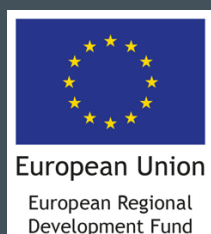


# Market Study for the Joint Film Region of Estonia, Finland and Latvia

A Study for North Star Film Alliance  
by Olsberg • SPI



This project is a cooperation venture of:



29<sup>th</sup> July 2019

OLSBERG • SPI

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## 1. EXECUTIVE SUMMARY

### 1.1. Overview of the Study

North Star Film Alliance (“NSFA,” or the “Region”) is an innovative project to explore the creation of a joint film region between the neighbouring countries of Estonia, Finland, and Latvia (Figure 1).

NSFA’s concept for a joint film Region is that the partner countries, by collaborating, will be able to develop and market a stronger collective offer with higher-quality and customer-friendly services. A stronger joint offer will enable the partners to be more successful in attracting major international film and television productions in what is a highly competitive global production market.

To this end, NSFA also wishes to explore deeper and harmonised collaboration between the partner countries through potentially combining existing production incentives and enabling increased sharing of workforce across borders.

Partners in NSFA are Estonia’s Film Services Export Alliance – the lead partner – the City of Helsinki and Riga City Council. The Production Services Export Alliance was established by Tallinn Film Wonderland, a strategic production facility project which is currently being developed. Associated partners are Business Finland, the Estonian Film Institute, the National Film Centre of Latvia and Film Service Producers Association of Latvia.

The project is strategically linked to the European Union’s Strategy for the Baltic Sea Region, namely its objectives to connect the region and increase prosperity. The latter intersects with culture and tourism, with film having significant and proven effects in both areas.

**Figure 1: The North Star Film Alliance Region**



Against this backdrop, NSFA has appointed creative industries consultancy Olsberg•SPI to undertake an independent project (the “Study”) on the offer of the partner markets and the feasibility of harmonising incentives. The Study includes two key separate, but linked, deliverables:

### **Deliverable One: Market Study (this document)**

The Market Study provides in-depth analysis of the partner markets that make up NSFA, both individually and as a potential collective market aimed at attracting foreign production. This includes the current status of the market and its offer to foreign productions, including a SWOT analysis of film production infrastructure.

It also identifies the offer of countries that would likely compete for similar kind of productions as NSFA, including key elements of attraction such as costs and production incentives.

A marketing strategy is also outlined, as well as future production trends and their relevance to the Region's ability to attract production.

### **Deliverable Two: Incentives Study (separate document)**

The Incentives Study provides analysis of the production incentive offer currently in place in each partner country, including their operation and formulation.

It then assesses the feasibility of combining the three systems into a single harmonised offer, and the potential benefits that might accrue to the Region from achieving this. It also evaluates the increase of attractiveness for financial institutions and outlines a strategy for political lobbying for the combination of systems.

Context is also provided through insight into incentive systems in competing countries.

#### **1.2. North Star Film Alliance Objectives**

NSFA has received funding from Interreg Central Baltic, with the project underpinned by the aim of increasing exports within the film production sectors in Estonia, Latvia and Finland. To achieve this, NSFA has two objectives:

- That by the year 2021, the Region will have attracted 25% more foreign film productions; and
- That at least 65 SMEs from the Region's film production sector will have benefited from servicing an international production.<sup>1</sup>

The creation of NSFA provides a platform to reach these objectives, with the assumption that by combining advantages and strengths the partners can attain a greater impact collectively than individually.

In terms of the first objective, NSFA is focused on developing a joint value proposition for the Region's SMEs and demonstrating that the Region can provide world-class services. For the second objective, NSFA is focused on connecting SMEs with possible clients for foreign markets.

NSFA has divided its activities into 3 phases:

- Benchmarking the current situation in the Region's film production sector and global future trends of film production;
- Developing a comprehensive market strategy; and
- Efficiently executing the market strategy.

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<sup>1</sup> Production is defined by NSFA as the filming of films, television series and advertisements in the Central Baltic Region.

### 1.3. Summary of Findings

#### 1.3.1. Current landscape

The landscape for progressing the NSFA concept is highly positive. The underlying global production opportunity is unprecedented, and further growth anticipated. Given size and other limitations in the Region, the concept of collaborating is also strong.

To this end, Estonia, Finland, and Latvia also have substantial experience of collaboration and co-operation at business and government levels, and there are industrial, transport, cultural and educational links between the three countries. There is political will to extend these links.

Indeed, regional co-operation is taking place across a number of sectors:

- Transport, where collaboration has included Rail Baltica, a major infrastructure project to integrate the Baltic states into the European rail network. Implemented by Estonia, Latvia and Lithuania, it includes Finland. Meanwhile, the FinEst Link project is exploring the potential of an undersea rail tunnel between Helsinki and Tallinn. Finnish and Estonian authorities signed a Memorandum of Understanding in 2016 regarding transport development;
- Tourism, with familiarisation trips being undertaken across borders;
- Culture, with regional co-operation including Latvia and Estonia – and Lithuania – establishing a joint cultural fund of the Baltic States in July 2018; and
- Digital services, with Estonia and Finland also exploring digital interoperability with regards e-Governance and national databases.

Some regional links are less established. While strong affinities exist between Latvia and Estonia, and Finland and Estonia, links between Latvia and Finland are comparatively under-developed. This may create a challenge regarding marketing the Region jointly.

The partners also have strong links to countries outside of the Region, including Finland with Sweden and Latvia with Lithuania. These can provide a strength to NSFA – such as the ability to draw on additional capacity – but it does create a challenge around marketing and incentive harmonisation.

The Region already sees crew mobility across borders. This includes inward flows to the NSFA Region – for example, with Lithuanian crews adding to capacity in Latvia – although collaboration is, to date, not formalised.

#### 1.3.2. The regional production offer

To date, the NSFA partners have had some intermittent success in attracting foreign shoots. While it has not seen the volume of larger-budget productions from the US and UK that have sited in Lithuania, the Region's clear potential to build in this area was underlined by the attraction of Christopher Nolan's *Tenet* to Estonia in 2019. According to Estonia's Ministry of Culture, this major project will undertake expenditure of €16 million in the country.<sup>2</sup>

The partner countries possess a number of key attractions for foreign producers:

- Each offers a production incentive, which would be a key consideration for any incoming producer;
- The location offer is varied and strong with some unique aspects – such as the provision of historical Soviet locations;
- English is widely spoken throughout the Region; and

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<sup>2</sup> The cash-rebate fund of Film Estonia received a one-time increase of 5 million Euros. Republic of Estonia Ministry of Culture, 20<sup>th</sup> June 2019

- Working practices and crews are flexible and effective. The fact that Latvia is not unionised, and Estonia is not unionised apart from actors, creates workforce flexibility around working hours.

### **1.3.3. Challenges**

Despite the favourable conditions there are challenges to the NSFA markets.

One key issue for the development of NSFA is whether there exists sufficient workforce and production expertise to adequately service an upturn in production. While quantitative data on crew numbers and depth do not exist across the partner countries, it is apparent that the Region has been close to capacity – particularly given some recent production rises. It is therefore important to ensure that a linked strategy for capacity development exists across the partner countries and that capacity, scale, and world-class specialisation is a priority.

In workforce terms, difference in pay scales across the Region is also a challenge for harmonising a cohesive production offer.

Provision of vocational industry training is also somewhat uneven across the region at present. While there is significant provision in Finland, for example, there is less in Latvia. A quantitative skills gap analysis should be undertaken to assess the provision of crews and expertise across the region. Through this, gaps can be identified and a robust development strategy implemented. There is potential for NSFA to assume a co-ordinating role in workforce development moving forward, and the establishment of a joint skills strategy would help this key area expand in relation to need as it develops in the Region.

Film commission provision is also somewhat uneven, both nationally and regionally. While there are strong regional commissions in Finland, there is none in Latvia and Estonia implemented a film commission in 2018. In marketing the Region, NSFA should take a central role in ensuring an offer is built and communicated that provides equitable coverage to the partner countries, but this should also ensure that efforts are co-ordinated with existing provision.

Related to this is the fact that competition within the NSFA Region will be a challenge moving forward. Competition for projects will continue across all three countries, including through existing film commissions and marketing would need to be balanced across the partners.

