excellent track record and told us that they were determined to remain in the UK and producing, *inter alia*, British films: a sustainable UK production company.⁷⁰ Working Title has, however, a unique structure being funded by Universal Pictures (US) — crucially benefiting from the global distribution network owned jointly by Universal and Paramount (UIP) — and Canal Plus (the French satellite TV company).⁷¹ Working Title described their situation in the following terms:

"We would consider ourselves to be one of those people supplying films to the studio [Universal]. And in doing so, in supplying one or two big films to the studio each year,

66 Q 273 [Mr Wilkinson]. We received confidential evidence from individual cinemas confirming this point.

67 Q 404; also see Q 406

68 Q 116

69 Q 172 [Mr Fellner]

70 QQ 47, 71 [Mr Paterson, Mr Kuhn]

71 Q 172 [Mr Bevan]

which is part of their main international worldwide slate, we buy ourselves the freedom to make smaller films as well.”⁷²

And

“because we are lucky enough to have a great depth of development because we have been working together as a team for such a long time is that we probably have as good a development slate as any producer in the world and within the film business those that pay recognise that and they will give us the freedom because of that.”⁷³

51. Distribution of British films remains a problem for most of the industry here. As detailed above, there are a number of UK independent distributors but the market is still dominated by the distribution arms of the major vertically-integrated US studios.⁷⁴ As was emphasised to members while in LA, film is a risky business and the UK is a tough and expensive media market (with amongst the highest advertising costs in the world). This increases reluctance to invest large amounts in prints and advertising (copies of the film for exhibition and marketing of the film — ‘P&A’) for indigenous British films. British distributors do not have the same financial muscle to spend a large amount on the P&A of each film.⁷⁵ The exhibitors told us that the small number of prints made means that even if the film is popular with audiences it is hard to get hold of, box-office income was therefore lower than the potential indicated by the apparent demand.⁷⁶

52. Across the global market it is the US companies that hold sway. As Working Title told us:

“We believe that if you are going to be competitive in the motion picture business, not only within your own market but within a worldwide context, there is one thing that you have to tap and that is distribution. The distribution business, like many other businesses, for the film business is run out of America by the majors and that has been the case for the last 50 or 60 years. If you cannot harness that distribution, then you do not really stand a chance”⁷⁷

British films, therefore, find it extremely difficult to gain international success. A small number are successful each year and it is argued that this number is growing,⁷⁸ but it is a pitifully small number compared with the US studios. The distribution machines⁷⁹ are able to get a huge number of films into cinemas every year and the exhibitors are dependent on them for the range and number of films they receive (and at which stage of release).⁸⁰ The terms under which an exhibitor receives films from a distributor can vary greatly. The independent

72 Q 176 [Mr Bevan]

73 Q 177

74 Q 166; also see Q 326

75 See Q 123 and Q 156

76 Q 264

77 Q 166

78 Q 174 [Mr Bevan]

79 Q 168 [Mr Bevan]; also see Q 166

80 QQ 254, 264

exhibitors told us that they give 35% flat rate to the distributors,⁸¹ whereas, for most multiplexes and cinemas showing ‘blockbusters’, there is a variable sliding scale imposed. The distributors’ share can range from 25-60% (for example 50% in week one of release, 45% in week two and 40% in week three).⁸² Mr Wilkinson, the Chief Executive of the Cinema Exhibitors’ Association, told the Committee that “the majority of cinemas would be paying anywhere between 40% and 50%.”⁸³

53. Sir Alan Parker, in his keynote speech in November 2002, told the UK industry that:

“instead of focusing on our strengths or addressing our biggest weakness — getting strong British films into global distribution — much of the British film industry has developed a serious production habit for the last 50 years.”⁸⁴

54. In addition, the British film industry compares badly in terms of broadcaster support with countries such as France (with significant government subsidy and investment in film production by television companies), Germany, Spain⁸⁵ and the US (with pay TV giving more favourable prices for US movies in US and UK). ITV claims that films (particularly British films) are no longer successful on television (as they were 10-12 years ago) and so they have reduced the number of films shown on their channel.⁸⁶ This dire situation for British filmmakers can be seen in Table 5, below, with only 2.8% of all films shown on terrestrial television are UK films less than eight years old..⁸⁷

Table 5 : Feature films broadcast on network television 2002

Channel	Total no. of films	UK films	UK films >8 yrs old	UK films <8 yrs old	UK films <8 yrs old as % of total films
BBC1	342	67	54	13	3.8
BBC2	388	86	73	13	3.4
ITV1	255	43	41	2	0.8
Channel 4	544	180	149	31	5.7
Five	574	48	47	1	0.2
Total	2,103	424	364	60	2.8

Data source: BARB; UK Film Council Research and Statistics Unit

81 Q 271

82 Q 277; Vol. II Ev94. We also received a large amount of confidential evidence from individual cinemas confirming this range of percentages given to the distributors for individual films.

83 Q 273 [Mr Wilkinson]

84 *Building a Sustainable UK Film Industry*. A presentation to the UK film industry. Sir Alan Parker CBE, Chairman, UK Film Council, November 2002.

85 Ev 241 Vol II. See Annex E.

86 QQ 331, 332

87 Ev 241 Vol II

Some witnesses the Committee saw went as far as to say that the greatly reduced support from the broadcasters (including BBC, ITV, Channel 4, and Granada) was the aspect of the British film industry that needed attention from Government/was causing the industry to be unsustainable.⁸⁸

55. In the US the Committee heard about the impact of the 1990 Broadcasting Act on the British film industry. The Broadcasting Act (1990)

“requires the British Broadcasting Corporation, all Channel 3 Licensees, the Channel 4 Television Corporation, S4C (the Welsh Fourth Channel Authority) and the future Channel Five Licensee to procure that not less than 25% of the total amount of time allocated by those services to broadcasting ‘qualifying programming’ is allocated to the broadcasting of a range and diversity of ‘independent productions.’”⁸⁹

This created a free market which meant that broadcasters had to invest more into independent television productions and could not take the risk of investing in UK film production⁹⁰. ITV told the Committee that they believed it was their role to invest in original drama for UK television and that investing in film was ‘too risky’.⁹¹

56. In the past there have been a small number of success stories within the British film industry which include Goldcrest, PolyGram and FilmFour all of which are no longer in existence or successful today. The reasons for their decline, for PolyGram and FilmFour at least, seem to be the lack of sufficient financing. Channel 4 submitted to this inquiry that “Even if FilmFour Ltd had been commercially successful, it could never commit the sort of resources that the major Hollywood studios have at their disposal”.⁹² This, as well as the lack of commercial success and financial backing meant that it was not a sustainable producer and distributor of British films. PolyGram had its funding retracted by Philips (its owners) even though it was in many people’s opinions a success. To this list the UK Film Council added three other companies established by broadcasters to invest in film: Carlton Films, Sky Pictures and Granada Films which have been closed or downsized.

Solutions

Previous solutions

57. Previous solutions introduced to tackle the problems of the British film industry have included: levies and tax breaks; Arts Council lottery funding; and the film franchises — DNA, Pathe, and the Film Consortium.

88 Q 605

89 Legislative History. www.bfi.org.uk/facts/legislation/ (30/06/03)

90 HBO Colin Callendar

91 Q 330

92 Ev 197 Vol II

Quotas/taxes

58. Screen quotas, a concept with which we profoundly disagree, were first established in the UK in 1928 under the Cinematograph Films Act 1927, and they were toughened in 1949.⁹³ Also in 1949, the Eady levy was proposed to provide a form of subsidy to producers of British films by reducing the effect of the Entertainments tax on film exhibition.⁹⁴ It worked by pooling a proportion of the ticket price. Half was retained by the exhibitors (providing the rebate on the Entertainment tax), and half was “divided among qualifying ‘British’ films in proportion to UK box office revenue, with no obligation to invest in further production”.⁹⁵ The British Film Institute (*bfi*) nicely summarise the events relating to the Eady levy below:

“The Cinematograph Films Act 1957 established the British Film Fund Agency and put on a statutory footing the formerly voluntary levy on exhibitors known as the ‘Eady levy’. Eady money was to be paid to the British Film Fund Agency, which in turn was responsible for making payments to British film-makers, the Children’s Film Foundation, the National Film Finance Corporation, the British Film Institute and towards training film-makers. The Film Levy Finance Act 1981 consolidated the provisions relating to the Agency and the exhibitors’ levy. The Agency was wound up in 1988 pursuant to a statutory order made under the Films Act 1985.”⁹⁶

The tax incentives relating to British film were introduced in 1997 through the Finance (No. 2) Act 1997. The tax breaks are still applicable today. Section 42 is not time limited although Section 48 is due to expire in 2005. Tax incentives are dealt with in more detail later in the report.

Arts Council Lottery funding— production and the film franchises

59. Between April 1995 and May 1999, the Arts Council of England was responsible for the allocation of Lottery funds in regard to British films. It awarded: “over £67 million to 79 features and £1.4 million to 49 short films...[it] also allocated £95 million to three commercial film production franchises, to strengthen the production sector by helping companies to finance a slate of films and sustain links with distributors.”⁹⁷

60. Some within the British film industry feel that this time was one of over-spending⁹⁸ and over-production.⁹⁹ With 328 films made in this period,¹⁰⁰ many were substandard and/or

93 www.terramedia.co.uk/law/quotas_and_levies.htm (07/07/03)

94 www.terramedia.co.uk/law/quotas_and_levies.htm (07/07/03)

95 www.terramedia.co.uk/law/quotas_and_levies.htm (07/07/03)

96 <http://www.bfi.org.uk/facts/legislation/>

97 Ev 170 Vol II (details in information given to Mr Alexander Walker by Mr Peter Hewitt, Chief Executive of the Arts Council of England).

98 Q 442

99 Ev 165 Vol II

100 Ev 183 Vol II (Number of UK domestic features between 1995 and 1999)

unable to be distributed; if not distributed the film cannot make any money.¹⁰¹ The legacy of this is a production, rather than distribution-led UK industry, which means the problem experienced (although lessened in recent years) was that films were being made but never reaching an audience and therefore had no chance of making a return.

61. The film franchise system was recommended by the Advisory Committee on Film Finance.¹⁰² The three were allocated a total of £95 million in 1997 and since then they have produced, or committed to producing, 47 films (DNA: 6,¹⁰³ Film Consortium: 22,¹⁰⁴ and Pathé: 19¹⁰⁵) between them. Within the industry the film franchises are viewed as having had a varying amount of success. For example Mr Alexander Walker told the Committee that this whole time period represented gross over-spending on film of Lottery money which could have gone to much better causes,¹⁰⁶ especially as

“each of the franchises had to submit each individual film for separate approval by the UK Film Council. In other words, you could not actually generate a slate of films even though you had multi-year, multi-film franchise. Effectively it was just one organisation corralling a whole range of individual films.”¹⁰⁷

Tim Adler, the editor of Screen Finance, told the Committee that he felt the £95 million would have been better invested into one, rather than three, franchises.¹⁰⁸ François Ivernel who represented Pathé in oral evidence, told us that the Chairman of Pathé “committed directly to the Chairman of the UK Film Council to continue production after the end of the franchise”,¹⁰⁹ meaning that the scheme has encouraged the involvement of a major European production and distribution company within the British film industry.

62. The thrust of the 1996 report of the Advisory Committee on film finance (established in the wake of the report from our predecessor National Heritage Committee) was for a single distribution-led investment vehicle (a ‘studio’) capitalised at a level not previously achieved in the UK and enabling it to oversee the production and distribution of about 20 British films per year. The report recognised the difficulties of aligning the harnessing Lottery funding alongside this concept but clearly this was regarded as desirable.

101 Q 110

102 Report to Secretary of State for National Heritage, July 1996

103 Q 373

104 Q 377

105 Q 380

106 Q 170

107 Q 234 [Mr Elstein]

108 Ev 78 Vol II. Q 231-232

109 Q 380

Current efforts

63. The UK Film Council was set up in 2000 and is the current Government's principal source of advice and action with regard for improving and promoting the British film industry. The UK Film Council has spent the last three years in the first stage of its development. It has been supporting areas of sector weakness using Lottery money and it has developed new funding streams (more details below in Table 6) which have produced a clear strategy for its own future.¹¹⁰ The UK Film Council attempts to deliver its remit by promoting and investing in: creativity (through First Light project, the Development Fund, the Training fund and the New Cinema Fund); industry (through the Premiere Fund, the film franchises, the Distribution Fund and the Inward Investment Promotion); and education (through the P&A Fund for specialist films, the *bfi*, and the Specialist Screens Cinema Education Fund). The objectives are also delivered through the Regional Screen Agencies; with help from the Research and Statistics Unit; and with the diversity strategy in mind.

Table 6: UK Film Council spending

UK Film Council funds	Allocation per annum (£m)
Premiere Fund	10
New Cinema Fund (NCF)	5
Development Fund	5
Training Fund	1
Cinema Education Fund	1
Specialised Prints and Advertising Fund	1
Distribution support for British films	1
First Light Project	1
Inward Investment Promotion	1
Regional Fund	7.5
Film Franchises	15
British Film Institute	14.5

Data Source: UK Film Council website and written evidence

64. The Council's New Cinema Fund (NCF) invests £5 million per annum in innovative films from a diverse range of film-makers. The Premiere Fund aims to invest £10 million per annum in popular mainstream British films. Many of the investments made by these Funds are in films which are culturally-specific and focused on the UK. Examples of such are *Bloody*

¹¹⁰ *Towards a sustainable film industry* <http://www.filmcouncil.org.uk/aboutus/>

Sunday and *Gosford Park*. The UK Film Council's Development Fund invests £5 million per annum on developing projects sourced from within the UK, a very large number of which are British films about Britain. The Fund supports 22 production companies on a contractual basis and maintains an open door developing scores of individual films with writers, directors and producers.

