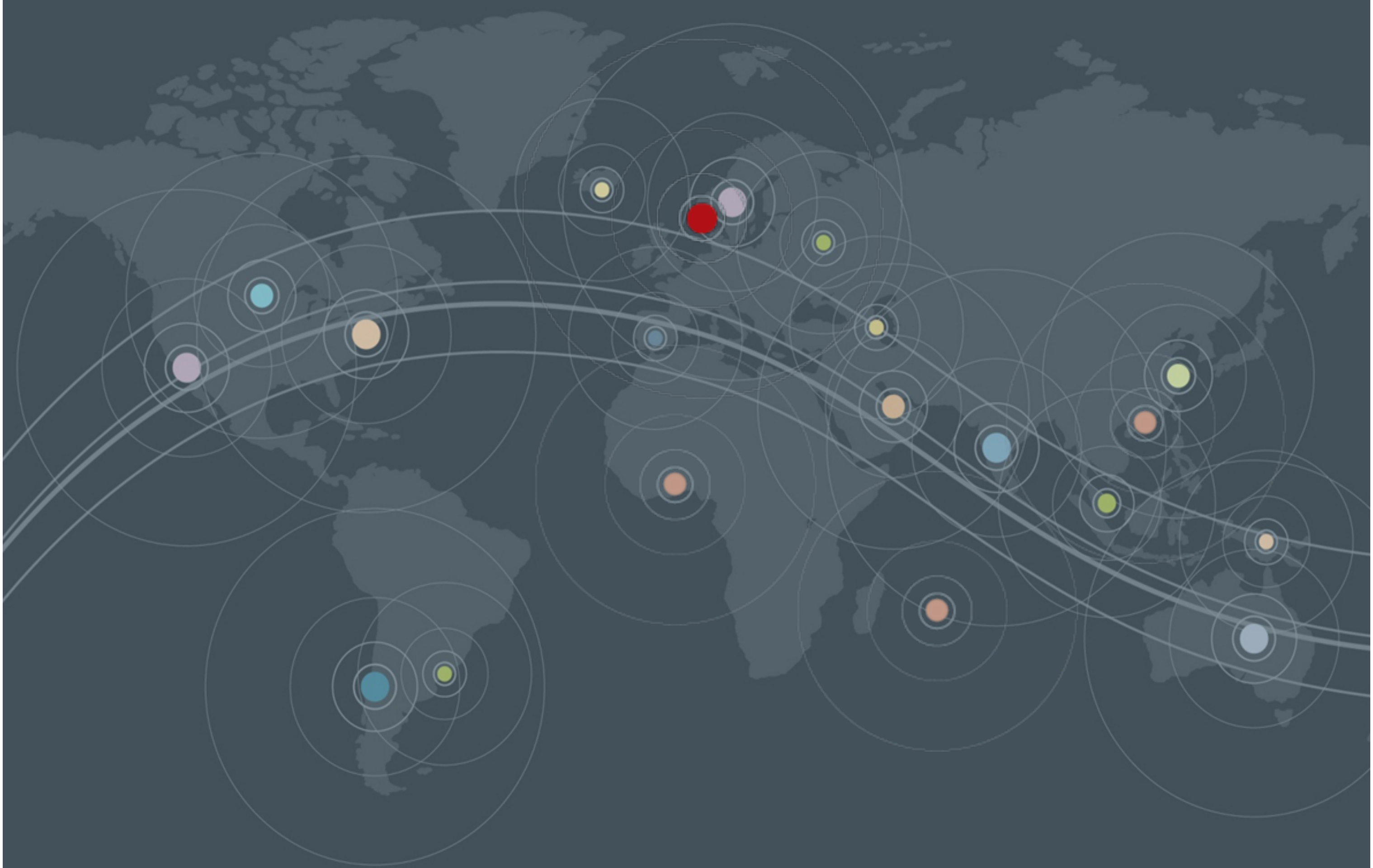
Impact of the Norwegian Film Incentive

A Report to the Norwegian Film Institute from Olsberg•SPI



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OLSBERG•SPI

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1. GLOSSARY

ATL – Above the Line; the individuals who guide, influence, and/or add creative direction to a film project, and are thus the most important members of cast and crew – these will generally involve, but not be limited to, the screenwriter, producer, director, and lead actors