External competition is also a challenge. Even with a combined offer, the NSFA Region would operate in an increasingly competitive environment – underlined by an increase to the value of the Lithuanian incentive from 2019, from 20% to 30%. Meanwhile, the Romanian incentive launched in 2018 is worth up to 45%. Other destinations with competitive cost environments, such as Belarus and Ukraine, are providing further competition, although their appeal to high-end international projects is likely to be limited.

### **1.3.4. The North Star Film Alliance offer**

In the current global and Regional market context the consideration of a harmonised, cross-border production offer is highly innovative and NSFA represents a major opportunity for its partners.

Strong foundations for NSFA are provided by the fact that some producers, workers, and equipment and service providers already undertake cross-border working. There is also clear will among some key stakeholders, which reflects existing cross-border relationships and development intention across the partner countries.

The consideration of a joint film Region is a significant opportunity for the partner countries and a formalised and strategic approach to marketing could assist the partner countries in succeeding in attracting more production inflow, and ensuring that more SMEs from the Region benefit from servicing an international production.

The NSFA partner countries are not fully established hubs for international production individually. Combining the offers of each country would therefore create a stronger whole, and a collective offer would ensure that elements lacking in some countries would not be a barrier for productions.

However, one key gap is the lack of major international-standard studio facilities. Currently, major global demand for studio space is outstripping availability and there is a corresponding trend toward producers purchasing, converting or building suitable facilities. This certainly creates an opportunity for the Region to strengthen in this area, whether through the creation of purpose-built facilities or the conversion of existing industrial space for production purposes.

Finally, the potential to harmonise incentives, as outlined in a separate deliverable, could also strongly underpin the NSFA offer.

**2. INDUSTRY CONTEXT**

The consideration of a joint film region between Estonia, Finland and Latvia occurs at a time of unprecedented opportunity in the global production market.

This section provides an overview of the current opportunity and the increasing amount of film and television drama production globally.

**2.1. The Global Production Deluge**

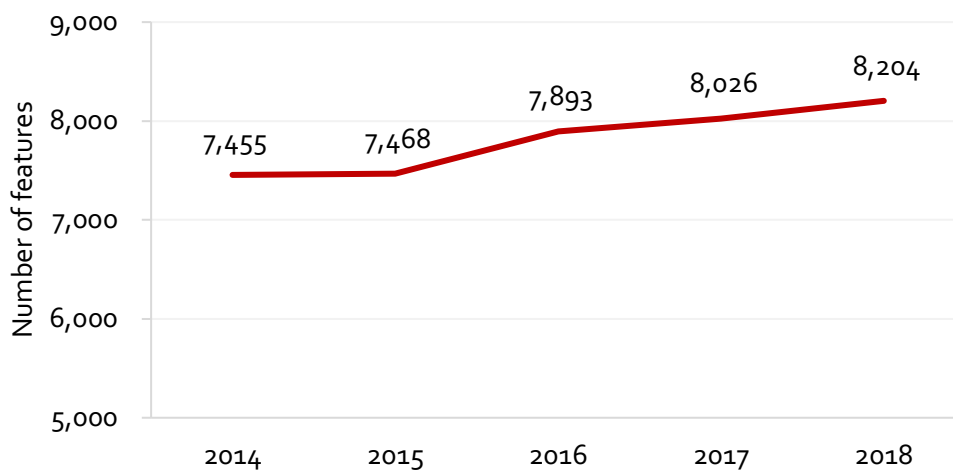
Demand for screen content from consumers has increased dramatically in recent years, matched by increased production investment from established studios and broadcasters, as well as streaming services and other recent entrants.

According to European Audiovisual Observatory estimates, the number of feature films produced annually has increased by 10% between 2014 and 2018 (Figure 2).

In 2018, the estimated number of US films made with a budget of above \$1 million was 576 – a 20% increase on 2014. Of these films, 171 titles had an estimated budget of more than \$15 million, an 11% increase on 2014.<sup>3</sup>

The number of new original scripted series being aired in the US increased by 86% between 2011 and 2018, according to FX Networks (Figure 3). For the latter, the majority of the growth is driven by on-demand services.

**Figure 2: Estimated Number of Feature Films Produced Worldwide, 2014-18**

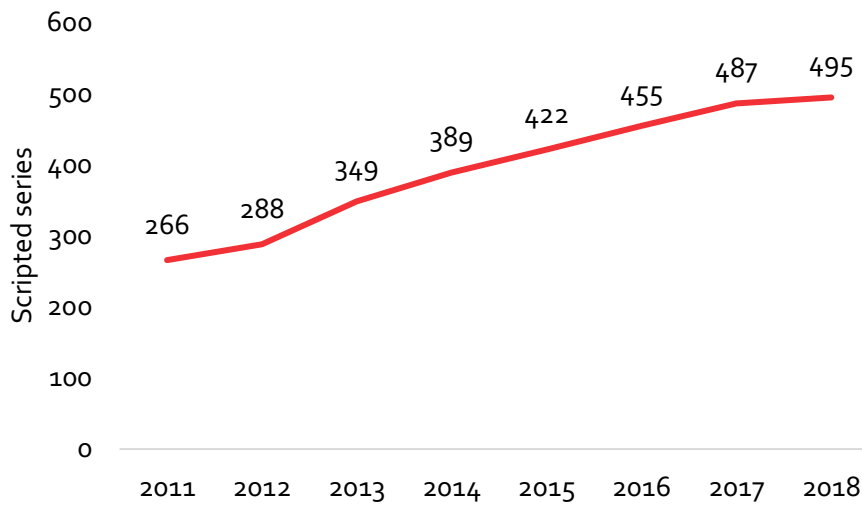


Source: European Audiovisual Observatory.

<sup>3</sup> 2018 THEME Report. MPAA.



**Figure 3: Estimated Number of Original Scripted Series, 2011-2018**



Source: FX Networks

These increases in production are driven by increased consumer spending. In 2018, combined theatrical and home entertainment spending across the world reached \$97 billion, a 25% increase since 2014. Theatrical box office increased 13% during that period, while home entertainment increased 36%.<sup>4</sup>

Across the world in 2018, the number of subscriptions to Video on Demand (VoD) services such as Netflix and Amazon stood at 613 million – a 27% increase on 2017.<sup>5</sup>

There are significant economic opportunities for countries able to attract international business: production leaving California in 2015 was estimated to be worth US\$4.6 billion.<sup>6</sup> Moreover, further opportunities are being created by commissioners focusing on producing local-language content.

**2.1.1. Outlook for global production**

The outlook for global production is currently very strong, with content investment from established studios and broadcasters joined by significant investments from producers like Netflix, Amazon Prime, HBO, and Hulu. In 2019, it is estimated that Netflix will spend \$15 billion on content, for example, with other investment estimates including \$7.9 billion from Disney Studios, \$6.7 billion from AT&T (through Warner Bros. studio) and \$6 billion from Amazon.<sup>7</sup>

Because of the reach of companies like Netflix, where subscription revenues from outside the US have overtaken US subscription revenues, the content is quickly beginning to reflect the global audience in its international scope.

For example, 2017 research by Ampere Analysis found that of 65 upcoming original Netflix productions, just under half (48%) were of non-US origin, while 21% were of European origin. Amazon and HBO are also active in Europe, operate regional offices and have invested large amounts in productions in Europe. These companies also frequently invest in European broadcaster productions.

<sup>4</sup> MPAA data

<sup>5</sup> IHS Markit

<sup>6</sup> *The Value of Global Footloose Production: An Estimate With Case Studies*. Commissioned by Ausfilm and PWC’s Entertainment and Media Practice Australia, 2018

<sup>7</sup> *Dare to Stream*. Variety Intelligence Platform, 7<sup>th</sup> May 2019

### 3. PRODUCTION INFRASTRUCTURE ANALYSIS

This section outlines the results of research undertaken into the production offer in the NSFA partner countries.

For each country, a SWOT analysis is included, which outlines key aspects of the current production offer. These make particular reference to factors that might assist in attracting international production – or prove to be a hurdle to achieving this objective.

A collective SWOT analysis for the NSFA Region is also provided, as well as insight into how the Region delivers on generic factors that international producers would commonly consider when choosing where to site their productions.

#### 3.1. The Production Location Decision and the North Star Film Alliance Region

A wide range of factors can come into play when producers are considering where in the world would be most beneficial to place a project. This is known as the production location decision.