65. "In partnership with Government, the UK Film Council is refocusing industrial film policy on:

- a) **Distribution:** including the development of fiscal policies to ensure a more effective link between British films and their exhibition in the global market
- b) **Skills:** working to ensure a properly funded, cohesive and effective strategy for developing the workforce at all levels and across the value chain. Also to make delivery of vocational skills more effective in Higher and Further education
- c) **Infrastructure:** working to position the UK as the "Film Hub" of Europe, supplying skills and services to the film industry across the world and attracting significant inward investment, notably from the US
- d) **Strategic partnerships:** working to develop alliances with a small number of emerging markets such as India and South Africa; working with other state film bodies in Europe to strengthen links across the value chain, and to develop common policies where appropriate
- e) **Diversity:** leading the development of strategies and targeted interventions to help deliver a more diverse film workforce across the UK. Facilitating the full and active participation of Black and minority ethnic communities is a key policy priority

With regard to cultural and educational policy, the UK Film Council is working with the *bfi*:

- f) to review and reorganise the *bfi* in order to define and deliver a set of shared cultural and educational objectives for film; and
- g) to develop media literacy in respect of film so that the cultural appreciation and understanding of film is enhanced across the UK".¹¹¹

Proposed solutions

Government/UK Film Council plans

66. Much of the evidence received from the Committee was positive about the UK Film Council and DCMS vision for the future of the British film industry, but many believed that there are alternative solutions to the industry's difficulties.¹¹² Mr John Hough from the Directors' Guild of Great Britain even said: "I think the film industry needs something quite

111 Ev 230 Vol II

112 Ev188 Vol II and Ev 65 Vol III

dramatic to reshape from its current situation”.¹¹³ The UK Film Council proposals are outlined more fully above but centre around the development of a distribution-led industry, with improved training and education, promoting the UK as the ‘Film Hub’ of Europe, and increasing links with the industry in Europe whilst increasing diversity within the UK industry.¹¹⁴

Studios/BBC development

67. Mr Michael Kuhn, film producer, told the Committee that Britain does not have a sustainable film industry at present and that in order to produce one the Government needed to do two things.¹¹⁵ Firstly:

“set up a method of underwriting the marketing and distribution of marketable films in North America and in some key European territories, thereby beginning the building of an international marketing and distribution expertise and power base, using the funds and the stated intention of the UK Film Council, which is to get more into distribution and marketing and into production, or having a more equal balance.”¹¹⁶

Secondly, he said: “I believe there is no reason why we cannot at least have one studio on a level playing field with the Hollywood studios,”¹¹⁷ and that the studio should deliver marketing power equal to that of UIP,¹¹⁸ which is needed to create a globally successful film and a sustainable industry. Many witnesses emphasised to the Committee the importance of marketing to the success of a film.¹¹⁹

68. Creating a studio, but not on the scale of those in Hollywood, is exactly what Mr Barnaby Thompson is trying to do at Ealing:

“What we are primarily interested in doing is finding a way of building a new kind of content producing and distribution studio that is a mirror to some extent of our Hollywood counterparts, but obviously completely different, because the environment here is completely different.”¹²⁰

Mr John Hough, member of the Directors’ Guild of Great Britain, would like to see the BBC used as a global distributor of British films as outlined below:

“I would like us to do something really dramatic and form a film unit within the BBC — I know they have one at moment but I do not consider it representative of what it could

113 Q 87

114 Ev 188 Vol II

115 Q 48

116 Q 49

117 Q 74 [Mr Kuhn]

118 Q 72

119 QQ 116, 237

120 Q 55

be — by experienced film practitioners and producers, and revolutionise the way the BBC makes films, using Lottery money. I would take the Lottery money away from the existing outlets, put it into this outfit, and I would make the BBC purchase a screen, one screen on every multiplex in Great Britain, and show the British films they make in these multiplexes, and in that situation train people but learn that you have to make films that have an audience and promote the culture. That is what I would like to see happening.”¹²¹

69. Mr François Ivernel from Pathé explained to the Committee how the French and British systems differ, and explained why, in his eyes, the British film industry deserved consistent government support:

“For the French, culture comes first, so it is not even a debate that it must be supported, it is more how to vary the support, but support for the film industry has been for 50 years without really much of a question. In the UK the economic aspect is as important, or more important sometimes, than the cultural aspect. What strikes me, really, being in the UK is that you would think it would be easier to make independent films in the English language, while on the contrary it is sometimes more difficult because France or Spain or the Dutch, or whatever, they are isolated by their language and they can create their own stars. In the UK when a director is successful, or an actor, most of the time they go and work for the US studios. So it is another hurdle that has to be crossed and I think it is one more argument for supporting British films, specifically — even more so than the Spanish or the French or the Dutch.”¹²²

Although a number of European Union countries do have extremely restrictive, protective measures for their indigenous production, there is no strong evidence that this has benefited their industries either financially or creatively.

Partnerships with Europe/US

70. The UK Film Council outline, in their plans for the future, the importance they place on the creation of further links with European film industries. This was one area where Mr Alexander Walker supported policy saying: “We can never make a success of challenging the Americans. However, we can make a success, and indeed have, of combining our talents with the film production companies in Europe”.¹²³ But, some of the most successful producers in Britain (Mr Barnaby Thompson¹²⁴ and Working Title) felt the emphasis should rather be on co-operating with the US studios and forming links or partnerships with them. Working Title said:

121 Q 87

122 Q 386

123 Q 440

124 Q 75 [Mr Thompson]

“We believe that our [business] model is a good one; it is that we are harnessing one of the giants in the movie business that we get money from them to make our movies because we have creative autonomy because we have got a bit of experience in this business as we tend to make films — at least half our slate is British content — and that we are putting our cultural message out there that way. There are five other studios and we think that harnessing those, the giant distribution machines, is the way to do it.”¹²⁵

This idea has already been capitalized on with the announcement of a £30 million joint venture between Fox Searchlight (US specialist distributor of lower budget films such as *Bend it Like Beckham* and *28 Days Later*) and DNA (one of the three lottery film franchises) which will finance, produce and distribute British films worldwide.¹²⁶

Distribution-led industry

71. We have been told by the UK Film Council that it is crucial for the British film industry to become distribution-led in order to become sustainable.¹²⁷ Mr Woodward, Chief Executive, pleaded with the Committee in evidence saying: “for God's sake let us make sure that production is properly harnessed to distribution”¹²⁸ when he was talking to them about the future of the industry. In order to do this, Mr Barry Jenkins from the Cinema Exhibitors' Association believed that:

“they should give more to distributors to spend on prints and advertising because if there is an injection of money into distributors to bring out more prints of specialised product certainly there are enough screens out there in the country now to show that product.”¹²⁹

Filling the gaps left by Hollywood

72. Some of the evidence we received suggested that the British film industry should focus on ‘filling the gaps’ in the US market as it has done so quite successfully in the past with films such as *Notting Hill*, *Billy Elliot*, *Four Weddings and a Funeral* and *Mr Bean*. The proven model is that of Working Title, who are effectively supplying Universal with a small number of films that are successful in the US market,¹³⁰ as they are of a particular genre which happens to be British. Mr Mark Thompson, Channel 4, feels that there is only a limited market for British films and said “I am not convinced that it is possible to effectively market and to achieve proper theatrical release for more than a certain number of British feature films a year”¹³¹ suggesting that there is not the endless global appetite for British films which seems to be

125 Q 174 [Mr Bevan]

126 *Financial Times (Money and Business)*, p3, 06/09/2003

127 Ev 230 Vol II

128 Q 617

129 Q 280

130 Q 176 [Mr Bevan]

131 Q 563

assumed by many within the industry, including the UK Film Council and others striving for sustainability.

The tax regime

73. We heard from virtually every witness in the UK, and also from Studio heads and others in Los Angeles, that the engine for the recent improvement in the performance of the British film industry has been the tax regime.

74. It was absolutely clear to us that the current system of tax reliefs, while not solving the industry's problems, was of indispensable importance in maintaining a healthy throughput of large productions from overseas (with clear advantages for the domestic industry) and of equal importance in promoting a critical mass of indigenous film-making.

75. Under Section 42 of the Finance (No. 2) Act 1992 relief is obtained over three accounting periods in equal amounts for production expenditure of a revenue nature incurred on the production of a British qualifying film (see above) or on the acquisition of the finished master negative of such a film for leasing back to distributors for exploitation ('sale and leaseback'). In July 1997, following a report of the National Heritage Committee, the Government enhanced this relief for British qualifying films costing £15 million or less by increasing the amount that could be written off as trading losses in a single year from 33.3-100% (Section 48 of the Finance (No. 2) Act 1997). This enhanced relief has been extended twice but is due to expire on 2 July 2005. Section 48 relief represents about 12-14% of production budgets for films costing less than £15 million. Section 42 represents about 7-10% of production budgets of films costing over this amount.

76. The historical cycle of change in the tax regime was presented to us by the majority of witnesses as a huge disadvantage to the industry.¹³² Mr Elstein, Chairman of BSAC, stressed to the Committee that:

"What we actually need...if we were really going to try and solve this once and for all, is a permanent fiscal regime which we know is there forever, that is how you treat a film from a tax point of view. The end. Because that would allow long-term planning, long-term investment."¹³³

77. BSAC argued that it has only been since last year, 2002, that Section 48 has begun to have the impact it was designed to achieve because until then its exploitation was distorted by 'abuse' by television production. In these circumstances, the possibility that the mechanism might be lost within a year and a half was characterised as 'galling' and a cause of 'despair'.¹³⁴ Many submissions to the inquiry emphasised the need for consistency within government policy in the sector:

132 Q 392; Ev 17, 78 Vol II

133 Q 226 [Mr Samuelson]

134 Q 226

“Predictability is very important to investors and it is something that has been emphasised by others and I also tried to emphasise in my own remarks. one of the worst things I can imagine is to create uncertainty about the environment by de-stabilising some of the elements that have been very successful without knowing what will be coming along next. It takes time for industry to make the adjustments, whether it is our own member companies or other companies here. So long lead times are certainly critical if change there is to be and I think change has to be considered very carefully before implemented.”¹³⁵

PACT also argued that the tax incentives, particularly Section 48 for smaller budget films, had just started to work and that to reduce, or alter them, significantly would be immensely harmful to the industry. The film industry did not want to continue in the ‘boom and bust’ seven-year cycle described by one witness.¹³⁶

78. According to BSAC and Mr Somper, of ScottsAtlantic, the initial impact of the tax mechanisms was the encouragement of ‘sale and leaseback’ — essentially a tax deferral product. Under this arrangement a finished film is bought and leased back: the lessor benefits from the tax break and the lessee gets an input of between 7-14% of production costs. Some witnesses suggested that the long-term benefit of this was limited and initial opportunities for development of British film were lost due to an initial focus on eligible television production. However, Mr Somper pointed to the more recent emergence of genuine equity investment in film projects — of the order of £30-40 million over the last two years — managed by a range of specialist firms who had moved from exploiting opportunities for tax efficiency to bankrolling film production.

79. For the Hollywood studios and other foreign film-makers these tax reliefs seem to have created a level playing field between the UK and other popular destinations for film-making such as Canada, Ireland Australia, New Zealand and the Czech Republic. This has allowed competition on other criteria such as facilities and talent (see below). For indigenous UK films, the relief has given producers something to bring to negotiations. Independent producer Mr Jeremy Thomas told us:

“It is very difficult for a film producer to get ahead enough to be able to be entrepreneurial in spirit...When he starts developing his film, he is completely weak ... Section 48 ... has now developed an enormous amount of money for independent producers so they can come to the table and say, “I can put 20% down. Let’s make a deal.” For the first time that I can remember there is a negotiating weapon for British entrepreneurial producers and to lose that would be everybody shooting themselves in the foot yet again.”¹³⁷

135 Q 215

136 Q 226 [Mr Samuelson]

137 Q 50

80. The forthcoming expiry of accelerated allowances established under Section 48 for smaller budget films is already said to be reducing expected investment in British films as the lead-in periods are lengthy and the situation is uncertain. The industry is facing a dilemma with regard to what lies ahead and the Committee received a large amount of evidence which included a number of ideas and suggestions about what should be done with Section 48 for after 2005.

Retention

81. Nearly all witnesses and other interlocutors, during formal and informal meetings, strongly argued for, at least, the retention of the existing tax incentives. In the US we heard that competitiveness amongst destinations for film-makers was growing. The decision on where to make a film was a balance of creative and economic factors leavened with the preferences of directors, production designers and stars (in which issues of language and wider amenities also figured). The balancing of these factors seemed to vary from project to project and between studios. Mr Anthony Minghella, Chairman of the *bfi* but speaking as a film-maker, emphasised to the Committee the importance of location for directors when choosing where to film: “You choose location because it most serves the film you are trying to make. I chose Romania because of a particular topography not because of a particular cash register”.¹³⁸ Also consistent was an appreciation of the commitment of different countries to ‘welcome’ film-makers and facilitate their activities. It was at Dreamworks SKG — where creative factors were cited as being the most important — that we were told that the diminution of the existing incentives would have an impact, beyond the ‘dimes and cents’ involved, being perceived as a signal of a reducing commitment by the UK to fostering successful film-making partnerships.

82. Mr Alexander Walker was the only witness who seemed to believe that abolishing tax breaks would be of benefit to the industry.¹³⁹ He argued that “after 18 months to two years those pieces of the industry that deserve to survive would have survived and probably have been in a better and leaner position for it.”¹⁴⁰

Simplify

83. A number of submissions to the inquiry complained of the complications involved in the process of gaining tax relief in Britain. These complications included the certification process and they believed the benefits from the relief would be enhanced by simplification of the processes involved. However, we can report from Los Angeles that, although involving complicated paperwork, the process appeared to deliver the resources a lot quicker than the superficially simpler arrangements in place in other countries.

138 Q 600

139 Q 454

140 Q 454

Extend to distribution

84. This is the route that the UK Film Council,¹⁴¹ BSAC,¹⁴² and therefore DCMS,¹⁴³ favour in relation to an ‘evolution’ of Section 48. In keeping with their aim to promote a distribution-led British film industry, the UK Film Council told the Committee that “Section 48 is not perfect and it ought to be revised. We have worked very hard on how to do that. What one of your witnesses said is what is needed is a son of 48”.¹⁴⁴ The ‘son of 48’ was said to be the subject of discussions between BSAC, the DCMS, the UK Film Council and HM Treasury and consequently not yet ready for public view. However, BSAC submitted, in confidence, an impressive study commissioned by DCMS looking into how a new tax mechanism could work. BSAC told us in evidence that “Sections 42 and 48, or versions of them, are essential to the health of what we call the British film industry”¹⁴⁵ but they should be evolved by “tying the distribution function and its marketing sensibilities into production decisions by tailoring the tax breaks in such a way that you get that relationship going so much earlier”.¹⁴⁶

85. The film industry is an important national cultural and economic asset with significant further potential. We regard the existing level of tax relief for film production as absolutely essential to the health of the industry.

86. We recommend that the Government commits to an evolution of Section 48 relief, without further sunset provisions, along the lines proposed by the UK Film Council and the British Screen Advisory Council (publishing the BSAC study for consultation on the detail as soon as possible). Lead times for decisions about inward investment are long, therefore the Government must end the current uncertainty plaguing the industry, must do so in a positive manner and needs to do so as quickly as possible.

141 Q 617; Ev 230-1 Vol II

142 Q 226

143 Ev 187 Vol II

144 Q 601

145 Q 226 [Mr Elstein]

146 Q 226 [Mr Elstein]

4 Attracting international productions

Advantages

87. Attracting investment from overseas, especially the US, is of vital importance to the sustainability of the British film industry by maintaining a throughput of large projects giving British talent and technicians the opportunity to practise their skills as well as remain within the industry. As shown above, inward investment in 2002 constituted £234.30 million of the £533.34 million total investment in film in Britain (approximately 44%).¹⁴⁷ The figures for inward investment since 1992 are shown below, Table 7 clearly shows the importance of inward investment to the film industry in the UK as each year more has been spent on inward investment features compared to indigenous production:

Table 7: The numbers and value of inward investment and domestic UK productions. The table does not include co-production information

Year	Number of inward investment features	Inward investment Total (£m)	Number of UK domestic features	Domestic UK features Total (£m)
1992	8	58.50	22	39.98
1993	15	127.74	25	30.34
1994	17	201.97	33	59.51
1995	18	241.30	34	94
1996	30	409.30	73	172.20
1997	21	276.90	84	202.89
1998	24	250.60	67	174.96
1999	28	404.06	70	170.31
2000	37	539.44	52	211.70
2001	38	230.46	51	180.12
2002	30	267.84	42	165.25

Data Source: DCMS (see Volume II)

88. One of the biggest attractions for overseas investors is the world renowned pool of expertise, and the excellent infrastructure available for both production and post-production, to which we have referred earlier in this Report. This was emphasised to the Committee by many of those involved in the industry, here and especially in the US. The Committee visited some of the facilities available in the UK, including Pinewood Studio, Leavesden Studio, Ealing

Studio and Framestore CFC in Soho and were shown their involvement in inward investment features such *Harry Potter* and *James Bond* (see colour pages). The Committee were impressed by the world-class facilities they were shown and glad to hear of continued inward investment into the industry.¹⁴⁸

89. Equally important to the attraction of investing in Britain is abundance of creative talent in areas such as acting, directing and script-writing. Stars such as Hugh Grant, Ewan McGregor, Helen Mirren, Rowan Atkinson, Judi Dench and Kenneth Branagh have ensured that Hollywood studios fund British films and produce foreign films in Britain. This, and expertise in areas such as costume, have meant that 82 Academy Awards have been won by the British since 1974.¹⁴⁹

90. The shared English language is an obvious element that encourages partnership with the US as the main source of film production investment.¹⁵⁰ Softer factors such as the comforts and amenities available in London and elsewhere in the UK can also play a role in persuading key personnel on overseas productions to lend their weight to a UK location. We are, however, aware that basic facilities, previously lacking in competing locations, will not continue to be so for very long and competition for overseas productions is always increasing. The British film industry cannot, therefore, rest on its laurels.