BTL – Below the Line; members of the production cast and crew outside of those above the line

FTE – Full-Time Equivalent; a measure which indicates the workload of an employed person in a comparable way, where 1 FTE is equivalent to one year of full-time work or study (2,080 hours in Europe)

GVA – Gross Value Added; an economic measure of the value of goods and services produced in an area, industry, or sector of the economy

Portable Production – an international production which has a choice of filming locations, and which can therefore be attracted to a suitable country or region

Post-Production – work undertaken on a film or TV programme after filming or recording has taken place to prepare it for distribution or broadcast

Production – the element of the production crew who manage the process of filmmaking, ensuring that the production runs smoothly, and that things occur when they are meant to. This department manages the wider crew and provides administrative support; it includes the Producer, any Executive Producer, various coordinators, and the Production Accountant

VFX – Visual Effects

2. EXECUTIVE SUMMARY

2.1. Objectives of the Study

This study outlines the findings of Olsberg•SPI's evaluation of the Norwegian Production Incentive. It has been generated following an evaluation of the budgets submitted during application for the two successful productions, a literature review relating to the Norwegian and comparator industries, and a series of confidential consultations with sectoral stakeholders.

It will present our findings relating to the impact of the Incentive to date, and recommendations for the future of the model.

As our study has been focused on the impact of this scheme alone, we do not consider the potential effects of alternative uses for the funding, nor will we compare the impact of production spending through this model with other approaches, such as selective funding.

2.2. Overview of the Scheme

The Norwegian Production Incentive was introduced in 2016, following a consultation with the Norwegian industry and general public in 2015.

It is structured as a rebate on production spend, with an annual cap of NOK 45 million; this is provided with the primary aim of increasing the number of international films and TV series shot in Norway. Such an increase will stimulate the growth of the sector, while simultaneously promoting Norwegian culture, history, and nature internationally.

The funding for the Incentive is provided by the Ministry of Culture, with the scheme run by the NFI.

2.3. Production Activity Generated

The Incentive has supported two productions to date, which have generated NOK 198 million in film production spend to date over five departments:

- Production Expenditures – NOK 110.5 million
- Above-the-Line – NOK 44.1 million
- Labour – NOK 38.9 million
- Other Below-the-Line – NOK 3.5 million
- Post Production – NOK 916,000

NOK 86 million of production spend was used on the purchase of goods and services within Norway, transferring financing from the sector into the real economy. Rental and leasing (of equipment and property) was the single largest element of this spend, taking up NOK 29.7 million; this was followed by transportation (NOK 17.5 million); accommodation (NOK 12.5 million); and carpentry, construction, sets, and props (NOK 10.3 million).

2.4. Economic Impact

This production spending has generated a range of economic benefits for Norway, which can be estimated based on the production budget data provided and additional data from government sources.

- Our data show that the production spending has generated an estimated 142.59 FTE jobs to date – 69.94 Direct FTEs and 722.65 Indirect FTEs – with approximately 500 Norwegian residents directly employed in the productions

- These FTEs have received approximately NOK 104.8 million in wages as a result of these productions, with NOK 66.9 million in direct wages, and an estimated NOK 37.8 million to those in supplier industries
- The spending of the two productions has generated an estimated NOK 47.3 million in direct GVA – the economic contribution to the Norwegian economy – and NOK 37.8 million in indirect GVA, for a total of NOK 76.6 million total impact
- This has generated an estimated NOK 33.3 million in total taxation return to Norway to date, with NOK 18.5 million of this from the productions and NOK 14.8 million from supplier industries

Given the early stage at which this evaluation is taking place, there are a range of additional benefits from the productions which are likely to occur in the next few years; these include tourism and advertising benefits, and merchandising sales. All of these should have a large impact on the final GVA, but there is not sufficient data at this stage to estimate their contribution.

2.5. Findings and Recommendations

Our study has identified a range of findings of interest to the sector and the broader debate around its future, as well as a number of recommendations for the Incentive as it moves forward. Recognising that there is a present debate around the shape of the Incentive, these are split into two sections – those for the current model, and those if the recommendation that it becomes automatic is adopted.