Factors include creative, financial, and logistical – and the interaction of these is also an important consideration for producers.









For some projects, specific elements will be more important than others. For example, some projects may require very specific locations, while for others the financial benefits of an incentive can be the primary driver.

Typical factors in the production location decision are outlined below, along with their relevance to the Region and how the Region delivers in each area – including whether the factor is project-dependent.

It should be noted that the findings regarding the strength of the NSFA Region’s offer in Table 1 are based on SPI analysis and consultations with industry rather than quantitative data. While some areas, such as the Region’s locations offer, are subjective and project-dependent, there is a lack of equivalent data across the partner countries to adequately measure areas such as workforce capacity.




**Table 1: Analysis of the NSFA Offer and the Production Location Decision**

Generic Factor	Considerations for NSFA Region	Strength of NSFA Region’s Offer
1. The creative specifics and requirements of the project	This is typically project-dependent. While the NSFA partners will clearly not compete for certain locations – such as deserts – the Region does offer urban, rural, coastal, and snow locations. The ability to double for Russia is a particular strength	
2. Actual line item costs, before the incentive is taken into account (talent/crew/supplier rates/all production costs)	Costs across the Region can differ significantly, and some competitors may be cheaper. For major international productions, the ability to access Regional workforce and services is attractive, so long as it does not add cost	

3. Effect (and ease) of an incentive in reducing costs	All partner countries offer incentives. Global competition in this area is very strong with 97 automatic incentives on offer at country, state, and province level at May, 2019 <sup>8</sup>	
4. Variety, accessibility and originality of desired locations (if locations-based)	The Region has a broad locations offer, though lacks certain elements such as mountainous terrain	
5. Quality and availability of physical production facilities and post-production infrastructure	The Region lacks major studios. The Finnish post and VFX offer is considered to be well developed	
6. Availability and quality of talent, crew and workforce	The Region does have a production workforce, though the depth of the workforce is unclear <sup>9</sup>	
7. Practicalities of basing in an area (parking, congestion, demographics, weather)	This factor is project and location dependent. However, the NSFA partners are well developed production markets, and contain a range of local service providers to handle practicalities and manage the logistics of a production	
8. Ease of filming and film commission/office support	The Region is not known for being problematic, though film commission provision is variable. While Finland has an existing film commission network, with marketing through the Filming in Finland banner, Latvia has no national film commission. Estonia launched a new film commission in 2018	
9. Quality and availability of road/rail and air networks	The Region is very well provided for in this regard	
10. Communications and lifestyle infrastructure (hotels, restaurants etc.)	The offer here is very good across the Region, particularly in major urban areas	

<sup>8</sup> *Global Incentives Index*. Olsberg•SPI, May 2019

<sup>9</sup> There is a lack of quantitative data on workforce and infrastructure capacity across the Region. It is suggested that quantitative mapping and a skills gap analysis should be undertaken to properly map crew provision across the Region so that gaps can be identified and a development strategy implemented

11. Fluctuations/stability of exchange rates	All partners use the Euro	
12. Personal preferences of key talent and production personnel	All partners are established tourism destinations with potential appeal to key talent	
13. Safety and security	This is not an adverse issue in the region	

### 3.2. Market Overview: Estonia

The Estonian market, like the other NSFA partner countries, has significant potential. This is underlined by the production of Christopher Nolan’s *Tenet* in Estonia. In June, 2019, the Estonian Ministry of Culture announced that the project would undertake €16 million of expenditure in the country.<sup>10</sup>

Estonia offers a cash rebate and an innovative business environment for international investors – with Estonia’s start-up economy recognised globally. The country’s e-residence programme enables entrepreneurs to start a trusted location-independent EU company online.

Meanwhile, the appointment of a new film commissioner at the Estonian Film Institute in 2018 is also a very positive development.

Estonia contributes a number of key strengths to the NSFA offer, including its locations, business environment, and reputation for digital innovation. The potential development of Tallinn Film Wonderland would also be a significant additional strength for Estonia and the NSFA Region, given the current lack of international-standard sound stage facilities across the partner countries.

**Table 2: Estonia Production Infrastructure SWOT Analysis**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Existence of a production incentive</li> <li>• Natural, medieval and Soviet-era locations, and locations that can double for Russia</li> <li>• Innovative business environment</li> <li>• World-renowned strength in animation</li> <li>• Not unionised, apart from actors. This creates workforce flexibility around working hours</li> <li>• Two regional funds</li> <li>• Major (“A-list”) regional film festival in the Tallinn Black Nights Film Festival</li> <li>• Easy to move quickly around all of the country</li> <li>• Stable and secure</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Lack of major studio (though this could change)</li> <li>• Weak transport connections to key target markets, such as Asia and the US</li> </ul>

<sup>10</sup> The cash-rebate fund of Film Estonia received a one-time increase of 5 million Euros. Ibid.

<p><b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>• Potential to leverage Estonia’s strong global reputation as a hub for innovation</li> <li>• Flexible, digital services: easy to set up a Special Purpose Vehicle (SPV)</li> <li>• Not heavily featured on screen to date; potential to build screen tourism impacts</li> <li>• Easy to move quickly around all of the country</li> <li>• New film commissioner from 2018</li> <li>• The Baltic Film, Media, Arts and Communication School at Tallinn University offers potential for skills development</li> </ul>
<p><b>Threats</b></p>	<ul style="list-style-type: none"> <li>• Potential loss of momentum if production levels not sufficiently consistent</li> <li>• Lack of crew capacity to handle several productions simultaneously because of lack of continuous production throughput</li> <li>• Some linked crew cost rises identified</li> <li>• Competition from neighbouring countries with similar locations and incentives</li> </ul>

**3.3. Market Overview: Finland**

The largest market in the NSFA Region, Finland has a strong locations offer – particularly in its range of natural and winter locations – a developed post and VFX sector and strong training capabilities.

The country introduced an incentive in early 2017, which has attracted interest – although it is yet to see significant international usage of the kind of projects NSFA aims to attract.

There is a perception that Finland has the Region’s highest costs and there are cost-related production flows from Finland to Latvia, particularly in the commercials sector. This will be a challenge for market harmonisation across the Region.

Nevertheless, Finland contributes a number of strategic strengths to the NSFA offer. This includes locations, with the country offering dependable snow in the North, which the other partner countries are not able to replicate. Strong post and VFX capabilities – again, not replicated to the same degree by Estonia and Latvia – creates potential to extend the Region’s offer beyond principal photography.

Finally, Finland’s well-developed provision of film and television education make it a key strategic member of NSFA. Particularly relevant is the need to identify skills gaps and build industry-facing skills across the Region: Finland has a number of institutions that could take a proactive role in building provision, potentially in collaboration with similar institutions in Estonia and Latvia.

Finally, Finland has the Region’s most developed film commissions – at regional level – and their marketing expertise, insight and contacts will be very valuable.

**Table 3: Finland Production Infrastructure SWOT Analysis**

<p><b>Strengths</b></p>	<ul style="list-style-type: none"> <li>• Existence of a production incentive</li> <li>• Strong locations offer including modern urban, historical, and natural landscapes. The latter includes dependable snow – unique in the Region</li> <li>• The Region’s most developed post and VFX sector</li> </ul>
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	<ul style="list-style-type: none"> <li>• Developed and specialised film training institutions</li> <li>• Good transport connections to Asia</li> <li>• Existing film commission expertise</li> <li>• Finnish Film Affair a key event that attracts foreign producers</li> <li>• Easy to move quickly around all of the country</li> <li>• Stable and secure</li> <li>• Ease of access for drone filming</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Lack of major studio</li> <li>• Cost base higher than Estonia or Latvia</li> <li>• While Finland’s 7 regional film commissions can be seen as a strength, it is a decentralised network and there is a lack of national strategic collaboration and co-ordination, with challenges for marketing and administration</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Not heavily featured on screen to date: potential screen tourism impacts</li> <li>• Finnish Film Affair can be leveraged for producer familiarisation tours</li> <li>• Strong educational sector offers potential to take strategic lead on skills development for the Region</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Lack of crew capacity to support rapid expansion of production</li> <li>• Potential loss of momentum if production levels not sufficiently consistent</li> <li>• Perception of high costs</li> <li>• Competition from neighbouring countries with similar locations and incentives</li> </ul>

### 3.4. Market Overview: Latvia

With comparatively low costs and both national and Riga city incentives, the Latvian market has seen some positive development in recent years. As with Estonia, centenary celebrations have brought additional funding – over €9 million in 2017, the highest since independence – but have also revealed some issues around crew depth, as well as some cost rises. For example, while the art department is considered to be strong, Latvia is lacking in areas such as editors and first ADs.