91. The Department for Culture, Media and Sport also has a significant role in attracting international productions, for example by encouraging co-operation between London boroughs to provide street closures where needed.¹⁵¹ DCMS were instrumental in gaining a change in employment law that encouraged the makers of *Harry Potter* to film in Britain.¹⁵² The Secretary of State told the Committee that “if there are ways in which we can make the UK more attractive by measures like that, then of course we would look at that”.¹⁵³ With regard to such wider factors we heard in the US that it was the availability of the Irish Army, in marked contrast to lack of co-operation in the UK, that settled the question of where to make *Braveheart*.

92. An important element to attracting overseas productions to Britain was, as discussed above, undoubtedly the tax incentives available to companies working in the UK. Throughout the inquiry the Committee were continually told of the importance of the tax incentives to the continuation of inward investment into the UK. All the US studios predicted a significant loss of investment if the Section 48 tax break were to be abandoned in 2005.¹⁵⁴

148 The Committee undertook visits to Ealing Studios, Pinewood Studios, Framestore CFC and Leavesden Studios.

149 See Annex A and see National Heritage Committee, Second Report of Session 1994-95, *The British Film Industry*, HC 57-I, Annex E

150 Illustrated in Table 12.3 in *Film in the UK 2002 Statistical Yearbook* UK Film Council

151 Q 526

152 Q 527 [Ms Jowell]

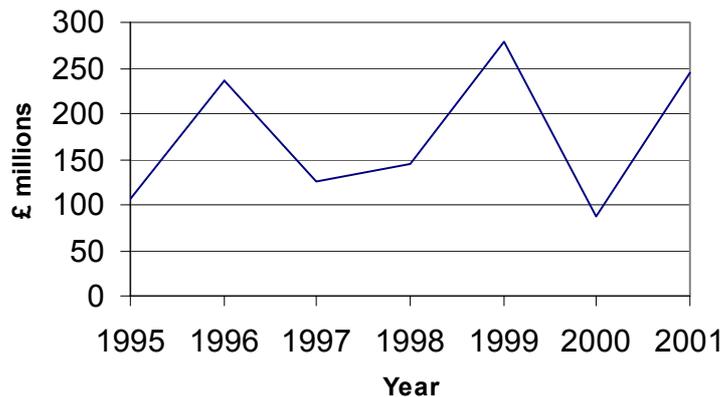
153 Q 526

154 See QQ 208, 215

Balance of trade

93. The balance of trade (positive balance of exports over imports) for film in the UK was positive in 2001 by £245 million, which is the second highest for the period 1995–2001:

Figure 1: Trade Surplus of UK Film Industry, 1995-2001



Data Source: UK Film Council (See Vol. II)

94. Co-production treaties have been set up between the UK and Australia, Canada, France, Germany, Italy, New Zealand and Norway (with negotiations with South Africa and India underway).¹⁵⁵ They have enabled co-production films to be eligible for benefits available for national films in those country.¹⁵⁶ This means that overseas film producers are keen to work in Britain and in partnership with British production companies in order to benefit from the incentives available to British films. Tables 6 and 7 below show the number and value of British co-productions both shot in the UK and overseas:

Table 8: UK co-productions shot in the UK included as inward features and domestic UK features, 2002

Classification of UK co-production shot in the UK	No. of films	Value (£ m)
Inward feature (UK spend shown)	7	19.58
UK domestic feature (total budget shown)	5	8.89
Total	12	28.47

Data source: *Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 70, Table 12.7*

155 Britfilms website: <http://www.britfilms.com/resources/co-production/> (07/07/03)

156 BFO website Co-productions Guide. [www.britfilmsusa.com/d_incentives_qualifying .php](http://www.britfilmsusa.com/d_incentives_qualifying.php) (30/06/03)

Table 9: Budget analysis by nationality of principle non-UK co-production partner, UK co-productions shot abroad, 2002

Nationality of principal partner	No. of co-productions shot abroad	Total Budget (£ m)	UK spend (£ m)	UK spend as % of country total
Canada	12	44.34	13.08	29.5
Republic of Ireland	7	56.16	22.35	39.8
Germany	6	58.01	23.37	40.3
Australia	3	19.87	6.59	33.2
Hungary	2	22.9	9.87	43.1
Spain	2	10.44	4.03	38.6
Others	8	109.54	43.8	40.0
Total	43	372.26	133.79	35.9

Data source: Film in the UK 2002, Statistical Yearbook, UK Film Council, 2003 p 71, Table 12.8.

It can be seen that nearly £144 million was raised for the UK in co-productions abroad and £28.47 million from those shot in the UK.

5 Looking ahead

Digital technology

95. Digital techniques in film-making, distribution and exhibition — as in other sectors and activities — have long been suggested to herald as significant a revolution in film as the advent of sound, colour and CinemaScope combined. While in the US we were, however, struck by significant reining back in relation to the pace of development in this area; in contrast to the enthusiasm some members heard during inquiries by our predecessor committees during the past seven years. There are four commercial digital cinema screens in the UK out of a total of 125 in the world.¹⁵⁷ Clearly digital technology is well-entrenched in the film-making process but it is largely corralled *between* principal photography (shooting the movie) and exhibition (showing it in cinemas) in the post-production processes of editing, visual and special effects, and sound.

96. This area, however, is constantly experiencing new developments. George Lucas has been a pioneer in the digital field with *Star Wars: Episode I* being shown digitally in four cinemas in the US in 1999,¹⁵⁸ and in 2002 *Star Wars: Episode II* being claimed as the first big feature film shot in its entirety with high definition digital cameras. In addition, the film was distributed via satellite to a number of cinemas with digital projection; including in the UK.¹⁵⁹ On 5 September this year the first 'e-premiere' took place, the film *This Is Not A Love Song* (a low budget British film written by Simon Beaufoy, financed by the Film Council amongst others) was released on the Internet at 5pm.¹⁶⁰

97. However, despite the obvious attractions of not hopping from 35mm film to digital and back again, moves to digital cameras (at least by most mainstream film-makers) and to digital projectors (at least by most exhibitors) were said to be some years away. Nonetheless, the UK Film Council has announced a £13 million investment in setting up 250 digital screens around the country with the explicit aim of developing a new and cost-effective way of making a broader range of films available to the public. In return for this investment the Council states "it is looking to earmark a certain proportion of screening time for showing specialised films, which to date have had limited opportunity to be seen outside London and other major cities".¹⁶¹

98. The Committee heard that digital cinema had the potential at least to transform the distribution and exhibition sectors in a number of ways including a reduction of costs (by

157 Odeon Leicester Square, London; UCI Film Works, Manchester; Warner Village, West End, London; Warner Village, Star City, Birmingham.

158 AMC Burbank 14 and Pacific's Winnetka Theater in the Los Angeles area, and Loews' Route 4 Paramus in the New York area and at Loews' Meadows 6 in Secaucus, New Jersey. <http://www.starwars.com/episode-i/news/1999/06/news19990618.html>

159 See for example *The Guardian*, 20 May 2002, Lucas Films, 2003 and <http://www.wral.com/technology/1458953/detail.html>

160 *The Daily Telegraph* 6 September 2003, p13 and UK Film Council News, 12 August 2003

161 UK Film Council News, 22 July 2003

obviating the need to distribute bulky celluloid prints each costing about £1,200 to manufacture);¹⁶² and increasing flexibility (by enabling faster and more responsive changes of films being shown) including switching between the latest releases and older films, including classics.

99. The barriers or unresolved issues related to digital cinema include the following:

- a) **Costs:** at an estimated £70-80,000 per projector there is obviously a debate within the industry between distributors and exhibitors about how the necessary investment is to be shared. Given the need for exhibitors to move films between auditoria of different sizes as well as other issues of critical mass there is also a debate between incremental development versus the need for a 'big bang' conversion;
- b) **Standards:** given the huge size of the investment envisaged, the industry clearly needs to settle the question of the technical standards to be adopted for the technology;
- c) **Reliability and training:** as with any new technology there are issues of confidence in the robustness of the technology and a need to retrain personnel to operate the new systems;
- d) **Longevity:** existing projectors have a life of about 30 years and it is extremely unlikely that novel technology will be able to match this because of both further developments and more complicated construction;
- e) **Demand:** CinemaScope was introduced to combat competition from television but it is unclear what demand from customers will be satisfied by conversion to digital projection. Some within the industry have qualms about the quality of digital projection compared with the traditional approach (although it is likely that, whatever the baseline quality, digital projection would be much more resilient than celluloid over time);
- f) **Control:** it seems likely that significant debate will arise over whether the distributor or the exhibitor should have control over the 'tap' of e-distribution should networked delivery become a reality and switching films in response to perceived demand become, therefore, very much easier; and
- g) **Security:** a move to digital distribution, whether through a network or on physical disks, obviously increases risks of 'unauthorised parallel distribution' i.e. piracy — an issue of no little preoccupation to the film industry especially in the US.

162 QQ 203, 204 and 266

Broadcasters

100. The UK Film Council regard the lack of contribution of the UK broadcasters as the single biggest ‘hole’ in an effective film strategy and their current support for the film industry in financial terms as “lamentable — lamentable is probably too nice a word.”¹⁶³ Many in the film industry support this view¹⁶⁴ — including Stewart Till¹⁶⁵ and Anthony Minghella¹⁶⁶ — criticising the broadcasters for lack of activity and investment in British films. The UK Film Council believes “that there is a right and proper role for British television broadcasters to play in working with the film industry but unfortunately [we] are in a position where they have not stepped up to the plate”,¹⁶⁷ and so this means that the UK film-makers are at a serious disadvantage compared to their US and European competitors/counterparts. The UK Film Council wrote that: “In Europe the picture is very different — German broadcasters have doubled their contribution to the German Federal Film Board, Spanish law has been amended to provide obligations to Spanish television to invest in film productions, and in France Canal Plus was obliged to invest 136 million Euro in film in 2001”.

101. Broadcasters’ current involvement in film is a controversial issue and the amount of investment varies between broadcasters. With regard to production, the BBC and Channel 4 are both prepared and willing to invest in British film and do so to the tune of around £10 million a year each.¹⁶⁸ But ITV is explicitly not willing and does not invest in British film production.¹⁶⁹

102. The other role for the broadcasters is as exhibitors of British film. Here too, the terrestrial broadcasters seem to be sadly lacking in their support for British film. This can be seen in Table 5 on page 26 of this report. The UK Film Council commented that:

“when you get to a position where only 2.8% of the films shown on the five main terrestrial channels, all of which have public service remits attached to them in 2002, were recent, ie less than eight year old British films, I think you have to ask what is the role of the British broadcasting industry and its public service remit in that context in terms of working with and supporting, not in a mindless way but in a way which benefits both parties, the British film industry?”¹⁷⁰

103. An additional problem for film-makers is that payment for television rights has significantly decreased compared to the days when, as we were told, “Goldcrest was around. They would get 10% of their budget ... from the BBC on a licence. So if you were looking at a

163 Q 619

164 Q 86; Ev 34 Vol III

165 Q 415

166 Q 589

167 Q 605

168 Q 554

169 Ev 114 and 229-30 Vol II

170 Q 605

\$20 million film like *The Mission*, that would be \$2 million on licence. Now the BBC and Channel 4, the most they will pay is around £500,000, for which they want television rights in perpetuity.”¹⁷¹ However, Mr Elstein from BSAC believes that “Films attract the licence fees, US films, UK films, that they justify in terms of their significance to the schedule, no more no less”¹⁷² and therefore, the current payments for films are justified.

104. With regard to training Working Title expressed some concern over the levels of training and opportunities to gain a ‘big break’, that the broadcasters offered in comparison to in the past, saying:

“Tim [Bevan] and I would not be here if it was not for the broadcasters in the 1980s being forced... to spend a certain amount of money on investment in feature films and we were both beneficiaries of that. They no longer do that.”¹⁷³

The BBC

105. The BBC feel that their role in film production is to make films that would not necessarily have been made for commercial reasons but, nonetheless have real cultural worth and should be made.¹⁷⁴ As far as exhibition is concerned, the BBC claim that important British films have been seen on TV¹⁷⁵ and that they invest in a number of films for exhibition including Shakespeare features.¹⁷⁶

106. The Secretary of State said that “there is a role, but there will never be, in my view, a primary role for the BBC as a funder of British film”¹⁷⁷ and told the Committee that in relation to exhibition “The Charter Review will look at a wide range of issues in relation to the BBC and seek, I hope, to achieve some definition of the BBC’s role”.¹⁷⁸ However, she also warned that “that if you burdened the licence fee with an expectation that it was going to make substantial investment in film, then you would have licence payers in revolt at the loss of quality on their televisions at home”.¹⁷⁹ The BBC told the Committee that “The very best British films have been seen on British television”.¹⁸⁰

171 Q 59 [Mr Thompson]

172 Q 221

173 Q 178 [Mr Fellner]

174 Ev 108 Vol II

175 Ev 106 Vol II

176 Q 342

177 Q 536

178 Q 514

179 Q 536

180 Q 340

Channel 4

107. Channel 4 have a history of prolonged support for the British film industry in both production and exhibition¹⁸¹ but this has diminished recently with levels of funding being reduced to about £10 million per annum.¹⁸² This is, as a proportion of their budget, a significantly larger commitment to British film than that of the BBC¹⁸³ but they are returning to lower budget productions with genre more in tone with the channel's general feel.¹⁸⁴ In relation to exhibition, Channel 4 are committed to showing British film and developing British talent (although more through their productions),¹⁸⁵ especially through FilmFour Ltd.¹⁸⁶

ITV

108. ITV firmly believe that they do not have a role in supporting the production or necessarily the exhibition of indigenous films. They expressed this to the Committee clearly and justified it by their investment of

“over £350 million a year into the top end of drama — *Dr Zhivago*, *Bloody Sunday* — some of these things are shown on theatrical release in the UK, and TF1 is paying nothing like that. You will not find a lot of American product or a lot of acquired product in peak time on ITV, you will find original production, original British programming.”¹⁸⁷

Mr Clive Jones, Joint Managing Director of ITV Network, also claimed to be investing in film through the purchase of films (US and UK) for television viewers “on the basis of their success at the box office so I am investing in film, I am just investing at the back end”¹⁸⁸ justified by the fact that only “3.7% of the top 1,000 programmes shown on ITV last year were films”.¹⁸⁹ However, Ms Gurinder Chadha, director of *Bend it Like Beckham*, told the Committee a different story saying:

“We do not have all the great dramas that we used to have. We do not have ‘must see’ TV. We have one-offs here and there but the time when we had fantastic drama series every Sunday night and you did not want to go out ... has changed. That is why America has such a strong cinema-going public because they have crap TV.”¹⁹⁰

181 QQ 552, 554

182 Q 552

183 Q 554

184 Ev 197 Vol II

185 Q 559

186 See Ev 196-7 Vol II

187 Q 329 [Mr Jones]

188 Q 331

189 Q 331

190 Q 128

She believed that the investment by ITV is not producing quality television and so some of that budget should be spent on encouraging talented filmmakers to produce films to better entertain British television audiences.

109. ITV themselves argue that they make a significant contribution to film through their training.¹⁹¹ The workforces for film and television are greatly over-lapped, meaning that many are trained by the broadcasters and move into or work part-time for the film industry. ITV sees itself and other broadcasters as a training ground for those who work in film and count this as their contribution to the British film industry.¹⁹²

110. The UK Film Council was instrumental in the development of a relevant amendment to the Communications Bill (now Communications Act 2003). Sub-section 6 of Clause 260 of the Communications Act is concerned with the fulfilment of the purposes of public service television broadcasting in United Kingdom. The amendment inserted the word “feature film” in the sub-section of this clause which specifies:

“that a manner of fulfilling the purposes of public service television broadcasting in the United Kingdom is compatible with this subsection if it ensures...(b) that cultural activity in the United Kingdom, and its diversity, are reflected, supported and stimulated by the representation in those services (taken together) of drama, comedy and music, by the inclusion of feature films in those services and by the treatment of other visual and performing arts”

The Council states that it is now for Ofcom to interpret how this provision should impact on broadcasters and its own actions in pursuing implementation.

