

## **Beyond COVID-19 – The case for strategic public sector support for UK independent film exports**

This paper is a joint effort by FEUK and IFTA. It makes the case for integrating the UK's film sales and export sector into current and future strategies to enable the UK independent film industry to be sustainable and competitive beyond the post-COVID horizon.

The COVID-19 emergency has placed the UK independent film industry under stresses that are without precedent in its long history. It forces us to address the sustainability of business models that were already creaking.

We need new policy interventions to buffer the competitiveness of UK independent film and a systemic outlook that considers how the different components of this sector work together to deliver both economic performance and cultural benefit.

To date, working group discussions have focused primarily on the needs of production, distribution and exhibition. These priorities are legitimate, dictated as they are by the urgency of making possible within a realistic time frame a revival of the local production output with the requisite safety guidelines in place.

As we begin to consider the issues that lie beyond the immediate recovery horizon, we believe it is essential for BFI to consider both the strategic importance of the UK's independent feature film exporters, the international sales companies, and the nature and intensity of the challenges they face in a post-pandemic world.

Sales agents have long been an indispensable part of an ecosystem that has enabled the international success of British independent film. The attendant projection of British culture on a global scale brings numerous benefits such as the promotion of tourism, education exports and soft power.

The UK independent film sector has proven its value as both an effective vehicle for British creativity and invaluable training ground and nursery slope for talent and technicians<sup>1</sup>.

UK sales companies perform a multiplicity of essential functions by connecting the local talent pool and production community with the worldwide marketplace

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<sup>1</sup> *c.f. Local Heroes and Inbetweeners – the Contribution of the Independent British Film Sector to the UK Audiovisual Industry. A study by the British Screen Advisory Council, October 2019*

and opening pathways to global financing and distribution opportunities. In particular:

- ✓ At the development stage, sales agents help producers price projects realistically, by testing the level of interest amongst overseas buyers and running numbers on the sales potential of a package – who’s hot and who’s not among both filmmakers and on-screen talents. This early reality check function, based on expert feedback from a constantly evolving marketplace, helps improve the success ratio of local films and the cost-effectiveness of development
- ✓ Mezzanine and gap financing companies that have proven strategic for the financing of many high-end British independent films will normally rely on the expertise of sales agents to assess their potential risk exposure on a new project
- ✓ UK sales companies are proactive players in the financing of British independent films, putting up advances against the value of foreign territories. Whilst this is a relatively rare occurrence nowadays, owing to the radical downward shift in territorial sales’ value over the past decade, it remains an important instrument in the British film financing tool kit
- ✓ UK Sales companies are connected to financial players throughout the world. These connections are not limited to buyers such as local independent all-rights distributors, Hollywood studios and the major streaming services but also include film agencies, equity financiers, banks and other sources. Their working knowledge of the whole gamut of overseas opportunities has multiplied financing pathways for British independent film projects over past decades. In adapting to a changing global marketplace, many sales companies have made the transition to an executive producer role, often playing a leading part in assembling the multi-piece jigsaw that characterises independent film financing
- ✓ An equally complex task for the sales agent is the construction of a network dove-tailing multiple international distribution, TV and VOD licences on a single film which requires particular expertise and understanding of the changing landscape (windowing, holdbacks, new exploitation rights etc).
- ✓ To ensure the successful roll-out of a film through all media and territories, sales companies oversee distributors’ financial and marketing release decisions. Often the key poster image selected by the sales agent at the launch of the film sets the template for distributors around the world to follow. These obligations entail a significant overhead cost of staff trained in finance (both production and book-keeping), legal, sales, marketing, publicity and post-production/servicing.
- ✓ International markets and festivals are a recognised launch pad for British independent films. UK sales agents have proven consummate at

raising the profile of British films in these competitive pressure cooker environments saturated with new product. Their knowledge of the buyers' community and savvy marketing has helped spark off the successful international careers of many quality British films. Careers of films?

The British independent film sector has benefitted more from foreign pre-sales and exports than its equivalents in the other larger European countries; this factor continues to be one of its core competitive strengths. In a global marketplace where fast-paced change is the only constant norm, UK sales agents are ideally placed to spot shifts in cultural tastes and fashions and to identify new market trends and opportunities for our films. They bring indispensable global financial leverage to local film production and help project Britain's soft power overseas, through the dissemination of its dynamic creativity and diverse culture.

Maintaining this export-financing capability should be one of the priorities of UK film policy going forward. .

Like other segments of the UK independent film sector, UK sales agents have been struggling with acute financial challenges from the economic standstill brought on by the COVID-19 response. However, whilst their current difficulties may be exceptionally intense, they are not new: the UK film sales community has seen its economic strength eroded severely over the past decade by factors beyond its control. An Olsberg SPI Report for PACT estimated that the value of international pre-sales for British independent features had declined by as much as 50% over the period 2007 to 2015<sup>2</sup>. According to many practitioners, the percentage may be even higher and the downward trend continues to this day. Over the past five years, the rise of the global US streaming platforms has also seen a concomitant increase in multiple territory licensing and attendant disruption to traditional windows.