The fact that Latvia’s incentive budget was used up in 2018 points to rising production demand. Latvia has also been attracting foreign projects – including from the Netherlands, France, Asia, the UK, Sweden and Germany.

**Table 4: Latvia Production Infrastructure SWOT Analysis**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Existence of national and Riga city incentives, which can be combined for significant value of 50% of costs</li> <li>• Locations offer with modern and historical urban locations. Soviet-era locations and places that can double for Russia are a strength. This includes unrenovated / unspoiled historical locations</li> <li>• Relatively low production costs</li> <li>• Good air transport links</li> <li>• Latvia not unionised, with workforce flexibility around working hours</li> </ul>
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	<ul style="list-style-type: none"> <li>• Riga Film Studio provides a medium-size shooting option, but not a major international-standard facility</li> <li>• Easy to move quickly around all of the country</li> <li>• Stable and secure</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Lack of major studio</li> <li>• No national, standalone film commission</li> <li>• Lack of crew and equipment depth – projects will typically import elements of both</li> <li>• Lack of post capability</li> <li>• Riga Film Fund’s budget was only recently confirmed for 2019</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Not heavily featured on screen to date: potential to build screen tourism impacts</li> <li>• Potential for the training providers such as the National Film School of the Latvian Academy of Culture to provide skills development</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Lack of crew capacity to support rapid expansion of production</li> <li>• Potential loss of momentum if production levels not sufficiently consistent</li> <li>• Competition from neighbouring countries with similar locations and incentives</li> </ul>

### 3.5. Market Overview: North Star Film Alliance Region

Combining the offers of the NSFA partner countries into a cohesive marketing message would strengthen the Region.

However, this does create a number of challenges. These include the creation of a model that can equitably deal with the production partners and the existing film commission networks – while providing additional services where none exist, or assisting in the creation of such services.

Crew capacity and crew depth is already an identified challenge for the NSFA partners, and will only become more pronounced if NSFA is successful in attracting a higher volume of international productions. Indeed, lack of capacity could quickly become a damaging problem for the Region if it cannot adequately service projects that are attracted.

Improving insight into cross-border skills gaps and implementing a strategy to meet these skills challenges will therefore be critical. This should include consideration of the production models likely to be used by major international productions. For example, crews in the Region may multi-task currently, reflecting the flexibility required in production. However, large budget projects expect specialisation and standardisation in the production process.

There are also different pay scales across the region, which creates a challenge for harmonisation.

Non-NSFA partner countries in the Region also provide a challenge going forward. Lithuania is a key competitor for projects, having successfully hosted projects such as HBO’s *Chernobyl* and the BBC’s *War and Peace*, with both projects reported to have spent €7 million each in Lithuania.<sup>11</sup> The country increased its incentive from 20% currently to 30% in late 2018 and it is

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<sup>11</sup> *Producer: HBO project will leave at least EUR 7 mln in Lithuania.* The Baltic Course, 28<sup>th</sup> July 2017

conceivable that it could be a destination for crews from Latvia, which could be problematic as the NSFA Region develops.

**Table 5: North Star Film Alliance Region Production Infrastructure SWOT Analysis**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• All three partner countries are in the European Union</li> <li>• All partners operate production incentives</li> <li>• Joint location offer is strong across built historical and urban and natural locations; strong ability to double for Russia</li> <li>• Ability to utilise additional capacity from other partners</li> <li>• Good Regional transport links to target markets</li> <li>• Easy to move quickly around the Region</li> <li>• Stable and secure</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Lack of major studio</li> <li>• Uneven film commission landscape</li> <li>• Lack of crew and equipment depth</li> <li>• Some administrative misalignment: Finnish and Estonian filming permits are undertaken digitally; Latvia's are not</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Not heavily featured on screen to date: potential to build screen tourism impacts</li> <li>• Creation of Tallinn Film Wonderland studio would assist in attracting production</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Lack of crew capacity to support rapid expansion of production</li> <li>• Potential loss of momentum if production levels not sufficiently consistent</li> <li>• Competition from neighbouring countries with similar locations and incentives</li> <li>• Skills provision is uneven and lacking a coherent strategy</li> <li>• Lack of skills organisations creates a challenge for identifying gaps and co-ordinating development of crew</li> <li>• The Lithuanian market, which has increased the value of its incentive</li> <li>• Differing pay scales across the region</li> <li>• Lack of banks and providers offering incentive-related finance</li> </ul>

### 3.6. Existing Affinities Inside and Outside the Region

There are existing affinities between the NSFA partners, although it should be noted that these are most developed between Latvia and Estonia, and Estonia and Finland. In comparison, industry relationships between Latvia and Finland are comparatively under-developed.

This does create a marketing challenge in that those in the Latvian and Finnish industries may not have full knowledge of the other industries, and underscores the need for a central NSFA marketing function.

Additionally, there are strong links to countries outside of the NSFA partners, including Finland and Sweden, and Latvia and Lithuania. This can be a strength – e.g. Latvia can draw labour capacity from Lithuania. But it does create a challenge in considering the harmonisation of incentives and whether this ability would be limited.



#### 4. KEY COMPETITORS FOR PRODUCTION

In aiming to increase production inflows, the NSFA partners face global competition with nearly 100 automatic production incentives on offer at country, state, and province level. This section provides a summary analysis of countries that should be considered key competitors.

While the field of competitor countries is potentially very broad – and, indeed, global – the principal competitors identified with input from NSFA are:

- Hungary;
- Lithuania;
- Norway;
- Poland;
- Romania; and
- Sweden.

These key competitors includes countries with a similar size and locations offer that are much further developed in terms of attracting international projects, such as Hungary and Lithuania. Both routinely attract productions of the kind NSFA is aiming to draw to the Region from major international broadcasters, Studios, and independent producers.

These countries may compete with NSFA because of their production landscape, similar locations offer, geographical proximity, or proven ability to attract international production.

Others, such as Romania, are less established but are implementing ambitious plans to grow the market. Indeed, data from Romania underline the degree of usage its new incentive – introduced in 2018 – has stimulated. In total, Romania’s production incentive attracted 41 applications between October and December 2018, and a further 37 applications in 2019 as of 18<sup>th</sup> July.<sup>12, 13</sup>

All of these competitors currently offer incentives, apart from Sweden where there have been moves to create a system. While this may not be implemented immediately, it would represent competition for NSFA given how advanced the Swedish industry is, and a competitive natural location offer. In the meantime, Sweden has recently seen the launch of a regional filming incentive. In 2019, the Västra Götaland Production Rebate Program (VGPR) was launched by regional funder Film i Väst, which will operate the incentive. The VGPR offers a 30% rebate on eligible production and post-production costs and was operational from 7<sup>th</sup> March, 2019. The deadline for the first round of applications was 31<sup>st</sup> March, 2019. Eligible productions must have a total budget of SEK40 million for films, or SEK8 million per hour for series. Local qualifying costs for both films and series must be at least SEK5 million, or SEK3 million for post-only applications.<sup>14</sup>

##### 4.1. Competitor Incentive Comparison

It should be noted that the NSFA partners do not currently offer the highest value incentives in the Region.<sup>15</sup>

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<sup>12</sup> *Projects submitted under the state aid scheme to support the cinematographic industry. December 28th, 2018 - updated on March 4th, 2019.* National Commission for Strategy and Prognosis

<sup>13</sup> *Projects submitted under the state aid scheme for supporting the cinematographic industry (session 2019) as of July 18th, 2019.* National Commission for Strategy and Prognosis

<sup>14</sup> *Regulations for The Region Västra Götaland Production Rebate Program, VGPR.* Film i Väst, 2019.

<sup>15</sup> The marketing of the Region’s wider production strengths is therefore important, alongside the marketing of the incentive systems

The table below presents competitor incentives based on their lowest available rebate value. Romania's incentive is actually worth up to 45% for certain projects – significantly higher than Latvia's basic 20%. Lithuania's was recently increased to 30% from 20% from 2019.