2.5.1. Findings

- It was estimated by consultees that around four productions of the scale of *The Snowman* could be accommodated by the current sector, which aligns with the documentary evidence
- Section 7 of the model, requiring a 20% cost overrun, inhibits the efficient operation of the model
- The model for awarding the Incentive is presently relatively subjective, though this is reflective of the balance the NFI is having to find between the required policy ends and the amount of money available
- There remain questions about the position and role of the Incentive from the domestic sector

2.5.2. Recommendations (Current Model)

- Expanding the available funds is recommended, as this would be required for the production sector to reach the potential four productions per year
- In order to achieve this, we also recommend the removal of section 7, and the reconsideration of the decision-making model
- Building the skills base is also desirable to avoid inflationary pressure and ensure the ability to service productions – this could include funding training for those in comparable sectors, or transitioning from the oil industry; support for upskilling current workers; and requiring the use of interns
- A mapping exercise, to determine the current scale and needs of the sector, should also be undertaken

2.5.3. Recommendations (Automatic)

- Should the incentive become automatic, the above should still be followed, but training will be a priority, though this is likely to require a more ad hoc model than the proposed mapping approach, given the need to move quickly
- As the financial pressure which led to the current decision-making model would be alleviated if the incentive were automatic, the cultural test should become the sole gateway to the incentive
- Under an automatic scheme, attracting VFX-only projects should also be considered, as these will use skills already in the country, and are also often possible given the 80% budget cap for incentives under the EU Cinema Communication

3. OVERVIEW OF THE SCHEME

This section introduces the Norwegian Film Incentive (the "Incentive") to contextualise the report which follows.

3.1. Basis of the Scheme

The Incentive was first proposed by the Norwegian Culture Ministry within a 2015 White Paper on the future of the film industry in the country. This White Paper set out the basis of the scheme, which was to increase the number of international films and TV series produced in Norway. The scheme was to serve as a means of promoting Norwegian history, culture, and locations internationally, and to stimulate growth in the experience and skills of the Norwegian Film sector.

Following comments from the industry and general public, the final guidelines of the Incentive were published in December 2015, with the scheme's application window being in January 2016. For the first year, the amount of funding available to the scheme was set at NOK 45 million (€5 million), with the Ministry of Culture delegating this to the Norwegian Film Institute (NFI) to manage, within the scope of the regulations provided.

3.2. The Scheme's Mechanisms

In order to determine the suitability of the productions applied for, the NFI has developed mechanisms to analyse received applications. These consider the value of the production against the various requirements of the scheme, with an aim of operationalising the objectives laid out in the primary legislation, including:

- The amount of private financing in the production budget;
- The distribution arranged for the production, or the likely distribution given the track record of the key creatives;
- The amount of non-Norwegian financing already in the production;
- The 'quality of spend', representing the amount of production spend going into the film industry itself (in recognition of the fact that the financing source is the Ministry of Culture); and,
- Possible added value, such as the likelihood of future productions

Of these criteria, the amount of funds requested and the Norwegian share of the total production budget are given the most prominence. These elements are placed into a weighted model, with the highest scoring production receiving the first part of the fund, and subsequent productions receiving their request or the remainder, depending on the amount of financing available.

Successful productions are required to document their spending, in line with standard procedures for other incentive structures in Europe; the final audited accounts will, therefore, be used to determine the amount of rebate paid out.

3.3. Supported Productions

Four applications were received for the Incentive in January 2016, two of which were domestic TV series – which latterly received funding from selective sources – and two of which were international film productions.

These latter two, *The Snowman* and *Downsizing* were successful recipients of the Incentive, with *The Snowman* receiving the full Incentive applied for, plus the 20% overrun legislated for in section 7 of the guidelines. *Downsizing* consequently received the remainder of the NOK 45 million, which was approximately half what the production requested.