BSkyB

111. The Committee heard criticisms of BSkyB’s approach.¹⁹³ Mr Jeremy Thomas told the Committee that:

“There is a terrible imbalance between the satellite stations and what they pay for independent feature films and what they pay to the major studios...Sky is one gatekeeper as far as satellite TV and yet they show lots of movies on satellite TV, it is a staple diet, and they pay incredibly low figures for that.”¹⁹⁴

Mr Woodward from the UK Film Council backed this up with the statement that “there have consistently been allegations made to us by the independent film distributors in the United Kingdom that Sky Television in particular is a broadcaster which has not provided a sensible buy-in policy and acquisition policy for British films.”¹⁹⁵

191 Q 330; Ev 113 Vol II

192 Ev 113 Vol II

193 QQ 59, 178 [Mr Thompson; Mr Fellner]

194 Q 62 [Mr Thomas]

195 Q 605

112. Supplementary evidence from the Council referred to complaints from independent film distributors about problems with licensing the UK pay-TV rights to films which they have acquired for UK distribution because the overwhelmingly dominant market player, BSkyB, had exclusive output deals with US studios and was unwilling to deal in any significant way with other parties. The UK Film Council argued that the only way an independent distributor can therefore gain access to a pay-TV window is by putting its film through one of the deals between BSkyB and the US studios. This results in the realisation of a lower price than if BSkyB were willing to deal direct. It also means that, unless a US studio agrees to put the film through its deal, then the distributor cannot sell UK pay-TV rights to their film. As a consequence, there was a potential detriment to the consumer since the available choice of films is diminished.¹⁹⁶

113. BSkyB responded to the UK Film Council's supplementary evidence by refuting a lot of the allegations made within it. They argued that they have in the past and still do, deal with suppliers other than the Hollywood studios, an example being the renewal of the contract with independent UK distributors, Entertainment Film Distributors (EFD). BSkyB also said that independent producers can, in fact, gain access to pay-TV through specialist film channels (such as FilmFour and TCM) and also through pay-per-view via services such as Front Row (provided by Telewest and ntl). Sky claimed that, therefore, it is not forcing independents through one of the deals between Sky and the US Studios (as the UK Film Council alleged) and that films can be sold and exhibited elsewhere.¹⁹⁷

Potential measures to encourage further contributions to sector

114. **We would like to see increased levels of support for film production and exhibition of British product from the public service broadcasters. We recommend that this be done in co-operation with the broadcasters in the first instance.**

115. **It is unclear to us how BSkyB can be required to pay equal prices for Hollywood blockbusters and smaller British films as they represent different commercial prospects. We would, however, welcome support for the British film industry from BSkyB as a wise long-term investment in content which must be in that company's interests.**

116. **In evidence to the Committee on the BBC's annual report and accounts, the Director General, Mr Greg Dyke, was almost cursory about the BBC's approach to investment in British films. There was little to suggest that the BBC had a serious strategy. Mr Dyke could not even decide whether the £10 million put aside for film investment was the subject of serious discussion or simply as much as Mr Alan Yentob could extract from the BBC budget.¹⁹⁸ We urge the BBC to review its approach and level of commitment to feature film production, in consultation with the UK Film Council, given the significant comity of interests in this area.**

¹⁹⁶ Ev 240 Vol II

¹⁹⁷ Ev 100-101 Vol III

¹⁹⁸ See HC 984-I, 17 July 2003, BBC Report and Accounts 2002-03, QQ 75-78

117. The Secretary of State described the amendment of the Communications Bill as designed to “to provide encouragement or expectation of broadcasters to collaborate in maximising potential investment in film.”¹⁹⁹ This raises expectations of developments in this area, with the UK Film Council expecting ‘serious and meaningful’ review of the situation by Ofcom.²⁰⁰ **We hope and expect that these hopes will not be disappointed and that Ofcom will be able to take meaningful action to improve the relationship between the British film industry and the public service broadcasters to the benefit of the British people’s enjoyment of, and access to, film. One avenue will be through the Statements of Programme Policy required from the broadcasters.**

Training and development

Importance and current situation

118. Formal training and development have not historically made a significant contribution to the British film industry. This is changing but the situation needs attention to make sure that problems are dealt with. Mr Charles Harris from the New Producers’ Alliance told the Committee that: “We are very good at making films. I am not so sure that we have the infrastructure for training, development and distribution and exhibition.”²⁰¹ Mr John Woodward from the UK Film Council believes that

“The training in the British film industry since the end of the traditional studio system, when television started to come on and film became essentially a freelance production activity, training has been ad hoc and relatively disorganised.”²⁰²

119. One of the current problems facing the industry is that skill levels need to be maintained. The Committee have been told throughout this inquiry that the UK workforce is extremely proficient. John McVay from PACT believes that

“The UK is second to the US in terms of the level of craft skills we have. We need to maintain that. If we do not invest in that through good training but through production, we will lose those set crafts. Once we have lost them, they are very hard to put back into the system.”²⁰³

There appears to be an ageing workforce who need to pass on their skills to a younger generation that are willing and keen to work in the film industry. However, at present they are not properly trained in the skills required, Ms Pat Trueman from the Directors’ Guild told the

199 Q 531

200 Q 607

201 Q 140 [Mr Harris]

202 Q 608 [Mr Woodward]

203 Q 43 [Mr McVay]

Committee that “we simply do not have enough younger, well-trained film-makers ready to leap in and take up the challenges.”²⁰⁴

120. We believe that the emphasis in the last statement should be on the phrase ‘well-trained’ because there are certainly enough keen young people anxious to work in film (which can be seen by the numbers taking media or film courses at universities and colleges around the country²⁰⁵). However, they may not be able to because of the lack of adequate training as well as the obvious limited size of the industry. Mr Stewart Till, Chairman and CEO of UIP, and Vice-Chairman of the UK Film Council, agreed that education and skills development are important:

“but we as an industry, both the private and public sectors, have to pay more attention and spend more resources on training and education. I do think we are operating in a world-wide environment worth, say, \$60 billion, growing at a rate of 6%. You have probably heard this before but there is no other mature market in the world that is growing at that rate. The British film industry can get more than its fair share of that with enormous economic and cultural repercussions. I would hope that this Committee in its thoughts not only focuses on the short term but also on the long term through training and education.”²⁰⁶

121. Another issue, about which the Committee heard a great deal, is the lack of funding available for development in the film industry. We were told by the Scriptwriters’ Guild and Working Title that development in this area was crucial to the success of a film but was badly under-funded in the UK. Mr Dawson said “I do not think there is enough development money filtered down to writers at grass roots level to enable them to spend time writing feature films.”²⁰⁷

Apprenticeship/work experience versus college courses

122. We received mixed evidence from the industry with regard to whether training is best received through apprenticeships and on the job experience or through college courses which give a more theoretical education before entering the job. We have heard the pros and cons for both methods/styles of training, which are outlined below, and we think that the both systems merit support from the Government to ensure an integrated approach to education and skills in the film industry.

123. Apprenticeships ensure the passage of skills from one generation to the next, allow trainees to earn whilst learning and also provide them with on the job experience which many in the industry value, including the Scriptwriters’ Guild who said the following about trainee scriptwriters:

204 Q 76

205 Q 433

206 Q 415

207 Q 8 [Mr Dawson]

“They need experience, which you do not learn in university, you do not learn at film school, you do not learn by going to short courses. You learn by having your work put through the process of being script edited, of having a director come in and make changes or suggest changes, of having actors read it and then you hear how bad some of the dialogue is, and you see what actually happens to it.”²⁰⁸

This is echoed by those struggling to get into the industry. In a discussion about the training requirements for developing film directors, Mr Reiss from the Directors’ Guild of Great Britain, said “I think that nothing beats hands-on experience,”²⁰⁹ and, “there is no special ticket once you come out of a film school”²¹⁰ suggesting that on the job experience is as vital, if not more, so than post-graduate courses for obtaining the skills needed to be in the industry.

124. It is also regrettable that “One of the very startling findings from the developing United Kingdom Film Talent Report...is that nepotism still plays a huge role in terms of how people fare in developing their careers within the industry, indeed in entering the industry in the first place.”²¹¹ This is a negative trait that would be likely to continue if the apprenticeship system were continued without a proper structure. This point also displays some of the advantages of a college structure, which include the open access of courses to all (thus reducing nepotism and increased numbers of people being trained) and the structure that is inherent to such a system. However, this structure must feed into the industry needs through the provision of appropriate training that will help on the job and forestall the trap where “lots of media study courses all over this country that are all disparate, nothing plugs into anything.”²¹² Accessibility of college also relies on students being able to afford to invest in their education. Although some courses are supported by the Government, others, like those at the National Film and TV School, are not and this poses difficulty to some and means that talent is not being harnessed into the British industry.²¹³

Technical skills versus business skills

125. Development and education need to be focused on many areas of the industry. One area, which receives less attention than technical skill enhancement, is the business skills needed for producers to do their job effectively. The New Producers’ Alliance told us that they spent a large amount of their yearly turnover providing training courses for developing producers, most of which were about gaining practical business skills. They felt this need was not effectively dealt with by Government initiatives for the sector’s training.²¹⁴ **We recommend that Skillset, in co-ordination with the Department for Education and Skills, look**

208 Q 15

209 Q 101

210 Q 101

211 Q 610

212 Q 609

213 Q 429 [Mr Crittenden]

214 Q 136

specifically at the business skills training that is provided and fill the gaps in the system where necessary.

Co-operation with the industry/centre of excellence

126. There is a need within British film for industry needs and training provided to be married up, David Castro from the New Producers' Alliance told us that there "needs to be a more cohesive training"²¹⁵ for people entering the industry. The UK Film Council and Skillset both told us that they were aware of the dislocation between the needs of the industry and the training currently available and that the training strategy, which will be published in September, will begin tackling this problem.²¹⁶ One suggested solution to this problem was the establishment of a number of centres of excellence around the country (similar to those in US including NYC, UCLA etc) which gave courses that the industry sponsored.²¹⁷ Progress is already being made as Ms Caine from Skillset pointed out to the Committee:

"I think the film industry, and particularly the production sector, has very much taken this issue seriously; it has introduced the first voluntary levy across any industry. That money is being used to support a range of training provision."²¹⁸

Inter-relationship with broadcasters

127. Training for the film industry heavily overlaps with training needed for the broadcasting sector. With a similarly overlapping workforce, it is logical to try and integrate the training within the audio-visual sector. Skillset is the skill sector council for the audio-visual industry and does this to a certain extent already. We believe that it could be done to an increased degree with even more co-operation between film and television. The BBC told the Committee that they "are as committed as ever to training and to making a significant contribution to broadcast skills"²¹⁹ and that their training budget "has gone up from £4.8 million to £6.1 million in the last three years".²²⁰ Others thought that the BBC does not do enough for training, commenting that "the BBC, should be obliged to have specific funds for directors and/or writers, not just producers, to come into"²²¹. Looking at the UK Film Council support for producers Mr Reiss thinks that

"As far as the cinema is concerned and the Film Council, it is premature to judge anything about what they have done so far and there are two very important funds out there, but both of them, including the new Cinema Fund, are really aimed towards

215 Q 148 [Mr Castro]

216 'A Bigger Future' The UK Skills Strategy, September 2003.

217 Q 436

218 Q 423

219 Q 320

220 Q 321

221 Q 77 [Mr Reiss]

producers and producers inherently are there to make money and therefore to generate something else.”²²²

Strategy and resources

128. The UK Film Council have published a report, produced with Skillset, which details their strategy and action plan for training the film industry and is committed to targeting investment into the areas of need and priority that have been identified.²²³ The UK Film Council have allocated £6.3 million for the training needs of the industry. Mr Bloore from the New Producers’ Alliance was cautious about the new approach:

“We welcome Alan Parker’s emphasis on training in his recent keynote speech. However, we believe that recent Film Council policy has begun to focus too far on support for top end films and training of experienced producers to the detriment of lower budget films and the training of new producers.”²²⁴

Proposals for the future

129. Skillset set out the thinking behind the strategy as about: “not one centre of excellence but a network of centres of excellence that either are placed around the UK so that we ensure access to training of the highest quality, but also we cover the bases in terms of the skills required and the different job requirements in the industry. We might need to look at, for example, a business centre of excellence or we might need to have a centre of excellence that is specialising in some more of the craft and technical roles as opposed to some of the more creative roles. We are now looking exactly at that concept of establishing centres of excellence where there are real economies of scale in terms of funding and targeting support, but it is plural rather than singular.”²²⁵

130. ‘A Bigger Future: The UK Film Skills Strategy’ recently published seeks to identify the training needs of the British film industry and provides a number of solutions to ensure effective training of the current workforce and new entrants. In order to maintain a highly skilled workforce, the UK film industry needs:

- a) film specific careers advice through one channel with a recognised brand;
- b) a future strategy that reflects the realities of the industry and manages people’s expectations of what constitutes the film industry and the opportunities, or lack of them, it can offer;
- c) careers resources about the film industry that are linked with national careers services giving consistency throughout the UK;

222 Q 77 [Mr Reiss]

223 QQ 421, 425 [Ms O’Connor; Ms Caine]

224 Q 136 [Mr Bloore]

225 Q 436 [Ms O’Connor]

d) equal access for all those who want to enter the industry.

131. In order to achieve the above, Skillset's careers advice service 'skillsformedia' will be enhanced to provide a 'one-stop shop' for the film industry. It will be charged with:

- a) developing and distributing high quality film specific information through 'Film Career Fact Sheets' and 'Labour Market Bulletins';
- b) developing and supporting a network of careers advisors in Further and Higher Education;
- c) Providing advice and guidance to new entrants and the existing workforce through one-to-one advice sessions, answering email inquiries, and careers advice in schools.

132. The report also identifies the need to match the skill demands of the industry with the training being supplied. There need to be stronger links between education and industry so that the industry can attract the brightest and best talent to the workforce. The report proposes to tackle this mismatch by creating:

- a) a 'Course Approvals' system that identifies priority areas in need of support and creates a more focused supply of graduates to these areas of the industry. The system will be managed by Skillset, guided by panels of film industry practitioners, course leaders and employers.
- b) 'Screen Academies': a mixture of Higher and Post-Graduate education spread throughout the UK;
- c) an increased role for the National Film and Television School (NFTS) providing a dedicated centre for post-graduate education and training in production and a much needed co-ordination role for the range of approved courses and Academies; and
- d) a 'Film Business Academy': a world class central resource of all the information and expertise necessary to support the film industry to achieve a high level of management and business skills.

133. The training and development strategy set out by Skillset and the UK Film Council is an impressive wishlist of welcome developments. We believe that it strikes the right notes, particularly on equal access, business skills and cooperation with the industry. We look forward to receiving regular reports regarding progress with its implementation.

6 Looking back — film archives and the *bfi*

The national and regional audiovisual archives

134. Moving image archives and archivists are the guardians of a unique heritage of film, television and other footage from a wide range of sources recording an enormous amount of information about aspects of the UK's history and society. The Imperial War Museum Film and Video Archive and the *bfi*'s National Film and Television Archive, a key national resource, have been in existence for more than sixty-five years. Since the 1970s, other national and regional archives have developed across the UK.

135. The Film Archive Forum (FAF), whose membership includes all the significant national and regional archives,²²⁶ emphasised the need for a specialised approach to selection and acquisition, preservation techniques, documentation, access and curation not found in traditional archive provision. The Forum stated its members' commitment to:

- i. acquiring and preserving materials on the original medium, informed by internationally agreed standards for care and conservation;
- ii. creating and maintaining catalogues and finding aids to serve archive, public and commercial needs; and
- iii. providing the widest possible public access to all preserved materials in all collections.