Regional incentives, including the new Västra Götaland Production Rebate Program, are not included.

**Table 6: Analysis of Competitor National Incentive Offer**

Country	Type	Value	Per-project cap	Annual budget	Above-the-line eligibility
<b>Hungary</b>	Rebate	30%	None	€104 million in 2019 <sup>16</sup>	Eligible
<b>Lithuania</b>	Tax shelter	30%	None	Investment-based	Not eligible
<b>Norway</b>	Rebate	25%	None	€7 million in 2019	Not eligible
<b>Poland</b>	Rebate	30%	€3.5 million	€46 million	Not eligible
<b>Romania</b>	Rebate	35%	€10 million	€50 million	Not eligible
<b>Sweden</b>	-	-	-	-	-

#### 4.2. Studio Analysis

Beyond incentives, the presence of a studio is a key competitive element. While a sound stage is planned in Tallinn, the NSFA Region lacks a major international-standard facility, though productions may be able to utilise smaller sites such as Riga Film Studio.

All competitor countries offer studios, apart from Norway, with Hungary having the most internationally-successful facility. Most of the studio facilities are near to major cities in the comparable countries, meaning productions are able to switch between urban on-location shooting and indoor shoots

<sup>16</sup> It is likely that it is likely that HUF 8 to 10 billion will be left over from the 2018 budget that can also be utilized in 2019. *Changes to the Hungarian film legislation from 2019*. OrientTax, 20<sup>th</sup> December, 2018

Figure 4: Competitor Studio Analysis

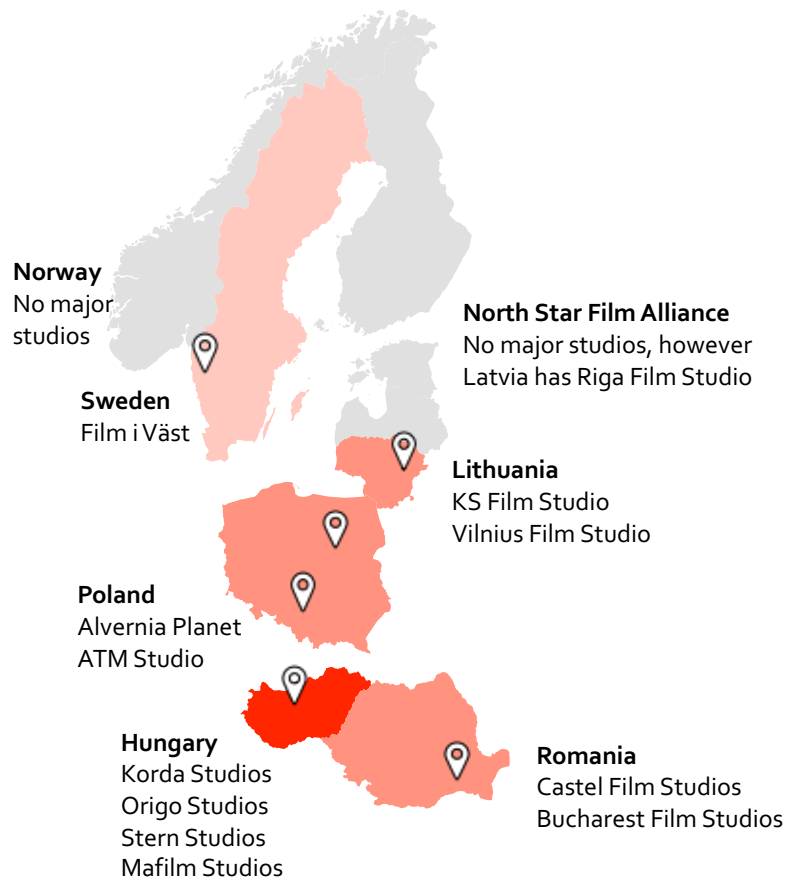


Table 7: Comparison of Major Studios in Competitor Countries

Country	Studio	Stages	Extra	Productions
Hungary	Korda Studios	9 sound stages (1000-6000m <sup>2</sup> ); 10x10x4m water tank	15 hectares of empty backlot; 10 hectare backlot sets; 2800m <sup>2</sup> office space; 7000m <sup>2</sup> warehouse and workshop space	<i>Blade Runner 2049; Inferno; Marco Polo; The Martian</i>
	Origo Studios	9 sound stages totalling 18,000m <sup>2</sup>	4 hectare backlot; 3,700m <sup>2</sup> office space; 4,500m <sup>2</sup> warehouse space	<i>Blade Runner 2049; Atomic Blonde; Inferno</i>
	Stern Studios	4 sound stages (200-2200m <sup>2</sup> )	650m <sup>2</sup> offices; 2600m <sup>2</sup> workshops/ storage; 580m <sup>2</sup> catering; 380m <sup>2</sup> dressing rooms	<i>Don't Breathe; Nutcracker in 3D; The Lady Vanishes</i>
	Mafilm Studios	2 sound stages (1070+1620m <sup>2</sup> ) and TV studio	Outdoor green screen; 1200m <sup>2</sup> workshop space; office space	<i>Spy; Eragon, The Boy In the Striped Pyjamas</i>

<b>Lithuania</b>	KS Film Studio	3 sound stages (1000m <sup>2</sup> )	4 hectare backlot; 1000m <sup>2</sup> offices, 2000m <sup>2</sup> workshop,	--
	Vilnius Film Studio	Single 1100m <sup>2</sup> sound stage	350m <sup>2</sup> green screen floor space; wardrobes; meeting rooms and offices	--
<b>Poland</b>	Alvernia Planet	14 sound stages (12,800m <sup>2</sup> including glazed corridors)	7 terraces (3000m <sup>2</sup> ); 1 roofed square; 12 hectare backlot; 180 permanent (up to 1000 temporary) parking spaces	<i>Burning Bush; Bhaag Milkha Bhaag; Essential Killing</i>
	ATM Studio	6 sound stages (500-1500m <sup>2</sup> )	Storage facilities; dressing rooms; production rooms; VFX	--
<b>Romania</b>	Castel Film Studios	10 sound stages (600-3350m <sup>2</sup> ); 20x10x4m water tank	26 hectare backlot; multiple standing sets; offices; dressing rooms; workshops; storage	<i>Borat; The Nun; The Sisters Brothers; What Happened To Monday</i>
	Bucharest Film Studios*	19 sound stages (390-2180m <sup>2</sup> ); 4 water tanks	40 hectare backlot with multiple standing sets;	<i>Deus Ex Machina, Chosen</i>
<b>Sweden</b>	Studio Fares	1 sound stage (1100m <sup>2</sup> )	Stage workshop; storage; production offices; dressing rooms; catering	--

### 4.3. Competitor Analysis

#### 4.3.1. Hungary

Hungary has established itself as a major production hub for international productions, with a favourable currency value, low labour costs, and international-standard sound stages. As one of the first Eastern European countries to offer an incentive, Hungary's service industry now benefits from having forged strong relationships with foreign producers, and can now service even the very largest US Studio productions.

The national incentive consists of a 30% cash rebate, which is in place until 2024. Above-the-line expenses are eligible under this rebate – a key element of attraction.

The volume of production spend reportedly reached \$400 million in 2017, and the country attracts major international film and television shoots such as the sixth *Terminator* film, *Red Sparrow* (for which Budapest filled in for Helsinki), *Blade Runner 2049*, and *The Martian*. The major studios in Hungary are Korda Studios, Origo Studios, Stern Studios and Mafilm Studios.<sup>17</sup>

#### 4.3.2. Lithuania

Lithuania is both a good example of the fact that major production can be attracted to the Region, and also a strong competitor due to its incentive system, low labour costs and the

<sup>17</sup> Hungary Raises Production Incentive from 25% to 30%. Variety, 18<sup>th</sup> July 2018

contacts that the service production sector has with major foreign producers. It has a proven ability to service productions and is successful in attracting significant high-end television drama projects.

From 2019, Lithuania's competitive edge was sharpened further with an increase of its incentive from 25% to 30%. According to the Lithuanian Film Centre, expenditure on film production was €45 million in 2018.<sup>18</sup>

Productions serviced have included *War & Peace*, *Chernobyl* and *Bordertown*.

