

UCLA Entertainment
Symposium
Global Production Hot Zones

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Summary of Presentation

- The global incentives “war”
 - What’s on offer
 - Hot zones analysis
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- This presentation is available on www.o-spi.com

The global incentives “war”

- Incentives signal country is ‘open for business’ and ‘film-friendly’
- But availability of incentives is just one factor that affects the production location decision. Others include:
- Currency/exchange rates
- Do locations work creatively for the film?
- Are the costs of the move worth it?
- Ease of filming (regulation, acceptance)
- International access
- Quality and depth of talent and crews
- Quality and depth of physical infrastructure (studios, facilities, equipment, hotels)
- Local services e.g. props, construction, costumes, extras
- Personal preferences of key talent

The global incentives "war" (continued)

- Incentives - issues to consider:
- Form it takes - tax shelter, tax credit/refund rebate
- Amount of benefit – accurate up front calculation
- What it's based on – 'good spend'
- Cap
- Minimum to qualify
- Certainty/predictability
- Convertibility to cash
- Timing of payment
- How it interlocks with other incentives

What's on offer: types of incentives

Discretionary Fund

Most countries
Majority of UK
nations and regions
Many regions throughout
Europe

Automatic Rebate or Tax Credit

Australia
Canada
France
Germany (federal)
Malta
New Zealand
South Africa
UK
US states

Tax Shelter

Belgium
France
Hungary
Spain
Ireland
Luxembourg
Netherlands

What's on offer – Europe (selection)

	UK	Germany	Hungary	Ireland
Form	Tax credit	Rebate	Tax shelter	Tax shelter
Value	20/25%	20%	20% / 25%	c. 20%
Good Spend	Used or consumed	Services provided in Germany*	Incurred & paid in country	Purchased in country
Cap	80% budget	80% budget €4m (€10m)	None	80% budget up to €35m
Min	25% budget	25% budget	None	None
Other	Cultural test	Cultural test	Cultural test, encourages use of post	Intends to move to 100% budget cap, up to €50m, value c. 28%

* flexible

What's on offer – Europe (selection)

	Italy	Malta	Spain	France
Form	Tax credits / tax shelter	Rebate	Investor tax deduction	Tax credit (rebate)
Value	15%-27.5%	22%/32%	<18%	20% of BTL
Good Spend	"Expenses in country"	Maltese goods & services*	Incurred & paid in country	"Expenses in country"
Cap	80%/ 60% budget (€3.5/ € 5m)	80% budget	60% budget	€1m now, €4m proposed
Min	30% budget	None	None	Minimum €1m spend, 5 days shooting
Other	Cultural test, use of Italian workers and services	Percentage value calculated by points system, *includes shipping costs	Projects must be approved by ICAA / regional bodies	Open to foreign producers, likely to have cultural test, needs to be EC cleared

What's on offer – other (selection)

	Australia	Canada	New Zealand	South Africa
Form	Rebate	Federal Tax Credit	Rebate	Rebate
Value	15/40%	16/25%	15/40%	15/25%
Good Spend	Provided & used	Canadian Labour	Provided & used	Local Vendors
Cap	ATL at 20% (for 40%)	None	NZ\$6m	R10m per project
Min	A\$15m	Film costs > \$1m	NZ\$30m, bundling ok if >NZ\$3m / NZ \$4m	R25m but bundling allowed
Other	>A\$50m must spend >70% (for 15%)	Combines well with provincial incentives	Some outside NZ spend can count as good spend	50% of shoot

“Hot” zones – UK

- Overall offer of the UK (talent, locations, infrastructure) extremely strong – second only to the US
- UK crew rates and fringes less than US and work practices amongst the most flexible in the world
- Top talent very comfortable with UK locations
- Value of tax credit, which is one of the most generous in the world, is currently ensuring the UK’s net cost competitiveness
- Tax credit now quick and reliable
- Have to qualify as UK film through points system (“Cultural” Test) or by being an official, treaty co-production
- Additional discretionary funds from UKFC, nations and regions

“Hot” zones – Germany

- Like the UK, tax incentive funding can be bundled with regional discretionary funding – usually a conditionally repaid loan tied to ‘Lände effect’
- 25% of total production spend must be in Germany, though this may be reduced to 20% for films with budgets over €20 million
- Flexible definition of good spend – includes freelancers, items/services imported into the country as long as used/consumed there
- May even allow a portion of spend incurred outside Germany on German elements (up to 30% of the total number of shooting days), which has proved popular
- European co-productions do not have to pass the cultural test

“Hot” zones – Hungary

- Ten fold rise in production volume in Hungary from 2004 to 2007
- Less established infrastructure and history of servicing large incoming productions
- Low labour rates and cheap construction
- Overtaking Czech Republic as production centre
- 2 new sound stage studios constructed
- Elements of non-Hungarian spend (up to 20% of the total production budget) can qualify in certain circumstances as Hungarian spend, bumping the rebate up to 25% of the Hungarian spend