136. The Forum stated that each year millions of people experienced the richness of the collections through presentations and educational work and through the incorporation of archive material into television programmes and films. However, FAF argued that there was a need for a formal and coherent policy for the film archive sector, recognising the special needs of moving image archives and their importance within the wider community. FAF considered that all of the film archives of England continue to be under-funded, both in respect of the scale of their task and in comparison with other cultural heritage bodies. The Forum criticised the UK Film Council's funding of archives despite recognition, in the 2002 policy document, *Film in England*, of the importance of, and need for investment in, the regional archives. The FAF points to the Council's indication of new revenue funding for the English regional archives over 2001–04 in the order of £250,000. However, FAF estimates that £292,404 has been distributed from the UK Film Council through the regional screen agencies to the regional film archives representing an increase of £144,000 over 2000–01 — in the context of other UK Film Council-funded activities such as £15 million for the film franchises, £10 million for the Premiere Fund and £14.5 million to the *bfi* (part of which funds the National Film and Television Archive).²²⁷

226 East Anglian Film Archive, Imperial War Museum Film & Video Archive, National Film and Television Archive (*bfi*), National Screen and Sound Archive of Wales, North West Film Archive, Scottish Screen Archive, South East Film & Video Archive, South West Film & Television Archive, Wessex Film & Sound Archive and Yorkshire Film Archive.

227 Ev 214 Vol II

137. The Film Archive Forum and the British Library National Sound Archive are leading an initiative, funded by Re:source, to produce the UK's first audiovisual archive strategy aimed at: assessing the strengths and weaknesses of audiovisual archival provision across the UK; identifying the strategic benefits to be gained from the audiovisual sector working closely with the wider museums, libraries and archives sector; determine priorities for capital and revenue investment in the audiovisual archives sector. The draft strategy document was intended to be launched later in this year, 2003, as part of the National Council on Archives' Archive Awareness month and will inform the first report of the National Archives' Taskforce. FAF hoped that the new strategy would herald a real turning point for audiovisual archives in the UK.²²⁸

138. However, the Film Archive Forum reported that the UK Film Council had declined to participate as a partner in this venture which, the Forum argued, was further demonstration of a lack of enthusiasm for this component of its policy responsibilities. This position was supported by the National Council on Archives (NCA), a membership organisation representing the archival community, which also questioned the commitment of the UK Film Council. The NCA rejected the argument that UK Film Council support for film archives would be time-limited and tapering in the expectation that commercial revenue streams would be developed (as should equally be the case with film production). The NCA stressed that commercial exploitation by the regional archives of their collections was limited by the fact that the archives did not own the relevant copyrights.²²⁹

The British Film Institute (and National Film and Television Archive)

139. The British Film Institute was retained by the DCMS as a discrete entity when it established the UK Film Council to take strategic responsibility for film in the UK in April 2000. The *bfi* is separate from, but accountable to, the UK Film Council which provides it with its grant-in-aid funding: £14.5 million on 2001–02. The current relationship has perhaps yet to bed down. Despite the formal relationship, the *bfi* Chairman, Anthony Minghella, was clear that the *bfi* was at the very least semi-autonomous:

“I think it is very important that *bfi* becomes a very loud advocate of itself, it needs to advertise itself better, it needs to go out and brand itself better and it needs to reach out on its own. The Film Council is not its Dad and I think it is very important that we provide our own direct access to government and find friends and find partners and find sponsors.”²³⁰

140. The *bfi* was described by a recent National Audit Office report to be largely responsible for carrying out the UK Film Council's objective to “develop film culture in the UK by improving access to, and education about, the moving image.”²³¹ As far as the regional archives

228 Ev 213 Vol III

229 Ev 214 Vol II and 40-41 Vol III

230 Q 592

231 *Film Council, Improving access to and education about, the moving image through the British Film Institute*, Report by the Comptroller and Auditor General, HC 593, 2002-03, published on 11 April 2003 (hereafter HC 593, 2002-03)

were concerned the *bfi*'s evidence refers to “key relationships with the regional archives” but did not go into further detail despite an emphasis on the regional dimension of its own services and activities.²³²

141. The *bfi* aims to:

- a) ensure UK audiences gain access to the full range of the history and heritage of British and international cinema;
- b) create opportunities for UK citizens to understand and appreciate film through the generation and dissemination of knowledge about film; and
- c) promote the use of film history in understanding identity, representation, culture and creativity.

142. The *bfi* argues that through its products and services it plays a direct — and essential — part in helping create a cultural and educational environment which supports the British film industry and thereby contributes to the wider economy. The *bfi* set out its commitment to develop the function served previously by the Museum of the Moving Image (MoMI) in a way which reflects the expectations of audiences of the 21st century; which are informed, in the UK, by free access to the main collections of national museums and galleries. The *bfi* has a substantial collection of artefacts and memorabilia relating to the history and development of film and TV.²³³ Since the closure of MoMI the *bfi* has been criticised for a lack of clarity and straightforwardness over its plans to establish new arrangements for public access to this collection.²³⁴

143. The major long-term project of the *bfi* is to establish a new Film Centre, as part of the on-going developments on the South Bank, to provide opportunities to “transform and enhance the experience of the culture of film in a dynamic new environment.” In addition to a commitment to physical exhibitions, based at the new Centre as well as travelling around the country, the *bfi* argues that the new technologies of digital access and delivery must be recognised as the most effective and democratic ways of making film culture more accessible. The *bfi* accepted that its plans “to create a new national resource, to 21st century standards” were ambitious and would be ‘financially challenging’.²³⁵

144. The *bfi* runs, maintains and develops the National Film and Television Archive, one of the oldest and largest such archives in the world (comprising some 150,000 films and 250,000 television programmes). The Institute also runs the *bfi* National Library, of similar international status, in terms of information and data about film and TV.

232 Ev 207 Vol II

233 Ev 208 Vol II

234 Ev 6 Vol III

235 Ev 208 Vol II

145. The Institute's main activities are:

- a) Providing or facilitating exhibition of films from its own archive (to which there is no direct public access), other archives and commercial distributors at: the National Film Theatre; the Imax cinema; film festivals; and through film societies and regional cinemas.
- b) Providing access for private and commercial research about film and TV to its resources; and
- c) Providing a wide range of formal and informal education opportunities including material for teachers and students and by running courses events and other activities.

146. As the NAO report sets out, the *bfi* has a range of objectives and goals set out in agreements with the UK Film Council and also its own Royal Charter. It seems clear that the process of aligning the objectives of Institute and Council has not yet been concluded. The National Audit Office recently concluded that this task needs to be accomplished for the Council to be able to assess the extent to which the Institute's use of its public funding is contributing to the achievement of the UK Film Council's over-arching objectives.²³⁶

147. The Chairman of the *bfi*, Mr Anthony Minghella, described criticisms set out within the NAO report as justifiable but pointed to the exemplary reputation of the *bfi* amongst its peers around the world.²³⁷ He also pointed to a significant role for the *bfi* — complementary to the Council's growth of the film industry — in increasing audiences for that industry: discerning, demanding and younger audiences that would be open to more than the 'industrial' offerings from mainstream Hollywood studios designed to reach a global market without necessarily inviting or requiring audiences to stop and think. To this end the *bfi* must provide and promote access to its archive and educational resources.²³⁸

148. The *bfi* set out its achievements in providing access to its resources as follows:

- a) The number of people taking up access and educational opportunities provided by the *bfi* has increased by 25% in the last five years;
- b) Over 220,000 cinema-goers attend the National Film Theatre (NFT) each year;
- c) The *bfi* London Imax Cinema attracts 350,000 people a year, 97,054 of whom are under 16;
- d) *bfi* films were seen by more than 633,000 people at independent cinemas across the UK in 2001–2002;
- e) Each year 1,000,000 people in the UK watch *bfi* videos and DVDs;
- f) Films from the Archive collection are seen twice as much as films from any other archive in the world;

236 HC 593, 2002-03, p8

237 Q 585

238 QQ 581, 585 and 588 Vol II

- g) Over 110,000 people attended last year's London Film Festival, together with 600 film industry delegates;
- h) 19,000 participants of all ages took part in educational events, short courses, conferences and seminars, in 2001–02;
- i) the *bfi* website received 6.47 million page impressions in 2001–02.²³⁹

149. Clearly, a primary responsibility of the *bfi* is the care and maintenance of its resources, including the National Archive, in the first place. The Archive is a vast resource which is growing each year with resulting backlogs of material awaiting acceptance into the collection (representing 20–25% of the films in the Archive); material needing preservation work (unquantifiable); and material within the collection that needs to be made actually viewable (54%).²⁴⁰

150. One complication has been that 'safety film' designed to store copies of films over the long-term has turned out to be itself stable. Mr Minghella told us: "One of the great ironies has been that the *bfi* did sterling work at the National Film Archive in putting nitrate film on to acetate, on to safety film. The safety film has proved more unstable than the nitrate; so now there is a new regime of trying to work out how you can store film correctly".²⁴¹ He went on to say that it was a crucial question of priorities and a matter for review: "with the amount of money that we take from government, which we have to justify and earn, we can make a very simple decision and ... will spend all of our money opening those cans and restoring film; or we will spend all of our money trying to go out and grow audiences. It is going to be a judgment call as we go into this review, about where we prioritise."²⁴²

151. We received evidence that some parts of the collection were being allowed to deteriorate in unsuitable storage conditions due to funding problems. Amanda Nevill told us that:

"We would refute that statement completely. I have been up there and one of the first things I did was to try and find out what levels of big risk there might be round the corner. The National Audit Office have also been there. Film is very complex, and my colleagues from the Film Archive Forum will no doubt reinforce this...Everything that is taken into the archive, even before it is formally acquired, is put into environmentally stable conditions so that we can minimise damage. Film is inherently unstable anyway. We immediately do the best we can to ensure that it is held at some sort of static level."²⁴³

However she accepted the underlying argument:

239 Ev 212 Vol II

240 HC 593, 2002-03, pp28-30

241 Q 585

242 Q 585

243 Q 593

“we do need to look at the priorities that we give within that archiving. Are the priorities in conservation or are they in access and how do those two work symbiotically? That is something that we will look at over the next six months.”²⁴⁴

This position was supported by Mr Patterson from the Film Archive Forum who said that:

“I would not have said there was anything within the storage of the *bfi* that was in any way endangered because of the conditions in which it was being stored.”²⁴⁵

244 Q 593

245 Q 594

7 Conclusions

152. This inquiry has looked in some detail at the British film industry and the challenges it faces within a highly competitive global industry. We commend our recommendations made throughout this Report (see also Summary of Conclusions and Recommendations below) and draw attention to those that follow as tackling the over-arching themes we have identified.

Government

- a) **The Government's key priority should be the speedy and positive resolution of debate over the future of the Section 48 tax relief.**
- b) **The UK Film Council has made a very positive start and must be supported by the Department for Culture, Media and Sport, and the Government as a whole, so that impetus is not lost. This includes adequate funding for the wide range of tasks with which the Council is charged.**
- c) **A cohesive approach is needed between those parts of Government that have interests in, or responsibilities for, promoting the British film industry in both its impact as a magnet for inward investment and its role as an important window on Britain and British culture, history and society for the British people and the wider world.**

The UK Film Council

- d) **We welcome the positive start made by the UK Film Council to its various tasks. It has a wide range of responsibilities and must balance carefully the need to make progress in each area with the risk of spreading its limited funding too thinly.**
- e) **The UK Film Council has made a convincing case for its approach to revitalising the British film industry in terms of the need for continued but evolving film tax reliefs, including a new focus on distribution.**
- f) **We also accept that the role of the public service broadcasters in relation to investment in British films and their exhibition should be tackled as a priority.**
- g) **We recommend that the UK Film Council engage actively with the *bfi* to clarify the most effective working relationship for meeting their objectives; both shared and complementary.**

The *bfi*

- h) **The *bfi* set out its dual role as guardian of a physical collection of, in our view, unparalleled importance and as a motivator of new and demanding audiences for the films that the UK Film Council is determined to encourage in the future. These are**

both crucial tasks which merit adequate resources and commensurate scrutiny to ensure that effective progress is being made.

- i) The *bfi* should take the lead within the UK film and TV archive community and champion the whole sector, particularly the regional archives, alongside safeguarding its exemplary reputation amongst international peers. An over-arching national strategy promoting both good curatorship and increasing accessibility should be vigorously pursued.

Summary of all Conclusions and Recommendations

The recommendations enclosed in the following text box were omitted from the summary in the printed version of the Report published on 18 September 2003.

We recommend that, in reviewing the tax regime for film production within the UK, the Government assesses whether there is a case for the introduction of new terminology to assist the classification of films according to country of origin distinguishing cultural content and financial provenance. (Paragraph 13)

The film industry is an important national cultural and economic asset with significant further potential. We regard the existing level of tax relief for film production as absolutely essential to the health of the industry. (Paragraph 85)

We recommend that the Government commits to an evolution of Section 48 relief, without further sunset provisions, along the lines proposed by the UK Film Council and the British Screen Advisory Council (publishing the BSAC study for consultation on the detail as soon as possible). Lead times for decisions about inward investment are long, therefore the Government must end the current uncertainty plaguing the industry, must do so in a positive manner and needs to do so as quickly as possible. (Paragraph 86)

1. More people go to the cinema in the UK than go to football matches. (Paragraph 33)
2. We would like to see increased levels of support for film production and exhibition of British product from the public service broadcasters. We recommend that this be done in cooperation with the broadcasters in the first instance. (Paragraph 114)
3. It is unclear to us how BSkyB can be required to pay equal prices for Hollywood blockbusters and smaller British films as they represent different commercial prospects. We would, however, welcome support for the British film industry from

BSkyB as a wise long-term investment in content which must be in that company's interests. (Paragraph 115)

- 4. In evidence to the Committee on the BBC's annual report and accounts, the Director General, Mr Greg Dyke, was almost cursory about the BBC's approach to investment in British films. There was little to suggest that the BBC had a serious strategy. Mr Dyke could not even decide whether the £10 million put aside for film investment was the subject of serious discussion or simply as much as Mr Alan Yentob could extract from the BBC budget.²⁴⁶ We urge the BBC to review its approach and level of commitment to feature film production, in consultation with the UK Film Council, given the significant comity of interests in this area. (Paragraph 116)**
- 5. We hope and expect that these hopes will not be disappointed and that Ofcom will be able to take meaningful action to improve the relationship between the British film industry and the public service broadcasters to the benefit of the British people's enjoyment of, and access to, film. One avenue will be through the Statements of Programme Policy required from the broadcasters. (Paragraph 117)**
- 6. We recommend that Skillset, in coordination with the Department for Education and Skills, look specifically at the business skills training that is provided and fill the gaps in the system where necessary. (Paragraph 125)**
- 7. The training and development strategy set out by Skillset and the UK Film Council is an impressive wishlist of welcome developments. We believe that it strikes the right notes, particularly on equal access, business skills and cooperation with the industry. We look forward to receiving regular reports regarding progress with its implementation. (Paragraph 133)**
- 8. The Government's key priority should be the speedy and positive resolution of debate over the future of the Section 48 tax relief. (Paragraph 152 a))**
- 9. The UK Film Council has made a very positive start and must be supported by the Department for Culture, Media and Sport, and the Government as a whole, so that impetus is not lost. This includes adequate funding for the wide range of tasks with which the Council is charged. (Paragraph 152 b))**
- 10. A cohesive approach is needed between those parts of Government that have interests in, or responsibilities for, promoting the British film industry in both its impact as a magnet for inward investment and its role as an important window on Britain and British culture, history and society for the British people and the wider world. (Paragraph 152 c))**
- 11. We welcome the positive start made by the UK Film Council to its various tasks. It has a wide range of responsibilities and must balance carefully the need to make**

246 See HC 984-I, 17 July 2003, BBC Report and Accounts 2002-03, QQ 75-78

progress in each area with the risk of spreading its limited funding too thinly. (Paragraph 152 d))