#### 4.3.3. Norway

Historically, though a number of larger productions have shot in Norway – often for its striking landscapes – it is often only the second unit crew which is required to shoot there, or it is only used for brief sequences. This was the case with *The Danish Girl*, in which one scene utilised a Norwegian backdrop, and *Harry Potter And The Half-Blood Prince*, where a second unit filmed a sequence in Norway.

In 2016, Norway introduced a new rebate incentive, worth 25%. While the incentive has assisted in attracting productions it has a relatively limited annual budget, which can restrict impact to a few productions.

As an example of this, a significant proportion of the system's 2019 budget of €7 million in 2019 (NOK 67 million) was used up by an application for the next Bond film – which was granted €4.84 million (NOK47m).<sup>19</sup> In this way, a cap is a weakness as it limits potential to service other projects. (Latvia and Finland also have budgetary caps on their incentives – with Finland's larger than Norway, at €10 million. Estonia's is uncapped, giving it a competitive advantage in this regard.)

Other productions to shoot in Norway include *The Snowman*, *Ex Machina* and *The Golden Compass*.

Norway does lack a studio, which is a significant competitive disadvantage.

#### 4.3.4. Poland

Poland is a competitive production destination, attracting foreign projects with talented, experienced crews. Poland is also competitive in terms of the locations it can offer – for example, Soviet-era locations and a look that can double for contemporary Russia. Productions serviced include *Bridge of Spies*, *Zero Dark Thirty* and *The Chronicles of Narnia*.

The country introduced a 30% cash rebate in early 2019 which will further add to its competitiveness. The Government has made available up to €46 million a year for the rebate, and a number of service companies are already heavily marketing its availability to foreign producers. There is a cap of €3.5 million per project.

Poland has two major studios, Alvernia Planet and ATM Studios, which primarily attract European productions.

#### 4.3.5. Romania

Romania is a key emerging competitor to the NSFA Region. In 2018, it was announced that a 35% rebate would be introduced for foreign productions, with an increased rate of 45% possible. This is higher than any of the NSFA partners. Prior to this, and despite being able to

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<sup>18</sup> Lithuanian tax incentives for film production successfully raised to 30%. Lithuanian Film Centre, 12<sup>th</sup> December 2018

<sup>19</sup> Latest Bond film gets largest NFI tax incentive ever towards filming in Norway. Nordisk Film & TV Fund, 25<sup>th</sup> January 2019

offer low labour costs, Romania struggled to attract big-budget studio productions with the last major shoot *Cold Mountain* in 2003.

Romania's incentive comprises a 35% rebate, with an additional 10% if the production explicitly promotes Romania. It has a €50 million annual budget and a €10 million per project cap and initial legislation means it will last until the end of 2020.

The major studios are Castel Studios and Bucharest Film Studios both of which are large and well-equipped studios. The latter reportedly filed for insolvency in 2018.<sup>20</sup>

Productions serviced include *The Romanoffs*, *Killing Eve*, *Borat*, *The Nun*, *The Expendables 3* and *War Dogs*.

#### **4.3.6. Sweden**

Sweden has struggled to attract high-budget footloose projects because it does not have an incentive, although regional funding is able to attract significant co-productions.

While Sweden offers a significant talent base, infrastructure, selective funding and facilities it does not have a national incentive. However, one is likely to be introduced in the coming years and the country's competitiveness has increased with the introduction in 2019 of the Västra Götaland Production Rebate Program (VGPR). Launched by regional funder Film i Väst it offers a 30% rebate on eligible production and post-production costs and was operational from 7<sup>th</sup> March, 2019.

Studio Fares in Trollhättan is Sweden's only major studio. Productions serviced have included *The Girl in the Spider's Web*, *The House That Jack Built*, *The Wife*, and *Independence Day*.

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<sup>20</sup> *Bucharest Film Studios Insolvency*. Film New Europe, 4<sup>th</sup> May 2018

## 5. PRIORITY MARKETS FOR REGIONAL STRATEGY

### 5.1. Overview

This section provides an assessment of the countries outside Europe that could provide a course of increased production activity to the NSFA Region. It also suggests key messages that should underpin such a marketing strategy.

In its Interreg application, NSFA defined new markets as being outside the European Union / European Free Trade Area, namely: Canada, South Korea, the US, Japan, China, and Russia.

While these should indeed be considered primary territories for the attraction of projects, SPI also proposes that Europe should be considered a focus for NSFA marketing efforts given the potential here, and the fact that NSFA partner countries have already serviced international projects or worked on co-productions from major European markets like France and Germany.

Such existing relationships can be leveraged to increase production in the short term while partners also build links with less established markets.

Targets for NSFA should also be reviewed and updated regularly.

### 5.2. Targets for North Star Film Alliance Marketing Strategy

Key priority countries, or export targets, that could provide production to the NSFA partner countries are outlined below. Unless otherwise noted, the production opportunity is primarily related to series and feature films.

For all priority export countries, the NSFA's unique selling points relate to its locations, cost base and incentives landscape. Locations will be a particular focus when selling the Region to major broadcasters and features – particularly historical Soviet-era locations, and the ability to double for contemporary Russia. Natural locations, including forests, coastline, islands and wintry locations, will also be a strong selling point.

#### 5.2.1. US

The US is the major source of globally mobile film and episodic content production, focused on territories that offer cost-effectiveness, incentives, locations and crew and infrastructure capacity. While competition for US projects is intense, the US should nevertheless be a key target for a marketing strategy. Investment in footloose production by US companies is significantly increasing due to Over-the-Top (OTT) services and will continue to do so; due to both well-established services like Netflix and Amazon, as well as producers such as Disney, Warner and NBC/Universal.

The US should also be a central focus because of the fact such content investment will continue into the coming years, and the fact that production decision makers are actively looking for global hubs that provide an effective mix of locations, incentives, and production solutions.

Realistically, the Region would not compete with established hubs like the UK, Canada and Hungary for full-service feature films (though it could certainly service elements of such shoots – as shown by the production of Christopher Nolan's *Tenet* in Estonia). Attracting high-end drama productions for traditional broadcasters and streaming services is also possible. Indeed, there is a clear production opportunity in this area, given the current high levels of investment.

#### 5.2.2. UK

A significant producer, particularly of television drama, with a proven interest in international production markets – driven by cost savings and locations. Post-Brexit, the UK will remain a member of the European Convention on Cinematographic Co-Production (a Council of Europe instrument) and its appetite for international co-operation, including with EU territories, is likely to remain strong.

UK broadcasters have sited productions in Lithuania – such as the BBC's *War and Peace* – and such projects would be key targets, as well as independent feature films.

### **5.2.3. Japan**

Some interest in the Region from Japanese producers is already evident, particularly in Latvia, Finland (where a Japanese project has accessed the Finnish incentive) and Estonia. The latter has strong cultural links to Japan. There are strong air connections to Asia through Helsinki.

### **5.2.4. South Korea**

A very strong Asian market, South Korea saw 454 national films released in 2018.<sup>21</sup> Interest is evident, with a South Korean project shooting in Latvia and there has been interest in the Finnish incentive. This underlines the fact that South Korea is a realistic target market for NSFA.

South Korea also has a strong animation industry which provides potential opportunities in that sphere. The EU's Free Trade Agreement with South Korea includes a Co-Production Protocol but this appears to have been barely used. There are good connections to Asia through Helsinki.

### **5.2.5. Russia**

There is interest in Latvia and Estonia among Russian producers for locations, as well as for Russian-speaking crews. Interest in the Region has been returning in recent years.

### **5.2.6. France**

This major and well-funded market, which produced 300 features in 2018, is a regular international co-producer and has already brought projects to the Region.<sup>22</sup> France has co-production treaties in place with Estonia and Finland. A French project has accessed the Finnish incentive.

### **5.2.7. Germany**

Like France, Germany is also a developed and well-funded market that produced 247 features in 2018.<sup>23</sup> It also has a strong high-end television sector and has brought projects to Latvia.

### **5.2.8. Canada**

Canada is a regular co-producer with Europe and has official co-production treaties with all three NSFA partners. It is also a member of Eurimages. In the 2017-18 fiscal year, Canada produced 105 feature films, with total production investment of €207 million (C\$303 million).<sup>24</sup>

### **5.2.9. China**

The Chinese industry produced 1,082 features in 2018 and its rapid growth means that it should be included in NSFA's marketing strategy.<sup>25</sup> There are strong air connections to Asia through Helsinki, and interest in regional incentives. Estonia and China signed a co-production treaty in 2016 and a Chinese project has accessed the Finnish incentive.