“Hot” zones – Ireland

- Depth of calibre crew an issue in peak periods
- Production had been suffering since new UK scheme has led to reduction in UK/Ireland co-productions
- But now picking up television work as UK tax credit excludes it, but Irish one doesn't
- Incentive on 80% of budget up to €35m. Normal value 20%
- In December, Government announced improvement in tax incentive to generate 28% benefit, up to to €50m – pending EC approval
- Single studio provision
- No sales tax on items purchased in Ireland

“Hot” zones – Italy

- Approved in December 2008, new regime consists of two tax credits and a tax shelter
- For Italian/European films amount of tax credit is 15% of production expenditure
- For foreign (ie US) production companies, tax credit is 25% of production spend, up to 60% of total budget
- The two tax credit schemes can't be combined
- Tax shelter is worth 27.5% of budget, only available to non-Italian films, can't be combined with tax credit system
- Different cultural tests for each scheme

“Hot” zones – Malta

- Rebate of up to 22% (32% for productions with budgets under €100k)
- TV productions eligible
- Flexible definition of good spend, includes costs of shipping/transport to Malta, professional services
- Cultural test open to Maltese, European or Mediterranean elements
- Mediterranean Film Studios: World-renowned water SFX facility, 3 tanks

“Hot” zones – Spain

- Investor tax breaks open to producers, broadcasters and non-industry investors
- Tax deduction worth up to 18% of total production budget
- System not well understood, low international profile
- Can be bundled with discretionary funds
- December 2008 redrafting of the cinema law aimed at simplifying and clarifying process
- Ciudad de la Luz studio

“Hot” zones – France

- Amended tax credit system expected to be published April 2009
- Covers film, television and animation
- Cannot be bundled with discretionary funding
- Capped at €25 million per year
- There will be minimum ATL costs
- Foreign producers can hire line producer as sponsor company rather than official co-producer
- Flexible cultural test will likely emphasize French elements rather than qualifying as a French film, European co-productions will not have to pass the cultural test

“Hot” zones – Australia

- Well-established production centre; variety of locations
- Investment in studios by US Majors
- Strong directing and acting talent
- Crew issues with regard to overtime etc. less flexible
- Introduction of new raft of incentives for domestic, incoming and post
- New credit of 15% of all on-the-ground spend for visiting productions
- Travel and freighting costs can count towards good spend
- 40% for domestic and official co-productions

“Hot” zones – New Zealand

- Package of new rebate incentives as of July 08. Package largely similar to Australia:
- Large Budget Screen Production Incentive (no cultural test, 15% of good spend)
- Screen Production Incentive Fund (cultural test, 40% of good spend)
- Official co-productions automatically considered to have “significant New Zealand content”
- Growth over-reliant on Peter Jackson?
- Successful in linking tourism campaign to shooting locations

“Hot” zones – South Africa

- Offers substantially lower costs
- Less mature industry and infrastructure
- But new studios being built
- And new co-production treaties (UK, Germany)
- Tradition of commercials but less of long format
- Incentive, but capped at approx \$1.4m

“Hot” zones – Brazil

- Three incentives in operation:
 - Sector Fund
 - Article 3-A
 - Funcine
- Sector Fund: \$60.6 million available in 2009 for features, television co-productions and P&A
- Article 3-A primarily benefit local indie TV production
- Funcine created 2001, operational since 2005, similar to Sofica system, works by incentivizing group investment in production
- Only a handful of Funcine funds currently operational, due to local unfamiliarity with this type of investment, more looking to come online soon
- Low costs
- Rebuilding and re-skilling local facilities and labour

“Warm” zones

- Romania
- Bulgaria
- Poland
- Serbia
- Ukraine
- Isle of Man
- Chile

Key themes

- Widespread use of incentives
- Will they keep working for policy-makers (in particular current economic climate)?
- Big difference in what works for studios vs. for independents and co-productions
- Financial incentives only one part of the hot zone decision
- Need to look beyond headline figure and at “good” spend
- Exchange rate fluctuation can ruin planning
- As can competitors introducing new/improved incentives

Key competitive issues

- Exchange rate movements are always uncertain
- Government cannot control introduction of new and more valuable incentives in other countries
- Where incentives are not accompanied by mature infrastructure, cost savings are much reduced
- If an incentive can be sustained long enough to build up infrastructure, costs will eventually decrease
- EU countries have restrictions on way incentives can be structured cf non-EU countries as result of State Aid rules governing internal market – NYS studios, Canadian labour, Australian-style post support would be illegal

Thank you

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