12. The UK Film Council has made a convincing case for its approach to revitalising the British film industry in terms of the need for continued but evolving film tax reliefs, including a new focus on distribution. (Paragraph 152 e))
13. We also accept that the role of the public service broadcasters in relation to investment in British films and their exhibition should be tackled as a priority. (Paragraph 152 f))
14. We recommend that the UK Film Council engage actively with the *bfi* to clarify the most effective working relationship for meeting their objectives; both shared and complementary. (Paragraph 152 g))
15. The *bfi* set out its dual role as guardian of a physical collection of, in our view, unparalleled importance and as a motivator of new and demanding audiences for the films that the UK Film Council is determined to encourage in the future. These are both crucial tasks which merit adequate resources and commensurate scrutiny to ensure that effective progress is being made. (Paragraph 152 h))
16. The *bfi* should take the lead within the UK film and TV archive community and champion the whole sector, particularly the regional archives, alongside safeguarding its exemplary reputation amongst international peers. An overarching national strategy promoting both good curatorship and increasing accessibility should be vigorously pursued. (Paragraph 152 i))

Annex A: Films for which the British have won Academy Awards, 1994-2002

1994	The Madness of King George Franz Kafka's It's a Wonderful Life The Lion King Bob's Birthday	(Best Art Director) (Best Live Action Short) (Best Song – Can you Feel the Love Tonight) (Best Animated Short)
1995	Restoration Anne Frank Remembered Braveheart Sense and Sensibility A Close Shave	(Best Costume Design) (Best Documentary Feature) (Special Achievement in Make-up) (Best Adapted Screenplay) (Best Animated Short)
1996	The English Patient Emma Evita	(Best Director; Best Art Direction) (Best Original Score Music of Comedy) (Best Original Song – You Must Love Me)
1997	Titanic The Full Monty Geri's Game	(Best Achievement in Art Direction) (Best Original Score Musical or Comedy) (Best Animated Short)
1998	Shakespeare in Love Elizabeth Saving Private Ryan	(Best Film; Actress in a Supporting Role; Original Screenplay; Art Direction; Costume Design; Original Score Musical or Comedy) (Best Make-up) (Best Sound)
1999	The Cider House Rules Sleepy Hollow Topsy-Turvy American Beauty One Day in September Tarzan	(Actor in a Supporting Role) (Art Direction) (Costume Design; Make-up) (Direction) (Documentary Feature) (Original Song – You'll be in my Heart)
2000	Gladiator Father and Daughter Special award Special award	(Costume Design; Best Sound; Best Visual Effects) (Best Animated Short) (Honorary Oscar – Jack Cardiff) (Scientific & Technical award – Vic Armstrong)
2001	Iris Lord of the Rings Black Hawk Down Gosford Park	(Actor in a Supporting Role) (Make-up) (Best Sound) (Original Screenplay)
2002	Chicago The Pianist Lord of the Rings: The Two Towers	(Actress in a Supporting Role; Film Editing) (Adapted Screenplay) (Sound Editing)

Annex B: Details of UK Visits and Summary of Visit to Los Angeles, June 2003

Date	Location of visit
11 June 2003	Ealing Studios, West London.
25 June 2003	Framestore CFC, Soho, London
2 July 2003	Pinewood Studios, Buckinghamshire
16 July 2003	Leavesden Studios, Hertfordshire

Programme	Host
University of Southern California School of Film (USC)	Dr Richard Jewel, Dean of Academic Affairs
American Film Marketing Association (AFMA) (representing the independent film industry)	Ms Kathy Morgan (Kathy Morgan International), Chairman, Mr Howard Kaplan (Morgan Creek International), Vice Chairman, Finance, Mr Roger Corman (New Concorde), Director, Ms Jean M Prewitt, President and Chief Executive Officer and Mr Jonathan Wolf, Vice President and Managing Director AFM.
Hollywood Heritage Museum	Mr Robert W Nudelman, Restoration Project Director
Warner Brothers Studios	Mr Richard J Fox, Executive Vice President, International (Warner Bros. Entertainment)
Motion Picture Association of America	Mr William M Murray, Vice President and Chief Operating Officer
20 th Century Fox Studios	Mr Jim Giannopoulos, Chairman, Fox Filmed Entertainment
Metro-Goldwyn-Mayer Studios	Mr Chris McGurk, Vice Chairman and Chief Operating Officer
Walt Disney Studios	Mr Paul Steinke, Senior Vice President, Production and Finance
Paramount Studios	Mr Tom McGrath, Executive Vice President
Sony Imageworks	Mr Tim Sarnoff, President
HBO Films	Mr Colin Callendar CBE, President
Universal Studios	Mr Rick Finkelstein, President and Chief Operating Officer
Dreamworks SKG	Mr Mike Grillo, Head of Feature Productions
Columbia Tristar Motion Picture Group (Sony Pictures)	Mr Gareth Wigan, Vice Chairman

Summary of discussion

THE US FILM INDUSTRY

Last year, 2002, had produced a 45 year high for cinema admissions in the US – this was a general trend and spread across all demographic groups proportionately (this ‘modern’ peak remained below historical percentages of the population in, say the 1920s, going to see films). In terms of consumption of filmed entertainment across the board – 20% theatre; 40% DVD/video; and 40% TV. The impact and popularity of DVD had not dented theatre-going but rather increased it (70% of DVD income was from sales and 30% from rental – the increased material on a DVD was likely to account for the high sales figure compared with video. Last year about 700 films were produced of which about 200 never got a theatrical release (on average marketing costs were \$30 million for a big release – 90% of the average print & advertising expenditure).

Film-making was a risky business. The depth of the library was a buffer for major studios when new films were not as successful as expected. The US audience was 300 million people which provided a safety net in the context of uncertain global market impact. Costs, however, were spiralling (especially star costs - a third of a typical major production). Other challenges were the crowding of the marketplace (with between 3 and 8 new films each week); the crucial importance of a good opening for subsequent revenue; a consolidating exhibition market; and revenue from television had flattened out (indeed dropped in the UK) with competition in pay TV less than expected. The UK did not have a huge domestic market and British films made for the British market had to have modest budgets with this in mind. The more creative studio releases also had to have less financial exposure – either by modest budgeting or partnership funding. For each film made by a major studio up to 10 were developed to some degree with as much as \$2 million being spent on a project that ultimately would not proceed.

Marketing is key to a successful film. If the right message cannot be transmitted to the public then good films can suffer and niche films die. Conversely, with the right marketing a bad film can make a profit. Effective marketing could create a successful theatrical release without which a movie was likely to die. Exhibitors could be reluctant to take films for which marketing budgets were low as this would affect their seat occupancy.

OUTWARD INVESTMENT

Art and business considerations created a, constructively tense, iterative process in deciding where a film should be shot. Factors included: creative issues (where was the script based); practical issues (time of year, length of day, weather) with leading actors’ availability usually dictating the production timetable; the local crew base; the previous experiences and preferences of key production personnel; and the financial environment (tax regime, exchange rates, other incentives). Occasionally other factors played a part such as the fact that one big production can occupy a whole country’s available facilities and appropriate crew. The UK, however, had a depth of resources that was not matched everywhere else. Decisions were made on a case-by-case basis but the film-makers looked to locate appropriate production overseas to maximise returns on investment; just like any other manufacturer. There was a move towards a focus on local subsidiaries seeking to make lower budget films for the relevant markets where they were located.

The UK

The UK was an important location of technical expertise and facilities as well as a good consumer market. There was a rich pool of acting talent with appropriate technical skills developed in television, radio as well as repertory and West End theatre. The British literary tradition was a two-edged sword – in film parlance ‘talking heads’ were boring but there was a rich seam of ideas for stories; especially children’s stories.

The distribution market was, however, tough with historically lower film rental revenue for the distributor than elsewhere and the highest advertising costs in the world.

The tax incentives for both high and low budget films were important and made the UK internationally competitive as a location for production (creative considerations apart). The shared language made the UK a popular location with US actors, directors and other film crew personnel. Reducing the incentives would send a

message of reduced commitment to hosting overseas production above and beyond the consequent alterations to the bottom-line. The UK arrangements were not simple but the systems worked fast.

The British film industry

The diagnosis of the UK Film Council seemed accurate especially support for the current level of tax reliefs with some extension to distribution and perhaps even print and advertising costs as well as an emphasis on training and development to protect the UK's key competitive advantage: its skilled film production labour force. The best way to develop new talent was to employ people on productions. Incentives to employ a cameraman and an assistant cameraman (like an apprenticeship system) was a practical way to achieve sectoral development. In the US collaboration between the film schools and the industry was extensive in terms of making both both resources and personnel available.

There were deep differences between the UK and US industries although both were in the same business. In the UK the artist was seen as challenging the status quo while in the US the artist was often seen as its defender. The rewards in the UK were modest compared to the potential in the US. Therefore films that were financed on the basis of their potential within the UK market alone could not have large budgets.

The UK had tried to mimic the US system without success. The greatest, but temporary, impacts had been achieved by Goldcrest, Polygram, Channel 4. Working Title remained very successful but in terms of structure was in a category of one. The UK's film successes in the US/global market had been idiosyncratically 'British' stories – Four Weddings, The Full Monty, and Bend it like Beckham. Attempts to play the Hollywood game had largely failed.

The Eady levy had made UK broadcasters invest in British film. Broadcasters also had the resources and systems to support distribution. The Communications Bill looked like a missed opportunity for the Government to require more action from the broadcasters in support of British film.

DIGITAL TECHNOLOGY

Computer-generated imagery

If CGI was invented as a cost-cutting exercise then it had failed in that aim. The demand for digital enhancement and origination was a bottomless pit. The end-result remained, however, a product of the creative skill of the user of the new techniques being developed. Such techniques raised the possibility of fundamental changes to the way the industry worked as well a possible alternative format for making, distributing and exhibiting films. The roles of various specialties behind the camera (ie cinematographer) were changing; the interaction of actor and director could alter with wider and deeper control of performances in the post-production phase; the synthesis of dead actors (raising complex royalty issues) was technically possible; creating locations, characters and 'extras' was almost commonplace beyond what had been achieved in wholly CGI-animated films.

Exhibition

Digital exhibition had vocal supporters and critics. It was being encouraged chip manufacturers of the equipment and resisted by some exhibitors on the grounds that a measure of success would be that their audiences did not notice any difference. The main challenges for the development of digital exhibition were: proving the demand and economic advantages for all parties were there; establishing common technical standards and healthy competition between manufacturers of the technology; ensuring security; achieving quality (including crucial longevity in the archives); and settling the question of how the costs and benefits of the necessary investment, and control of the resulting systems, would be shared between distributors and exhibitors. A significant question was whether conversion had to be 'big bang' or could it be incremental. Widespread mainstream digital cinema was perhaps 10-15 years away.

DVD

The popularity of DVD was overwhelming and had given the inherently risky film business a new lease of life. While a successful theatrical opening remained vital for creating adequate demand for the bigger films there was a move to hurry the film into DVD to capture the value that high sales in that format represented.

PIRACY (UNAUTHORISED PARALLEL DISTRIBUTION)

In 2002 the loss to the US film industry from audiovisual piracy worldwide was estimated at between \$3 and 3.5 billion. There were lessons to be learned from the experience of the music industry. The film industry had to look for technical, economic and legal solutions to the problem, including aggressive litigation. The pirates were only ever one step behind the distributors in terms of overcoming technical barriers. The risks would be increased by moves towards the digital distribution of film, whether over networks or by supply of physical disks.

Annex C: Government and Lottery funding for UK film²⁴⁷

The following table gives details of Government funding for film (in £ million) from 1999.

Grant receiving body	1999/00	2000/01	2001/02	2002/03
Scottish Screen	2.2	2.4	2.6	2.6*
Sgrin Cymru Wales	0.5	0.5	0.8	0.9±
Northern Ireland Film and Television Commission§	0.57	0.49	0.36	0.3†
British Film Institute	16.91			
British Screen Finance	2.0			
British Film Commission	0.85			
European Co-Production Fund	2.0			
National Film and Television School	2.2	2.3	2.4	2.5
UK Film Council	0.5	21.8	20.9	24.1
Total	27.73	24.1	27.06	30.4

Notes on table

The UK Film Council became operational in April 2000. It now funds the British Film Institute from the grant-in-aid it receives from the Department for Culture, Media and Sport. The British Film Commission is now part of the Council. British Screen Finance and the European Co-Production Fund have been absorbed into the Council.

The remit for the three national screen agencies – Sgrin Cymru Wales, Scottish Screen and the Northern Ireland Film and Television Commission Agency (NIFTC) – goes beyond film. Sgrin Cymru Wales and Scottish Screen are responsible for promoting and developing film, television and new media in their respective countries. The NIFTC is responsible for film and television.

Due to this varied remit, it has not in all cases been possible to identify direct funding for specific film related activities. In the case of Sgrin Cymru Wales, it has only been possible to provide an approximation, rather than a precise figure, of funding solely related to film. The figures include approximate percentages of core funding received from the Welsh Assembly Government and its sponsored bodies.

*These figures include £45,000 provided by the UK Film Council in 2001/02 and 2002/03.

±These figures include £18,750 in 2000/01, and £160,000 in 2001/02 and 2002/03.

§This refers to money received solely from the Department for Enterprise, Trade and Industry, and includes operating support to the Film and Television Commission.

†These figures include £200,000 from the UK Film Council in 2001/02 and 2002/03.

247 Provided by the Department for Culture, Media and Sport

The following table gives details of lottery funding for film (in £ million).

Lottery Distributor	1999/00	2000/01	2001/02	2002/03
Arts Council of England*	9.6			
Scottish Screen ±	n/k	3.73	4.09	5.16
Sgrin Cymru Wales §	0.915	0.9	0.9	0.9
Northern Ireland Film and Television Commission†	0.772	0.276	0.325	1.273††
UK Film Council	15.838	31.474	33.675	32.441
Total	27.125	36.38	38.99	39.77

Notes on table

*Prior to April 2000, the Arts Council for England (and others) distributed lottery money for film. The money distributed in 1999/2000 was allocated to visual arts, including film.

±Scottish Screen is a lottery distributor in its own right. Prior to 2001-02, lottery money was channelled through the Arts Council for Scotland.

§ Lottery money is distributed through the Arts Council of Wales.

† NIFTC was delegated responsibility for lottery funding in April 2002. Prior to this, lottery money was distributed through the Arts Council of Northern Ireland (ACNI).

†† This figure comprises £0.786m from the NIFTC, and £0.487m from ACNI.

Annex D: Comparison of film tax relief and other support in Australia, Canada, Republic of Ireland and New Zealand.

Australia

The Federal Government has introduced a number of tax incentives over the years to attract private investment to the Australian film industry including Divisions 10BA and 10B of the Income Tax Assessment Act 1936 and, more recently, the Film Licensed Investment Company (FLIC) scheme.

Under Division 10BA of the Income Tax Assessment Act 1936 (the Tax Act) investors acquire an interest in the copyright of new, qualifying, Australian programs and receive a 100% tax concession as a result. 10B A aims to encourage private investment in culturally relevant, high-quality Australian film and television productions.

Division 10B is a broader-based concession whereby initial investors who acquire an interest in the copyright of new, qualifying productions receive a 100% tax concession over two financial years once the film exists and is used to produce income. Division 10B tax concessions, available on completion of a project, apply to a greater number of categories than 10BA and include feature films, documentaries, mini-series, series, short dramas, multimedia formats such as CD-ROMs, plus promotional, variety, educational and training material as well as large-format programs. Projects must be assessed as wholly or substantially made in Australia.

The Tax Act was amended in 1998 to introduce the pilot Film Licensed Investment Company (FLIC) scheme, which carried a 100% tax concession over the financial years 1998-99 and 1999-2000. Investors received deductions for buying shares in a FLIC, which, in turn, invested in qualifying Australian programs. Concessions ended June 2000, but non-concessional investment in a FLIC continues to 30 June 2002. Unlike 10BA and 10B investments in single projects, shares in a FLIC support a number of programs at once, called slate funding.

In September 2001, the Federal Government also announced a refundable tax offset as an incentive for large-budget film and television productions to shoot in Australia. The new incentive is deliverable through a direct payment to producers in the form of a refundable tax offset paid through the tax system. The offset will be applied at a fixed rate of 12.5% of qualifying Australian expenditure on a film project. Films with Australian expenditure between \$15 million and \$50 million will have to spend 70% of their total expenditure in Australia to qualify. Films with Australian expenditure over \$50 million will not have to meet the 70% requirement. Tax deductions will continue to be available under Divisions 10B and 10BA of the Income Tax Assessment Act 1936 but a film cannot receive both the new tax offset and the existing 10B or 10BA deductions, or Australian Film Corporation (FFC) funding. The tax offset provides a benefit worth 12.5% of qualifying production expenditure, with the key requirement being a minimum Australian expenditure of \$15 million. The scheme is restricted to feature films, mini-series and telemovies, although 'bundling' other television projects, to meet the \$15 million dollar minimum is under consideration. Producer apply for the offset on completion of the project.