### **5.2.10. India**

A major global producer – although the majority of films do not have major budgets – Indian productions utilise European locations which in turn can bring major tourism benefits. There is

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<sup>21</sup> *Focus*. European Audiovisual Observatory, 2019

<sup>22</sup> *Ibid*

<sup>23</sup> *Ibid*

<sup>24</sup> *Ibid*

<sup>25</sup> *Ibid*



some government interest in Latvia in the Indian market, and some interest in the Region is evident, with an Indian project having shot in the country.

### 5.3. Marketing Strategy

#### 5.3.1. Key messages

Marketing NSFA to these targets should be underpinned by a cohesive and unified marketing strategy. This should include the following key elements:

- **Incentives.** Given the importance of incentives in attracting production, this should be a central message. The overall value, the key points of each system, and ease of use should be underlined;
- **Competitive cost base,** including the role of incentives in making the Region cost-effective;
- **Locations.** This is a key element of appeal across all of the partner countries, with an attractive linked location offer that uniquely spans winter, Soviet, medieval, forest, coastal, urban and other sites. Soviet-era locations, and locations that can double for contemporary Russia are particular selling points;
- **Quality and flexibility of workforce;**
- **Innovation.** The fact that the NSFA project is a highly innovative solution and attempt to create a competitive production offer by combining strong elements of each partner country should be underlined. That the NSFA Region offers an emerging alternative to other, busier, international hubs should also be underlined – particularly to US production decision-makers – although expectations around workforce and capacity need to be carefully managed;
- **Ease of access and flexibility.** While the NSFA concept is unique, there may be uncertainties around what it would mean from a production perspective. Marketing should underline the ease of access – i.e. frictionless production services and crews across the Region; and
- **Global position.** Marketing should make clear where the NSFA Region is, and the strength of this, since potential clients that may not be closely familiar with its specific location.

#### 5.3.2. Delivery

Clearly, a marketing strategy should be developed with the input and the support of all NSFA partners, to ensure buy-in and agreement on messaging and delivery.

A marketing strategy would ideally be undertaken by a central unit or individual. However, it may be challenging and expensive to set up a new company to deliver the marketing element, so a co-ordination of marketing should be formalised.

This should involve a memorandum of understanding between the partners, setting out procedures for co-ordinating marketing and events efforts, potentially overseen by a committee that involves representatives from the partners.

Marketing should be undertaken digitally and in person – particularly in the US market, where many other jurisdictions are competing for the attention of decision-makers. In digital terms, a centralised online portal should be created and function as the key method of disseminating information about the Region, its offer and services. This should provide information, guide enquiries and deliver marketing messages. A logo and branding should also be created.

In-person marketing should also be undertaken by representatives from the partners. In particular, NSFA should engage directly and in-person often with key production decision-makers at US Studios, broadcasters and streaming services and with representatives of all target countries. Joint NSFA events should also be held at key festivals and industry events, ideally involving film commissions.

Given the need to put the Region on the map, a marketing strategy should be highly proactive and should include familiarisation tours for international producers and decision makers – particularly from US broadcasters and streaming services. These would be the source of the type of high-end episodic content that could be attracted to the Region.

NSFA should also work with key regional events such as the Black Nights Film Festival in Tallinn and the Finnish Film Affair to identify key international producers to target. It should also look to bring other producers to the Region. Any familiarisation trip could include sessions with incentive authorities so that producers are able to discuss and have any questions or concerns answered.

Key European and North American trade press should also be a focus, underlining the innovative, unique and ambitious nature of the NSFA project.

In addition to the territories previously identified, the marketing strategy should also be aimed at alerting investors, banks, and other providers of finance of the new NSFA opportunity. Any additional capacity for cashflowing the incentives or providing other financial projects would be very attractive for incoming producers.

One challenge for the partners will be developing and delivering a marketing strategy alongside existing marketing undertaken by the Region's film commissions. In marketing three countries, the NSFA focus would be different to existing marketing, though efforts should be cross-referenced so that producers are not given conflicting information.

## 6. FUTURE PRODUCTION MARKET TRENDS

The NSFA concept is being developed against the backdrop of a significant global production opportunity – as outlined in Section 2.1.1. Investment in film and episodic content has increased significantly in recent years, spurred by the ongoing and massive development of streaming services, notably those based in the US.

Strong levels of investment are expected to continue into the medium term at least, in line with major global consumer demand. Indeed, data show that global consumer spending on theatrical, digital home entertainment and physical home entertainment reached \$96.8 billion in 2018, a year-on-year increase of 9% and a 25% increase on 2014.<sup>26</sup>

The strength of global demand for content, and the related production deluge, underline the fact that there is a current, robust opportunity for the NSFA partners.

Production is also more internationally-mobile than ever as investors seek to maximise their expenditure and create visual standout through the use of locations. However, competition to attract this production investment is global. At the same time, opportunities for emerging production markets such as the NSFA Region will be created as capacity is used up in existing hubs. Indeed, there is evidence that this is already happening. Correspondingly, there is a need for markets to rapidly enhance their production offers. Major productions require huge numbers of specialised crew, services, equipment, and other supports. NSFA should therefore focus on strategies to drive capacity development in order to effectively service the types of major productions that established Studios and broadcasters, as well as streaming services, are investing in.

While there is also a current trend among established producers towards shorter-form content for mobile viewing, this does not reduce the need to develop infrastructure and workforce capacity.

Indeed, the latter is key to developing NSFA and while there is a lack of data on crew numbers across the Region there are examples of capacity constraints. NSFA should ensure a co-ordinated and strategic approach to developing capacity. It is recommended that the partners undertake a detailed skills and capacity audit, and draw together key stakeholders in the region to address urgent needs. The tracking of skills provision and gaps is an ongoing strategic priority since lack of capacity will curtail the ability of the Region to successfully service productions.

Much of the growth in global production is being driven by larger, high-end television projects. These can shoot for many months and even years. This means that such projects can have long-lasting impacts on the production hubs where they are based, but they can also provide capacity challenges. But while high-end television is growing, the independent sector is facing major structural challenges. This has meant declining budgets, and a focus on cost-savings and incentives – which may also provide an opportunity for NSFA.

At the top end of the market, the budgets of productions are becoming larger, as producers try and achieve standout in quality terms in a very crowded content market. This means that physical requirements – for example, for studio facilities – are increasing, as is expenditure. Linked to this, producers are also looking to striking locations, particularly if they have not been portrayed extensively in film and television. There is also a very strong focus on the value that competing incentives can deliver.

The NSFA Region clearly delivers a broad range of striking locations, but does not deliver on the need for international-standard studio space. Given the current global production deluge,

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<sup>26</sup> 2018 *THEME Report*, Motion Picture Association of America.

existing studio provision is in extremely high demand globally and producers can struggle to access suitable facilities. Given this shortage, there is a trend towards major producers buying existing studios, converting existing industrial or warehouse space or building new sites. For example, CBS TV Studios is constructing a 260,000 ft<sup>2</sup> studio in Toronto.<sup>27</sup>

While there is some limited studio provision in the Region, the lack of major international-standard production space limits the ability to attract high-end series and features for their full production processes. The Region can certainly compete for location elements of major projects, and may be able to service additional aspects of production through the use of converted industrial space. Indeed, such space would likely also be of interest to location shoots for weather cover.

Given the current global demand for facilities, additional provision in the Region – whether purpose-built or converted – would provide a major boost to the offer and potentially enable it to attract more significant projects, and additional elements of production. Tallinn Film Wonderland is a key potential market addition, depending on its formulation.<sup>28</sup>

In addition, NSFA should seek to progress the harmonisation of incentives in the Region (this is the subject of a separate study by SPI). It should also take an active role in educating banks and financial providers that the cashflow against provision of incentives. NSFA should undertake discussions with regional and key foreign banks and financial providers to raise awareness of the NSFA project and the future market opportunities for such providers. Given how key locations are to attracting productions, NSFA should also continue developing a digital portal that markets the Region's strengths.

It will also be crucial for all involved in the NSFA to invest in digitally innovative products, notably in post-production, to remain competitive. Film and television is at the cutting edge of innovation and processes are shifting rapidly, for example with the use of post-production and visual effects technology as active elements during pre-production and production.