The impact of these changes could be seen last year when spend on the large inward investment productions increased but, for the rest, "The UK spend of domestic films budgeted at £500,000 and above was £165 million, £138 million less than in 2018 and representing a 46% decrease"<sup>3</sup>. UK sales agents have proven extremely agile in adapting to challenges and maintaining the competitive advantage of UK independent film in global export markets. This adaptation has also come at a cost: as foreign buyers grapple with their own economic challenges at home, delays in the cash-flowing of sales and pre-sales agreements have been getting longer; companies are under constant pressures to defer sales commissions and to front allowable marketing costs, with recoupment pushed further down the schedule. Even before COVID-19 the sales sector was undermined by chronic cash-flow issues. The deteriorating situation

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<sup>2</sup> *The State of the UK Independent Film Sector – A Study for PACT by Olsberg-SPI*, 28.04.2017 – pages 57-58

<sup>3</sup> *Film, high-end television and animation programmes production in the UK: full-year 2019 BFI Research and Statistics Unit 31 January 2020*

threatens the mid-term viability of many companies despite strong track records and an invaluable capital of trust and interest amongst buyers the world over.

In responding to such pressures, the UK sales sector has proven resourceful and adaptable. However, with several senior companies having closed their doors over the past few years with others having re-structured and downsized, there is a risk that the local industry's international export capability will become both less effective and less diverse if the trend continues. The effect would be felt across the entire local film value chain, in particular in the sustainability of independent film production financing.

The inclusion of public sector support for the UK sales agents' community must be regarded as a strategic necessity going forward. It should be integrated to other measures designed for local independent production and distribution. These three sectors are fully inter-dependent and need to be kept sustainable simultaneously if UK independent film is to survive and thrive in the long run.

We would like the working group to consider and discuss our proposal for a three-fold approach in support of the UK international film export sector:

1. **Bespoke post-lockdown cash-flow mitigation measures:** UK sales companies have benefitted from general governmental measures such as furlough and VAT holidays. However these have come at a time when there was still some business activity and income from films that were already engaged in their primary international revenue cycles before lockdown. Sales companies are concerned about staggered effects into next year and beyond when the impact of the production lockdown will translate into a dearth of new product in the distribution and sales pipeline. The period from the Spring next year is likely to be one of extreme economic duress and vulnerability, with many companies facing a cash-flow crunch and unable to borrow sustainably at commercial rates: mid-term measures to support the sales ' sector cash-flow and prevent an irreversible loss of capacity will be needed. And it needs to be planned and provisioned for now.
2. **Specific permanent funding in support of sales companies' deployment in export markets:** In an adverse global export context, with the documented decline in the values of sales and presales, the rise in marketing and promotion costs, and increasing payment delays detrimental to their cash balance, UK sales agents are struggling to maintain a competitive edge at markets and festivals. Significant support already comes from BFI Lottery in the form of the Film Export Fund supporting sales agents to launch specific films with, e.g., talent junkets at certain festivals, and the BFI International Fund for UK Film Focused Activity which supports "umbrella" stands at key events. The Department for International Trade's TAP programme provides new exporting companies with some grants subsidising exhibiting costs at festivals and markets. Put together, these interventions – though helpful – still fall short of the quantum and consistency of support the sales sector needs in

order to buoy its export strength and maintain its role as the hinge between UK independent production and the international marketplace. We advocate that BFI consider allocating additional funding to an expanded export strategy on an ongoing basis. This support could be established as part of the Global Screen Fund currently under consideration, which would replace and enhance support the UK companies previously received from the Creative Europe scheme.

3. **Best practice:** current business practice too often weakens the economic sustainability of UK sales agents. These issues should be addressed, lest they undermine the ability of the sales sector to play its part fully and effectively in the recovery of local independent production in the post-COVID years. The BFI has a legitimate leadership role to play in modelling and encouraging fair practice on both pragmatic and ethical grounds across the industry. Best practice should be discussed with other leading UK private and public sector film financiers, with BFI acting as facilitator and honest broker. We propose that future discussions should focus – amongst other – on the following ideas:

- a. Where a sales company has been integral to the closing of finance recognise the Executive Producer role with credits and fees from budget.
- b. Permit the sales company to charge interest on unrecouped sales expenses.
- c. The retention of a UK sales company to be accorded a practitioner point in the cultural test with respect to UK productions generally and those being set up with public money (BFI, BBC, FilmFour) to be offered to UK sales agents in the first instance.
- d. Productions being set up with public money to observe a minimum floor for sales commission such as 10%.
- e. Productions being set up with public money to require an advance on sales expenses and/or sales marketing fee to be included in the production budget.
- f. Make provisions for finance to be made available for, e.g., festival marketing costs above an agreed cap when circumstances justify the extra investment.

We have confined ourselves to headlines as regards the proposals above, with a view to initiating a discussion as part of the current process. We suggest an open engagement on these proposals within the recently-launched BFI working group on *Rethinking The Value Chain*, with input from relevant stakeholders.

The current transformation of the global marketplace for filmed entertainment bears exciting new opportunities for the UK independent film industry. Looking beyond the COVID 19 recovery challenge, the industry has a rich potential to boost its competitive strength in world markets as a centre of excellence for the production of quality English language films in a wide spectrum of genres. In order to adapt successfully, local production needs to be backed up and championed by a dynamic sales and export sector on whose expertise it will

depend more than ever to identify and exploit new financing sources and pathways to market worldwide. Supporting UK sales companies means supporting the unique skill set and knowledge required to build a self-sustaining independent film industry in the face of intensifying global competition. The wider benefit will be felt in diplomacy and trade also, through the cultural impact of British film as part of the UK's projection of soft power on the global stage.

We call on the BFI to put the UK international sales sector at the heart of its post-COVID policy and intervention agenda.

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