At the same time a 'local industry package' to increase support for production, development and the use of new technologies aimed at ensuring Australia remained at the cutting edge of production and post-production. The local funding package comprised increased funding totalling \$92.7 million from 2001-02 to 2005-06. Amongst recipients were the Australian Film, Television and Radio School (AFTRS) receiving an additional \$0.5 million in 2001-02, and an additional \$1 million per annum from 2002-03 (indexed) to lease digital equipment, so students could learn with the most up-to-date technology now being used throughout the industry. The film industry's inward investment body, AusFILM, received \$1 million per annum (indexed) from 2002-03 to provide a one-stop-shop for foreign producers enabling them to easily meet their requirements at all levels of government.

Official Agencies

The Australian Film Commission (AFC) is the Federal Government's agency for supporting the development of film, television and interactive digital media projects and their creators, particularly in the independent sector. The

AFC provides resources, mainly in the form of finance and information, to people, projects, organisations and events. Integrated with ScreenSound Australia (the National Screen and Sound Archive) from 2003/04.

The Australian Film Finance Corporation (FFC) is a wholly owned Commonwealth company providing support for feature films, telemovies, mini-series and documentaries. It supports a diverse range of culturally relevant material through equity investment, undertaken in partnership with the film and television marketplace, including distributors, sales agents, broadcasters and private investors.

Film Australia is a Federal Government-owned production and distribution company; it is one of the nation's largest producers and distributors of television documentaries and educational programs. Through the National Interest Program it receives finance to devise, produce and distribute programs which deal with matters of national interest to Australia or illustrate and interpret aspects of Australian life. The 1988-89 figure published in previous editions of *Get the Picture* has been revised to exclude a \$10 million capital injection for purchase of shares in the company (Film Australia Ltd) which commenced in that year.

ScreenSound Australia (the National Screen and Sound Archive) plays a leading role in preserving and collecting Australia's film, television and sound heritage. Total revenues from the Federal Government have increased in recent years to allow for loan payments on the new headquarters building and to maintain the capital value of the collection. Integrated with the Australian Film Commission from 2003-04.

Federal Budget allocations to key federal film agencies (excluding broadcasters and regulatory bodies) rose from \$15.2 million in 1980-81 to \$131 million in 2002-03.

Canada

Background

In 1974, the Government of Canada introduced a fiscal incentive, in the form of a capital cost allowance, designed to assist the Canadian film industry to attract private financing. While this measure had some success in fostering production, it did not address issues related to distribution or improving access to screens. In 1984, recognizing that the Canadian film and video industry had not yet fulfilled its economic and cultural potential, the Government introduced the National Film and Video Policy. One of the Policy's main achievements was the creation of the Feature Film Fund in 1986. Administered by Telefilm Canada, the Fund's purpose was to support investment in high-quality, culturally significant Canadian films for theatrical release.

In 1998, to encourage better market access for Canadian productions the Canadian government adopted its Film Distribution Policy. One element of the policy was the establishment of foreign investment policy guidelines under the Investment Canada Act. The guidelines state that:

- foreign takeovers of Canadian-owned and controlled film distribution businesses will not be allowed;
- new foreign distribution businesses will only be allowed to distribute proprietary films (proprietary films are considered to be any film where the distributor owns world rights or is a major investor); and
- takeovers of foreign distribution businesses operating in Canada will be reviewed to determine their net benefit to Canada. Along with the new policy on foreign investment, the 1988 initiative led to the creation of the Feature Film Distribution Fund administered by Telefilm Canada.

In 1995, the capital cost allowance was replaced by the Canadian Film or Video Production Tax Credit, a better-targeted program that reimburses producers for a portion of their expenses. The 1997 Film or Video Production Services Tax Credit encourages Canadian and foreign film-producers to employ Canadians for production services performed in Canada. In 1996, the Government announced the creation of the Canada Television and Cable Production Fund. This public- and private-sector partnership contributes to the funding of high-quality Canadian French- and English-language television programs. Of the Fund's total \$200 million annual budget, \$15

million is targeted exclusively for the production of feature films that eventually find their way to television broadcast.

In recognition that a healthy film industry needs access to a growing pool of skilled filmmakers, a further goal of the Canadian government is to provide stable and sustainable funding for national training initiatives in the film sector. It created a program for this purpose in April 1997, and creators and professionals receive training through the Institut national de l'image et du son, the Canadian Film Centre, the National Screen Institute, and the Canadian Screen Training Centre. Alongside these federal initiatives, provincial policies, programs and legislation have been introduced to help promote Canadian feature films. Provincial governments have established film and tax credit programs in British Columbia, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, and six provinces have direct funding programs.

Current Support

Telefilm Canada provides about \$40 million annually for the development, production, distribution, and marketing of Canadian feature films. \$15 million from the Canada Television and Cable Production Fund supports the production. The Canadian Film or Video Production Tax Credit provides Canadian producers with about \$60 million a year through a refundable tax credit worth up to 25% of the costs of eligible labour costs. The Canadian Film or Video Production Tax Credit provides Canadian producers with about \$60 million a year through a refundable tax credit worth up to 25% of the costs of eligible labour costs. The new Film or Video Production Services Tax Credit is worth up to 11% of the cost of qualifying Canadian labour expenditures for production services performed in Canada. The Foreign Investment Policy for film distribution helps ensure that foreign investment in the Canadian film distribution sector results in a net benefit to Canada. Support for national training provides \$1.3 million annually to film and television training initiatives.

Official Agencies

The National Film Board of Canada (NFB), created in 1939, is a public agency that produces and distributes films and other audiovisual works which reflect Canada to Canadians and the rest of the world. The National Film Board aims to encourage the development of the next generation of filmmakers by providing talented young people with the means of completing their films and thereby gaining recognition in the film industry. Support is provided through the English Program's Filmmaker Assistance Program (FAP) and the French Program's Aide au cinéma indépendant (ACIC). These films are characterized by their experimental and innovative form or content, and would possibly never have been produced without the NFB's support. Assistance includes equipment loans and technical and professional services directly related to the production of a film.

The Republic of Ireland

Section 481 of the Taxes Consolidation Act, 1997 (Formally section 35 Finance Act: see below) provides a fiscal incentive to taxpayers to invest in film production. Because 80% of the amount invested can be written off for tax purposes, the investor looks for a return on the net cost rather than on the full amount invested. This usually results in a contribution of up to 12% to the budget.

The Section 481 investment scheme will operate until end 2004 and is only available for the production spend in Ireland. A minimum of 10% of the work on the production of the film must be carried out in the State. Individuals may invest up to €31,750 annually, 80% of which can be written off for tax purposes. The net cost, at current tax rates, is 66%. In simple terms, the Irish Government underwrites 34% of the individual's investment. Companies can invest up to €10,160,000 annually, but not more than €3,810,000 in any production. Any excess over €3,810,000 must be invested in film productions with a maximum budget of €5,080,000. The net cost to a company is some 84% of the amount invested at present.

The amounts that can be raised in this way vary by project size:

- Up to 66% for films costing €5,080,000 or less

- Up to 55% for films costing in excess of €6,350,000 million with sliding scale adjustment of between 55% and 66% for films costing between €5,080,000 and €6,350,000.
- Up to €10,480,000 maximum for films with a budget over €19,050,000.
- A typical structure would be as follows:
- An Irish production company is established to make one film only.
- It is commissioned to produce a film for an agreed fee, payable on delivery and acceptance, with a further entitlement to either a net profit or adjusted gross position. For example a pre-sale fee of about 82% of the investor funds raised together with an advance of the remainder of the budget is not unusual. The structure can also provide a cash-flow benefit to the producer.
- Example: A film is to be made at a budget of €4 million. Section 481 funds of 66% may be raised (i.e. €2.64m). A pre-sale agreement may be put in place with a distributor/broadcaster for 82% of the Section 481 funds raised. This amount is payable on delivery and acceptance of the film. The distributor/broadcaster will fund the non-Section 481 element of the budget (i.e. €1.36 million).

The Department of Arts, Sport and Tourism is the certifying body for Section 481 tax relief. The Irish production company can only raise investor funds when it has been certified by the Minister for Arts, Sport and Tourism. The Minister issues a certificate when he is satisfied that the production of the film will benefit the national economy and the Irish film industry.

Section 195, Taxes Consolidation Act, 1997 empowers Revenue to make a determination that certain artistic works are original and creative works generally recognised as having cultural or artistic merit. Accordingly, earnings derived from such works are exempt from income tax from the year in which the claim is made. It can apply to writers, including scriptwriters, visual artists and composers. Individuals may locate in Ireland and enjoy tax-free income from their works under this scheme, known as 'artists' exemption'. Claimants for Artists Exemption must be resident, or ordinarily resident and domiciled, in the State and not resident elsewhere. However, Revenue are prepared to give advance opinions regarding the exemption to claimants resident abroad. If these claimants receive a favourable advance opinion, they are given a formal determination in respect of Artists Exemption on taking up residence in the State. Guidelines have been drawn up by the Arts Council and the Minister for Arts, Heritage, Gaeltacht and the Islands, with the consent of the Minister for Finance, for determining for the purposes of Section 195 whether a work is 'an original and creative work and whether it has, or is generally recognised as having, cultural or artistic merit'. Revenue may, having regard to the Guidelines, consult with a person or body of persons which may be of assistance to them in reaching decisions in relation to Artists Exemption.

Determinations can be made in respect of artistic works in the following categories:

- (a) a book or other writing;
- (b) a play;
- (c) a musical composition;
- (d) a painting or other like picture, and
- (e) a sculpture.

Tax Agreements

Ireland's EU approved 10% tax rate has proved an attractive stimulus to foreign investment in Ireland for many years. It applies to manufacturing companies (including film production companies), international finance

services companies in the Custom House Docks Area of Dublin (including film finance companies) and companies, which trade from Shannon Free Zone (including film distribution and licensing companies). The 10% rate applies to income after deduction of trading expenses, not withholding tax on dividends paid by Irish companies.

Development Loans for Feature Length Fiction Films are offered up to a maximum of €35,000 at any one time and €70,000 cumulatively for any one project and are repayable on the first day of principle photography. Production Loans for Feature Length Fiction Films are offered on a basis of repayable loan/equity participation of a proportion of the total budget. Funding for short films is also available under the following schemes:

- Short Cuts
- Oscailt
- Frameworks
- Irish Flash
- Short Shorts

New Zealand

Private investors in New Zealand films may wish to take advantage of special tax incentives available in the Income Tax Act 1994. To qualify for these tax incentives the film in question must first be certified as a New Zealand Film. The Film Commission is authorised to certify a film or television programme as a New Zealand Film provided it contains significant New Zealand content as set out in Section 18 of the New Zealand Film Commission Act 1978. Certification allows a film to qualify for a one-year tax write-off in the year in which the film reaches double-head fine-cut under the New Zealand Income Tax Act.

Support

A high percentage of New Zealand-produced feature films and television programmes are made with the help of government funding. In the case of feature films, government funding is made available through the New Zealand Film Commission and the newly established New Zealand Film Fund. With a total annual investment budget of around NZ\$8 million, the New Zealand Film Commission generally allocates funding across a maximum of five feature films in any one year. These films usually fall within a budget range of NZ\$1 million to NZ\$5 million.

NZ Film Commission provides financial assistance for New Zealand feature film projects and New Zealand filmmakers, by way of loan or equity financing. NZFC commit up to 8% of our annual budget to feature film development financing, and up to 60% to feature film production financing. Development decisions are made by either the senior staff group (up to \$15,000 per project) or the Development Committee (up to \$75,000 cumulative per projects). The Film Commission Board makes decisions involving financing beyond \$75,000 for either advanced project development or for production financing.

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.

The New Zealand Film Fund

The New Zealand Government has contributed \$22 million (inclusive of Goods and Services Tax) toward the establishment of a new feature film production fund. An independent charitable trust has been set up to administer this fund.

The aim of the Film Fund is to:

- Support the development and growth of a sustainable New Zealand film industry.
- Assist the development of the talent base of experienced successful New Zealand film-makers by enabling them to obtain international exposure and experience.
- Support the production of films of a larger scale than those which can generally be afforded by the New Zealand Film Commission.
- Enable experienced New Zealand film-makers to make more complex and textured films which speak with a New Zealand voice.

Funding Criteria

To receive funding from the Film Fund, projects must be feature films with significant New Zealand content to be made by New Zealand film-makers who have already made one feature film. Funding will be made available only for one production. Note that the term 'film-maker' implies a New Zealand producer and/or director.

To receive Film Fund Finance a project must have:

- Significant New Zealand content.
- At least two positive independent script assessments.
- A reputable theatrical sales agent attached.
- Reasonable evidence of market potential including the New Zealand market.

In addition to these criteria, there are a number of operating guidelines including the requirement that around 40% of the budget must come from off-shore sources and that the total budgets should normally be around \$NZ5 million. However, these guidelines are written in general terms and do allow for some flexibility.

Co-production Agreements

For both financial and creative reasons, an increasing number of feature film projects worldwide are being developed as international co-productions. The New Zealand Film Commission supports this trend, acknowledging that an official co-production structure sometimes may be the only way for a producer to realise a project. If a co-production is appropriately structured, it will be eligible for certification as a New Zealand film. Furthermore, it may be able to attract production funding from the New Zealand Film Commission.

New Zealand has entered a number of bilateral co-production agreements. To date, agreements have been signed with Australia, the United Kingdom, France, Canada and Italy and the New Zealand Film Commission is in the process of negotiating an agreement with Germany. The co-production agreements state that co-productions made under the terms of the agreement (and certified as such by the New Zealand Film Commission) will be entitled to all the benefits accorded to national productions in New Zealand. This includes the ability to access New Zealand Film Commission funding, and to receive the benefits of any tax incentives.

There are two types of co-production — official and un-official:

Official;

An official co-production is subject to the various Government to Government treaties that exist. New Zealand currently has treaties with UK, Canada, France, Italy and Australia. The regulatory authority is the New Zealand Film Commission. The minimum participation is 20/80 or 30/70 funding/creative split in an official co-production. It is extremely unlikely to find funding within New Zealand under the treaty for a project that did not have either a New Zealand director or writer or is totally led from overseas. For an official co-production it would be necessary to find a production partner within New Zealand who has experience working with overseas producers.

Un-official;

Non-New Zealand producers are unlikely to find funding in this country for a production originated elsewhere. Producers who want only to utilise crew, locations and so on should contact a local production company with experience working with international producers or partners.

Incentives to film in New Zealand

New Zealand government policy has created an incentive through an open, deregulated economy. This provides overseas investors with a stable, competitive, transparent, low cost business environment in which to invest for the long term.

There are a number of other financial benefits:

- It has been estimated that NZ production costs are 20% cheaper than Australia and 32% cheaper than Canada, after any tax incentives or rebate schemes in those territories are factored in. The flexible, deregulated and highly creative New Zealand production environment makes your dollar go further.
- The exchange rate effectively doubles a project's budget. One NZ dollar has the same purchasing power as one US dollar
- New Zealand is a non-SAG country thus relieving producers of industry union issues.
- New Zealand has no compulsory fringe obligations for its crews or actors. Most NZ crew are self-employed and take care of their own taxes and insurances.
- Expenditure incurred in producing a film classified as a New Zealand film by the New Zealand Film Commission 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. However, these deductions are subject to a number of additional requirements. For example, expenditure that has been funded out of a non-recourse loan or that is subject to a deferred payment arrangement, is generally only deductible in the year in which the relevant payment is made. The New Zealand Government is also considering introducing 'at-risk' rules, which would limit the tax deductions available to investors to the amount of money they have at risk in the film.