Finally, the very concept of NSFA could become a future trend. Given the scale of the production opportunity, and the need for countries and regions to provide scale in terms of their workforce and infrastructure offer, it is likely that more jurisdictions will consider joint marketing and the combination of their offer in the coming years.

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<sup>27</sup> *Top Production Execs Talk About How Netflix Fuels Race for Studio Space*. The Hollywood Reporter, 4<sup>th</sup> April 2019

<sup>28</sup> It should be noted that this Study has not considered the feasibility of any studio models for the Region

## 7. APPENDICES

### 7.1. Consultee List

- Sven Aulik, Sectoral Manager (Export Advisors), Enterprise Estonia
- Uldis Dimisevskis, Head of Production, National Film Centre of Latvia
- Ivo Felt, Allfilm
- Alise Gelze, Tasse Films
- Petri Jokiranta, Subzero Film Entertainment
- Mati Kaalep, Audiovisual Advisor, Ministry of Culture
- Janis Kalejs, Member of the board, Film Service Producers Association of Latvia
- Dace Lešinska, Project Manager, Riga Film Fund
- Laura Laksonen, Head of Industry / Finnish Film Affair, Helsinki International Film Festival, Finnish Film Affair
- Martin Lindpere, Prime Minister's advisor (economy and finance), Prime Minister's office
- Marge Liiske, Managing Director, Baltic Event
- Laura Mäkelä, Senior Ministerial Advisor, Ministry of Education and Culture
- Ilkka Matila, MRP Matila Röhr Productions
- Pia Naarajärvi, Business & Legal Management Consultant, Beach House Consulting
- Sara Norberg, CEO, Korjaamo
- Fred Nordstrom, Degree Director, Arcada University of Applied Sciences
- Nele Paves, Estonian Film Institute
- Anu-Maaja Pallok, Creative sector advisor (creative law), Ministry of Culture
- Ville Penttilä, Angel Films
- Jānis Putniņš, Director of the National Film School, National Film School of the Latvian Academy of Culture
- Dita Rietuma, Director, National Film Centre of Latvia
- Esko Rips, Nafta Films
- Aivar Riisalu, Deputy Mayor (entrepreneurship), City of Tallinn
- Ieva Romanova, Chair of the Filmmakers Union, Latvian Filmmakers Union
- Guntis Rubins, Counsellor, Economic and Commercial Affairs, Embassy of the Republic of Latvia, UK
- Katrin Saks, Head, Baltic Film, Media, Arts and Communication School at Tallinn University
- Kertu Saks, Head, Kultuurkapital / Cultural Endowment
- Merja Salonen, Product Manager, Business Finland
- Taina Seitsara, Senior Advisor, City Executive Office, Economic Development, City of Helsinki
- Sergei Serpuhov, Baltic Pine Films
- Marianne Slot, Founder, Slot Machine
- Petra Tarjanne, Ministerial Adviser, Ministry of Economical Affairs and Employment
- Piret Tibbo-Hudgins, Head of Production, Estonian Film Institute
- Guntis Trekteris, Ego Media
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### **7.3. Methodology**

The methodology used for the Study involved nine methodological phases:

1. Preliminary Document Review;
2. Inception and Steering Meetings;
3. Data Gathering and Desk Research;
4. Confidential Consultations;
5. Mapping, Gap Analysis and SWOT;
6. Research Synthesis and Team Brainstorm;
7. Interim Stage Reports;
8. Further Research; and,
9. Final Stage Reports and Workshops.

These are outlined in the following sub-chapters.

#### **7.3.1. Preliminary Document Review**

To begin the analysis, and to prepare for the Inception Meeting, the SPI Team undertook a review of all relevant literature. This included incentive regulations and reports on each production and film industry conditions in each partner country.

#### **7.3.2. Inception and Steering Meetings**

The Inception Meeting was held during the 2018 Cannes Film Festival and was used to explore all aspects of the Study with the Client. This included the Study aims and objectives, the methodology, deliverables, readership, data sources, consultees and next steps.

#### **7.3.3. Data Gathering and Desk Research**

Building on information gathered to date, this element involved researching and analysing data in a number of areas, such as historical and current screen production activity in the NSFA Region and internationally, the provision of infrastructure such as studios, the variety of shooting locations, the existence of film commissions, key training providers, and competitor markets.

#### **7.3.4. Confidential Consultations**

Confidential consultations were a key phase, used to fill data gaps and build upon the data gathered through other elements of the workplan. A consultation visit was undertaken to each

partner country and over 40 individuals were consulted with. This included NSFA stakeholders, local and international professionals, suppliers, training providers, government representatives, and relevant trade associations.

#### **7.3.5. Mapping, Gap Analysis and SWOT**

Connected to the data gathering and desk research phase, plus the emerging results from the consultations, this phase involved gathering evidence regarding production infrastructure in the Region and undertaking an analysis of gaps and SWOT analyses for each country.

#### **7.3.6. Research Synthesis and Team Brainstorm**

To prepare for writing the Interim Stage reports, SPI collated, reviewed and analysed all data and findings of the Study.

#### **7.3.7. Interim Stage Reports**

These were delivered in PowerPoint format, and outline interim findings in all areas. Results were discussed with the Client at the 2019 Berlin Film Festival and comments received.

#### **7.3.8. Further Research**

Based on comments, a short programme of further research was carried out to complete all data and information gathering and analysis.

#### **7.3.9. Phase 9: Final Stage Reports and Presentations**

This document represents one of two Final Stage Reports. Further presentations will be undertaken in each partner country.

### **7.4. About Olsberg•SPI**

SPI provides a range of expert consultancy and strategic advisory services to public and private sector clients, specialising in the worlds of film, television, video games and digital media. Formed in 1992, it has become one of the leading international consultancies in these dynamic creative screen industries. With its trusted insight and track record the firm has a diverse client base that includes:

- Multi-national public authorities
- National governments, including culture and economics ministries
- National film institutes and screen agencies
- Regional and city development agencies and local authorities
- National and regional tourism agencies
- Studios and facilities companies
- Independent companies at all points of the screen business value chain
- National and international broadcasters
- Trade associations and guilds
- Training and skills development organisations
- Publishers and conference organisers

Olsberg•SPI has expertise in all areas of the fast-moving global creative sectors, and the firm's services span:

- Strategy and policy development for the creation and management of healthy and sustainable national and regional screen sectors
- Advising on the creation and implementation of fiscal incentives for the screen industries
- Research projects on all aspects of the value chain – including mapping and economic impact studies
- Business development for content companies



- Strategic development of studio facilities, including business planning and feasibility studies
- Acquisition and divestment advice for owners of SMEs
- Evaluations of publicly-funded investment schemes
- Creating prospectus-style funding proposals
- International cost comparisons for film and television productions
- Advising on inward investment and exports for national and regional public bodies
- Identifying and measuring the cultural value of a productive screen sector
- Analysing workforce skills, diversity and related best practice strategies
- Assessing the value of tourism generated by a nation or region's film and television output and developing strategies to maximise future impacts
- Providing strategic advice for screen commissions, including business and marketing plans

Clients for these services have included:

- Association of Film Commissioners International (US)
- Australian Film, Television and Radio School
- Australian Screen Association
- Barcelona Culture Institute
- BBC Worldwide
- The Bottle Yard Studios (Bristol)
- The British Film Commission
- The British Film Institute
- Canada Media Fund
- The Canadian Media Production Association
- The Commercial Broadcasters Association (London)
- The Council of Europe
- Creative England
- Creative Scotland
- Department of Culture, Heritage and the Gaeltacht (Dublin)
- Directors UK
- Doha Film Institute
- Emerging Pictures (New York)
- The European Audiovisual Observatory
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- Film i Väst (Gothenburg)
- The Government of Hong Kong SAR
- Greek Film Centre
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- The MEDIA Programme of the European Union
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- The New Zealand Film Commission
- North Star Film Alliance (Estonia, Finland and Latvia)
- The Norwegian Film Institute

- Pinewood Group
- Polish Audiovisual Centre Foundation
- Prime Studios (Leeds)
- Producers Alliance for Cinema and Television (London)
- Sarajevo Film Festival
- Screen Australia
- Screenwest (Perth)
- Screen Yorkshire
- Sigma Films
- Tourism NI (Belfast)
- Trinidad and Tobago Film Company (FilmTT)
- Ukie.

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