UK Film Council

Response to the European Commission Consultation on the future of the Competitiveness and Innovation Programme

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This response is made on behalf of the UK Film Council

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Executive summary

1. The UK Film Council is the lead agency for film in the UK ensuring that the economic, cultural and educational aspects of film are effectively represented in the UK and, as part of the European Community's broader creative sector, across Europe and throughout the world. The UK Film Council will continue in this role until the British Film Institute assumes its responsibilities as the lead strategic body for film on 1 April 2011. In parallel, Film London will assume responsibilities for inward investment currently held by the UK Film Council.
2. Europe's creative industries successfully compete in a global marketplace and generate interest, attention and broader economic, social and cultural benefits for Europe (e.g. in stimulating and maintaining tourism and promoting social cohesion).
3. Whilst these comments relate principally to the European film industry, we believe they are highly relevant to many other industries in a sector that is economically significant and, critically, has the potential to grow faster than many other sectors of the European economy.
4. Unfortunately, previous EU policy has relied too much on geography, type of intervention and size as the key metrics to define its programmes of support. The needs of the Creative and Media sectors have been neglected, their access to appropriate finance has been constrained and their potential for growth, especially the potential to exploit digital technology to market and distribute content, has not been fully realised.
5. This is not to say that the scale of typical businesses is irrelevant in forming policy or that policy can't be delivered regionally. However, failure to take into account the differences between the industries and sectors that make up the European economy and distinguish their respective abilities to compete internationally and make a global impact will limit the effectiveness of EU policy and prevent Europe's creative industries from achieving their potential.
6. We therefore suggest that in framing any future CIP programme, sectoral need is used as the principal driver of action and the basis for designing all interventions. We recommend that, in framing any future CIP programme, further consultation is made on a sector by sector basis before the programme is finalised and implemented.

Supporting Competitiveness and Innovation in the European Film Industry

1. Small and medium sized enterprises that are growing, and that are operating in Europe's creative and media sectors are a vital part of the economic recovery and of the future prosperity of Europe. They already employ large numbers in high value employment. There is evidence to indicate that employment in these sectors was growing at faster rates than many other sectors and they have the potential to employ many more people in building long term sustainable industries and creating valuable intellectual property rather than exploiting physical commodities or cheap labour. The opportunities presented by digital technologies are opening up new markets for content all the time.
2. In order to continue growing, businesses need sustainable and secure sources of finance for investment and access to a more diverse range of sources of finance that suits their needs. This is particularly true of Europe's indigenous film businesses, at all points of the value chain from development of a film project to its eventual distribution, exhibition and broadcast.
3. Recent technological change, in particular the rapid development of the use of the internet as a means of viewing audiovisual content, represents a huge opportunity for European media businesses that have adequate resources to exploit it. However the short term impact of these changes had already started to disrupt and constrain the supply of finance to the European film industry before the onset of the credit crunch. There has been a marked increase in risk aversion on the part of investors since the global recession and evidence of a downturn in the budgets of independent European films. Many film businesses have therefore been affected by a 'double whammy' at a particularly important time.
4. The extent to which current market failures may constrain access to finance for some film businesses risks their future, so it is vital that an appropriate range of business finance is available for viable businesses as the economy recovers, new media markets continue to grow and opportunities for innovation arise.
5. Film is a complex industry that the majority of financial institutions struggle to understand. Dealing as it does with the creation and distribution of intellectual property, it relies on providers of finance that understand how to value, securitize and monetise such property.
6. Yet there has been significant disruption to the provision of finance to the film industry in recent years, in particular a marked decrease in the number, scale and range of providers of debt to fund film projects. We believe the European film industry, and the European creative and media sector more generally, should be one of the sectors that any future CIP programme prioritises as having considerable potential, but also of being particularly vulnerable.