Annex E: Comparison of the film sectors of selected other European countries: France, Spain, Germany and Italy

	France	Spain	Germany	Italy
2001 Cinema admissions (millions) ²⁴⁸	185	145	178	84
2001 Box office receipts (US\$ millions) ²⁴⁹	888	531	866	415
2001 National films on their own market (%) ²⁵⁰	28.2	2.9	11.6	17.5
Government support ²⁵¹	<p>Centre national de la cinématographie (CNC) had a total budget of E380,564,287 in 2002. The bulk of this income is derived from a tax on French broadcasters (E330.08 mil. in 2002). CNC operates multiple funds for production, distribution, script writing, exhibition, post-production. Production funds operate using an Advance against receipts system. Awards \$290,000-\$390,000 per project. Conditions: French production, or international co-production meeting co-production accords. Money must be reimbursed on the first dollar gross basis, negotiated either as a percentage of support account funds, or as a percentage of foreign, video and television sales</p>	<p>Instituto de las Cinematografía y de las artes Audiovisuales (ICAA). Total budget for 2000 was E31,790,264. Financed by state aid. The ICAA offers subsidies to films that earn more than \$330,000 at box office. All Spanish films have the right to aid up to 15% of gross takings during first 2 years screening in Spanish cinemas. Amount obtained may not exceed the producer's actual investment, at 50% of production costs or E600,000. Films that have not received selective aid for production can choose between an amount equivalent to 25% of box office takings from first 2 years, or 33% of the producer's investment (E300,000 or less)</p>	<p>Filmforderungsanstalt (FFA) has a total budget of E45 mil. (to increase to E72 mil. in 2004). Funded by 2.3% tax on all cinema tickets sold, and video rental/sales. FFA backed 45 projects in 2002. The FFA administers the 'success grant' an award paid to German producers whose films attract 100,000+ admissions at local box office. Financed by tax on cinema tickets, award on sliding scale from \$98,000- \$1.2 mil. A new points scheme is to be introduced - a film must score at least 150,000 'reference points' (which will be allocated according to the no. of domestic cinema admissions and/or success at international festivals and awards.</p>	<p>Direzione Generale per il Cinema had a budget of E97,453,351 in 2001 funded by State Budget. Its remit is to support and promote Italian cinematic culture: financial support for production, distribution and exhibition; authorises the creation of cinemas, rates films, oversees the allocation of amounts dedicated to film by the Fondo Unico dello Spettacolo (Single Fund for Performing Arts). Annual allocation of E60.4 mil. to the film industry. Funding is split three ways: 58% for film production, 13% for promotion, 29% for State Film bodies, in particular Cinecittà Holding.</p>

248 Film Distributors' Association website (www.launchingfilms.com/film_stats/cinema_admissions.html)

249 Film Distributors' Association website (www.launchingfilms.com/film_stats/cinema_admissions.html)

250 European Film exhibition industry- Film Market 2001 (www.factbook.net/wbfilmsmkt.htm)

251 Information from UK Film Council Research and Statistics unit.

	France	Spain	Germany	Italy
National tax incentives ²⁵²	SOFICAs Film financing companies that raise money by offering tax write offs to investors Soficas reinvest this money in film and TV via interest-bearing loans. Companies or individuals who invests in one can write off up to 50% of tax on their investment. Individuals can invest up to 25% of their income with 100% tax write off.	There are three main tax incentives: Up to 25% of film production investments are deductible from corporate income tax; P&A expenses are 20% tax deductible when occurred though entering markets or developing new products; Up to 5% (or up to 20% for non-Spanish holding companies) of the amount invested in fixed assets can be deducted from corporate income tax, up to 25% of the total tax charge.	Tax-sheltered Film Funds estimated 35 film funds, collecting a total of over \$1.95 bil. in sheltered income in 2001. Most specialise in specific genres. To access the funds, the film has to be fiscally domiciled in Germany. Most funds have loose partnerships with established producers and distributors which absorb most of the money raised. German producers' association is urging Government to adopt either a 'sale and leaseback' model, similar to the UK or Canada's tax credit model.	Italian producers, distributors and sellers are pushing for the introduction of tax incentives for film. They favour a system similar to the UK's sale and leaseback incentives, or a model similar to Canada's Tax Credit system.
Broadcasters support ²⁵³	Broadcasters have obligations to re-invest in domestic production. e.g. Canal Plus invests 20% of annual earnings into French and European film production (acquisitions or pre-buys).	2001 Cinema Law requires broadcasters to invest 3% of their annual income in Spanish films.	Public and private broadcasters provide funding for the FFA. From 2004, broadcasters will double their financial contributions to the FFA to a total of Euros 22.4 mil. Public broadcasters are also obliged to back the Regional Film Fund in their specific region. Pay TV platform Premiere has offered to contribute Euros 70-80 mil. to film - if the government will agree to reducing VAT rates for subscribing to pay TV (16%) to the same amount that is set for magazine subscriptions (7%).	Under the so-called Veltroni law, public service broadcasters, RAI and main private broadcasters, Mediaset, invest €50 million per year each in feature film and TV fiction (mostly in feature film). Both RAI and Mediaset have their own film production, sales and distribution companies. Mediaset owns Italy's largest cinema chain (Cinema 5).

252 Information from UK Film Council Research and Statistics unit.

253 Information from UK Film Council Research and Statistics unit.

Formal minutes

Tuesday 9 September 2003

Members present:

Mr Gerald Kaufman, in the Chair

Mr Chris Bryant
Michael Fabricant
Mr Adrian Flook
Alan Keen

Rosemary McKenna
John Thurso
Derek Wyatt

* * *

Draft Report (The British Film Industry), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 3 read and agreed to.

Paragraph 4 read, amended and agreed to.

Paragraphs 5 to 8 read and agreed to.

Paragraph 9 read, amended and agreed to.

Paragraphs 10 to 29 read and agreed to.

Paragraph 30 read, amended and agreed to.

Paragraphs 31 to 38 read and agreed to.

Paragraphs 39 to 41 read, amended and agreed to.

Paragraphs 42 to 50 read and agreed to.

Paragraph 51 read, amended and agreed to.

Paragraphs 52 to 57 read and agreed to.

Paragraph 58 read, amended and agreed to.

Paragraphs 59 to 68 read and agreed to.

Paragraphs 69 and 70 read, amended and agreed to.

Paragraphs 71 to 84 read and agreed to.

Paragraphs 85 and 86 read, amended and agreed to.

Paragraphs 87 to 95 read and agreed to.

Paragraphs 96 and 97 read, amended and agreed to.

Paragraphs 98 to 113 read and agreed to.

Paragraph 114 read, amended and agreed to.

Paragraphs 115 to 151 read and agreed to.

Paragraph 152 read, amended and agreed to.

Annexes A-E read and agreed to.

Summary read, amended and agreed to.

Resolved, That the Report, as amended, be the Sixth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Tuesday 16 September at 9.55am

Witnesses

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Tuesday 29 April 2003	
Mr Bernie Corbett , Writers' Guild of Great Britain, Mr Julian Friedmann , Literary Agent and Mr Clive Dawson , Screenwriter	Ev 8
Mr John McVay , Mr Andy Patterson , Mr Peter Watson and Ms Andrea Calderwood , Producers' Alliance for Cinema and Television (PACT)	Ev 18
Mr Michael Kuhn , Kuhn & Co, Mr Jeremy Thomas , Recorded Picture Company and Mr Barnaby Thompson , Fragile Films	Ev 26
Tuesday 6 May 2003	
Ms Pat Trueman , Mr John Hough , Mr Andi Reiss , Directors' Guild of Great Britain, Mr Jeff Allen and Mr Hugh Whittaker , Panavision UK	Ev 35
Ms Gurinder Chadha	Ev 42
Mr Peter Blore , Mr Charles Harris and Mr David Castro , New Producers' Alliance	Ev 54
Tuesday 13 May 2003	
Mr Tim Bevan , Mr Eric Fellner , Debra Hayward , Working Title	Ev 61
Mr Christopher P Marcich , Motion Picture Association	Ev 72
Mr Tim Adler , Screen Finance, Mr Andrew Somper , ScottsAtlantic, Mr David Elstein , Mr Marc Samuelson and Ms Fiona Clarke-Hackeston , British Screen Advisory Council	Ev 79
Lord Attenborough CBE	Ev 84
Tuesday 20 May 2003	
Mr Jason Wood , Mr Dick Penny and Mr Ian Christie FBA , Association of Independent Film Exhibitors (AIFE), Mr John Wilkinson and Mr Barry Jenkins , Cinema Exhibitors' Association	Ev 95
Mr Alan Yentob , Ms Caroline Thomson , BBC, Mr Clive Jones , ITV Network Limited, Mr John Cresswell , Granada and Mr Piers Caldecote , Carlton Communications	Ev 116
Ms Jane Cussons , Ms Sarah Curtis , Ms Sally Hibbin , Ms Barbara Benedek and Ms Joy Chamberlain , Women in Film and Television	Ev 123

Tuesday 10 June 2003

Mr Francois Ivernel, Mr Cameron McCracken, Pathe Distribution,
Mr Chris Auty, The Film Consortium, **Mr Allon Reich** and
Mr Andrew Macdonald, DNA Ev 137

Mr Frank Pierce and **Mr Mark Batty**, Film Distributors Association,
Mr Stewart Till CBE, United International Pictures (UIP), **Mr David Kosse**,
Mr Alex Hamilton and **Ms Sam Nichols**, Momentum Pictures Ev 149

Ms Dinah Caine and **Ms Kate O'Connor**, Skillset, **Mr Roger Crittenden**,
National Film and Television School, **Mr Ian McGarry** and **Mr Andy Prodger**,
Equity Ev 160

Tuesday 17 June 2003

Mr Alexander Walker Ev 170

Mr Stelios Haji-Ioannou and **Mr James Rothnie** easyGroup Ev 177

Rt Hon Tessa Jowell MP, **Rt Hon Lord McIntosh of Haringey** and **Mr Andrew
Ramsay**, Department for Culture, Media and Sport Ev 190

Tuesday 24 June 2003

Mr Mark Thompson, **Mr David Scott** and **Ms Tessa Ross**, Channel 4 Ev 199

Mr Anthony Minghella CBE and **Ms Amanda Nevill**, British Film Institute,
Mr Luke McKernan and **Mr James Patterson**, Film Archive Forum Ev 216

Sir Alan Parker CBE, **Mr John Woodward**, **Mr Steve Norris** and
Ms Marcia Williams, UK Film Council Ev 234

List of written evidence in Volume II

1	Writers' Guild of Great Britain	Ev 1
2	Producers' Alliance for Cinema and Television (PACT)	Ev 16
3	Mr Michael Kuhn	Ev 24
4	The Directors' Guild of Great Britain	Ev 33
5	The New Producers' Alliance	Ev 47
6	Mr Tim Bevan, Working Title	Ev 61
7	Motion Picture Association (MPA)	Ev 66
8	Screen Finance	Ev 77
9	Lord Attenborough CBE	Ev 84
10	Association of Independent Film Exhibitors (AIFE)	Ev 89
11	Cinema Exhibitors' Association	Ev 93, 104
12	BBC	Ev 105
13	ITV Network Limited	Ev 113
14	Women in Film and Television	Ev 121
15	Pathé Distribution	Ev 129
16	The Film Consortium	Ev 130
17	DNA Films	Ev 133
18	Film Distributors' Association	Ev 142
19	Mr Stewart Till, UIP	Ev 144
20	Momentum Pictures	Ev 145
21	Skillset	Ev 154
22	National Film and Television School	Ev 158
23	Equity	Ev 158
24	Mr Alexander Walker	Ev 165, 170
25	Mr Stelios Haji-Ioannou	Ev 176
26	Department for Culture, Media and Sport	Ev 183
27	Channel 4	Ev 196
28	British Film Institute (<i>bfi</i>)	Ev 205
29	Film Archive Forum	Ev 213
30	UK Film Council	Ev 221, 240, 242

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1	Film Office	Ev 1
2	Mo Heard	Ev 6
3	Mo Heard	Ev 6
4	Salvation Films	Ev 9
5	Children's Film and Television Foundation	Ev 9
6	Sgrn Cymru Wales	Ev 10
7	Film Societies North West	Ev 11
8	Film Societies North West	Ev 16
9	Heritage Lottery Fund	Ev 16
10	Mrs Ashanti Johnson	Ev 17
11	Mr Stephen Herbert	Ev 19
12	Mr Leslie Hardcastle OBE	Ev 21
13	North West Film Exhibitors Consortium	Ev 23
14	Centre for Education, Leadership and School Improvement	Ev 26
15	Mr Michael Open	Ev 27
16	Phoenix Arts Centre	Ev 32
17	BECTU	Ev 33
18	Mr J Ron Inglis	Ev 38
19	National Council on Archives	Ev 39
20	Animation Network	Ev 42
21	Mr Asif Kapadia	Ev 45
22	Film Export Group	Ev 45
23	FilmDaze	Ev 47
24	Mr Anthony Smith CBE, Magdalen College, Oxford	Ev 51
25	Sheffield Media and Exhibition Centre Group	Ev 53
26	Arts & Humanities Research Board Centre for British Film & Television Studies	Ev 55
27	Professor Sir Christopher Frayling, Royal College of Art	Ev 57
28	Sir Nicholas Serota, Tate Gallery	Ev 57
29	Mr Martin Scorsese	Ev 58
30	<i>bfi</i> Amicus-MSF members	Ev 58
31	Helkon SK Film Distribution Limited	Ev 62
32	<i>bfi</i> BECTU members at the National Film and Television Archive	Ev 64
33	Coutts Bank	Ev 65
34	FT2 – Film and Television Freelance Training	Ev 65
35	Hallmark Entertainment	Ev 66
36	Musicians' Union	Ev 68
37	Screen South	Ev 70
38	Angel Costumiers	Ev 74
39	Ms Mia Bays	Ev 75

40	Piers Haggard Productions Limited	Ev 80
41	Alex Cox	Ev 81
42	Screen England	Ev 83
43	British Trade International	Ev 87
44	British Trade International/Trade Partners UK	Ev 91
45	Cine Guilds of Great Britain	Ev 92
46	Ms Tilda Swinton	Ev 93
47	Mr Barry Spikings	Ev 94
48	Film Office	Ev 95
49	British Screen Advisory Council	Ev 96
50	UK Film-makers	Ev 97
51	Mr Barnaby Thompson, Ealing Studios	Ev 99
52	Mr Alan Yentob, BBC	Ev 100
53	BSkyB	Ev 100
54	<i>bfi</i>	Ev 101
55	Phoenix Cinema	Ev 102

List of unprinted written evidence

Papers have also been received from the following and have been reported to the House. To save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by Members. Other copies are available to the public for inspection and requests should be addressed to the Parliamentary Archives, Record Office, House of Lords, London SW1A 0PW. (Tel 020 7219 3074). Hours of inspection are from 9.30am to 5.00pm on Mondays to Fridays.

Screen West Midlands

Film Archive Forum

Ms Angela Piddock

Watershed

Ms Cherry Canovan

The Cinema Exhibitors' Association

Reports from the Culture, Media and Sport Committee since 2001

The following reports have been produced by the Committee during the last two sessions

Session 2002–03

First Report	National Museums and Galleries: Funding and Free Admission	HC 85
Second Report	The Work of the Committee in 2002	HC 148
Third Report	A London Olympic Bid for 2012	HC 268
Fourth Report	The Structure and Strategy for Supporting Tourism	HC 65
Fifth Report	Privacy and media intrusion	HC 458

Session 2001–02

First Report	Unpicking the Lock: the World Athletics Championships in the UK	HC 264
Second Report	Testing the Waters: the Sport of Swimming	HC 418
Third Report	Arts Development	HC 489
Fourth Report	Communications	HC 539
Fifth Report	Revisiting the Manchester 2002 Commonwealth Games	HC 842
Sixth Report	The Government's Proposals for Gambling: Nothing to Lose?	HC 827