7. A dynamic, growing SME (small or medium-sized enterprise) sector has the potential to make a significant contribution to economic growth. SMEs are a vital part of the European economy and play an especially significant role in creative industries such as the film industry.
8. SMEs in general have experienced greater difficulties than their larger counterparts in accessing finance primarily due to the higher risk they represent. For SMEs in creative industries these difficulties have been particularly acute.
9. SMEs suffer from long-standing challenges in accessing bank and equity finance and they have historically been a principal target of EU action, but in many parts of the EU those interventions have not benefited the European film industry, or have only benefited film industries in certain territories within the EU. There appears to be little evidence that measures adopted previously to stimulate and support the supply of finance and the promotion of innovation and growth have been effective in improving the supply of finance to or supporting the growth of film businesses.
10. EU-backed loans under the CIP-SMEG scheme are not available in the United Kingdom because there is no UK intermediary. Until very recently the European Investment Bank only supported lending dedicated principally to the French audiovisual sector. Although the recently announced MEDIA Production Guarantee Fund aims to extend the range of loan finance available to European film companies we believe this may, as currently structured, have limited impact due to a combination of uncompetitive pricing and technical barriers to implementation.
11. Because of the specialist nature of the film industry and the complex risk profile associated with investment in it, film businesses struggle to raise the finance they need to grow. The 'equity gap' facing film SMEs appears particularly wide and public sector investment in film businesses, as opposed to film projects, is nugatory. This under-investment in film businesses is reflected more broadly across Europe's entire audiovisual sector and, unfortunately, in the EU's response.
12. Every fund supported under the European Investment Fund's GIF programme falls into one of only four categories; Generalist, Clean/Green Tech, Life Sciences or ICT.
13. Generalist funds tend to be attracted to readily understandable business models in 'mainstream' sectors of the economy, especially those that offer lower risk, tangible asset backed investment. Generalist funds offer little, if any, support to the creative and media industries. Investment in Clean/Green Tech to date has, in effect, been a proxy for further investment in lower risk, tangible asset backed investment and has made little impact on the broader economy. The UK Film Council's Greening the Screen initiative offers a better model on how to positively influence behaviour in order to reduce the carbon footprint of an entire industry.
14. The prospects for Europe's Creative and Media sectors are as bright as for its Life Sciences industries, but in the context of the assistance each sector has received under the GIF programme the former are starved of support and the latter is massively over-provided.

15. The CIP's support for investment in the ICT sector has largely been limited to support for investment in internet providers and platforms, electronics, computer software and hardware.
16. Across the entire EU, out of the hundreds of investments made by the 28 funds backed by the GIF programme, there have been two investments in gaming software, two investments in TV/IPTV businesses, one investment in an internet platform that represents user generated content and one investment in a music streaming website[i]. Despite its wealth of entrepreneurial and creative talent and extremely rich heritage, there appears to have been absolutely no support for any investment in businesses that perform the core function of making intellectual property in Europe's creative or media industries.
17. The CIP programme has to date almost comprehensively failed to facilitate investment in a sector where access to finance is constrained, a sector that is an important pillar not just of the European economy but of its culture and society and a sector that offers one of the most, if not the most, potential for sustainable growth and high value employment as part of a modern, forward looking EU economy.
18. Unfortunately the constraints on the supply of finance to the film industry, like the needs of the Creative and Media sectors more generally, have not even been identified, analysed or understood sufficiently. To date, EU policy on business support appears to have been blinded by a two dimensional view of the role businesses in the European economy play. Whilst there has been adequate consideration of scale and geographical location of businesses, the particular sectoral needs of businesses have largely been ignored. CIP's European Enterprise Network is arranged principally on a geographical basis so that, e.g., in Berlin, London and Paris the only sector specific network members relate to technology, everything else is generalist in nature.
19. SMEs in the film industry, like many in the Creative and Media sectors, face global competition and face financing challenges that are unique to their industry. Many such businesses successfully compete in those global markets and substantial benefits accrue to Europe as a result. There is significant potential to achieve greater benefit if these businesses are provided with appropriate support in accessing the finance and advice they require to grow. Yet too often there has been an inherent assumption within EU policy that the needs of creative businesses competing in global markets for intellectual property can be met by measures designed to support domestic or regionally focussed businesses that employ, manufacture or distribute tangible goods. There is insufficient transparency and focus on how CIP activity supports individual sectors and industries within those regions and across the EU as a whole, this is especially true of the Information and Communication Technologies Policy Support Programme (ICT-PSP).
20. This is not to say that the geographical location or size of individual businesses in the film industry is irrelevant to their needs, but the fact that they operate in the film

industry and that industry is part of a broader European creative and media sector is a far more important factor in determining their needs and should be the most important factor in determining how the EU responds to those needs. We are also not suggesting that economic policy can't be delivered regionally or that it can't be improved by distinguishing between businesses of different sizes. However, unless it recognises the particular sectoral needs of creative and media businesses, policy will be inefficient at best and at worst will completely fail to meet the needs of those sectors, no matter how and where it is delivered.

21. There is a tremendous opportunity for the EU to frame a new CIP programme that supports sectors and industries that transcend regional and national borders and operate across the continent. In doing so it should recognise the contribution that the film industry, along with Europe's other creative and media industries, already makes to Europe's economy, society and culture and the enormous potential they have to increase that contribution. It should also recognise that, in a digital age, content is at least as valuable as carriage and any new CIP should prioritise support for Europe's core creative businesses.

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[i] Big Bang Ventures II has made 2 investments in gaming software, Innogest has made one investment in an internet platform that represents user generated content, Talde has invested in 2 Spanish TV/IPTV businesses and Creandum invested in Spotify. It is not clear whether all, or any, of these investments were as a direct result of the GIF programme's support for these funds.