4. OVERVIEW OF PRODUCTION ACTIVITY

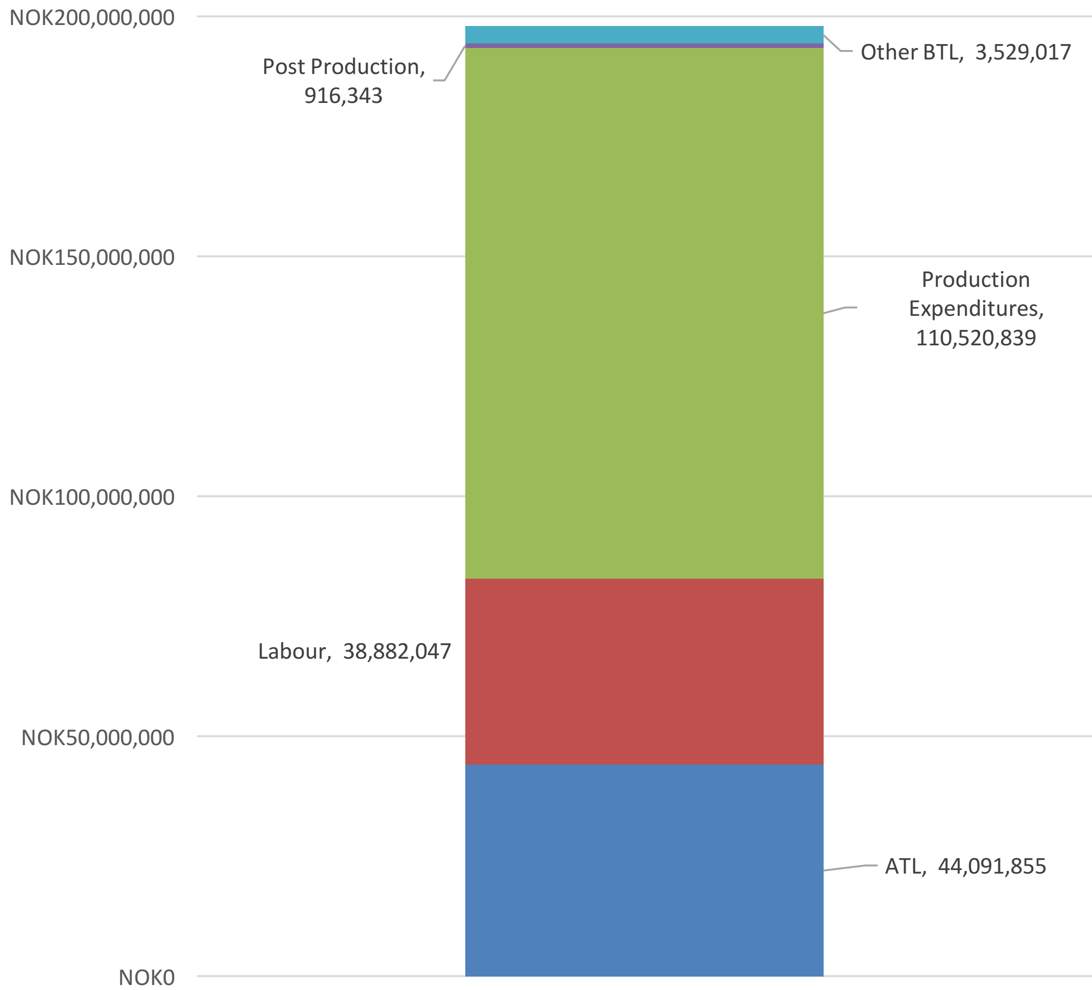
This section of the report will outline the amount of production supported by the Incentive since its introduction in January 2016. It has been created as a result of a detailed evaluation of the production budgets for Norway, breaking these down by department.

4.1. Total Expenditures

Since its introduction in January, the Incentive has supported NOK 198 million in film production (i.e. total production budgets), divided over five departments. Foreign projects accounted for all of these expenditures, and little of this spending would have occurred in Norway without the incentive.

Production Expenditures accounted for the majority of this spend followed by Above the Line and Labour spend respectively

Figure 1 - Total Expenditure of the Supported Productions by Category



Source: Olsberg•SPI analysis of data from the NFI

These data demonstrate that the majority of the work undertaken in Norway were on the physical production of the two films, with only a small element of the work in the post-production phase. This is reflective of the fact that the majority of post-production will take place at the director or producer's home location, while the pre-production phases of the project – and other value-added elements such as financing and law – will also take place in one of the major production markets.

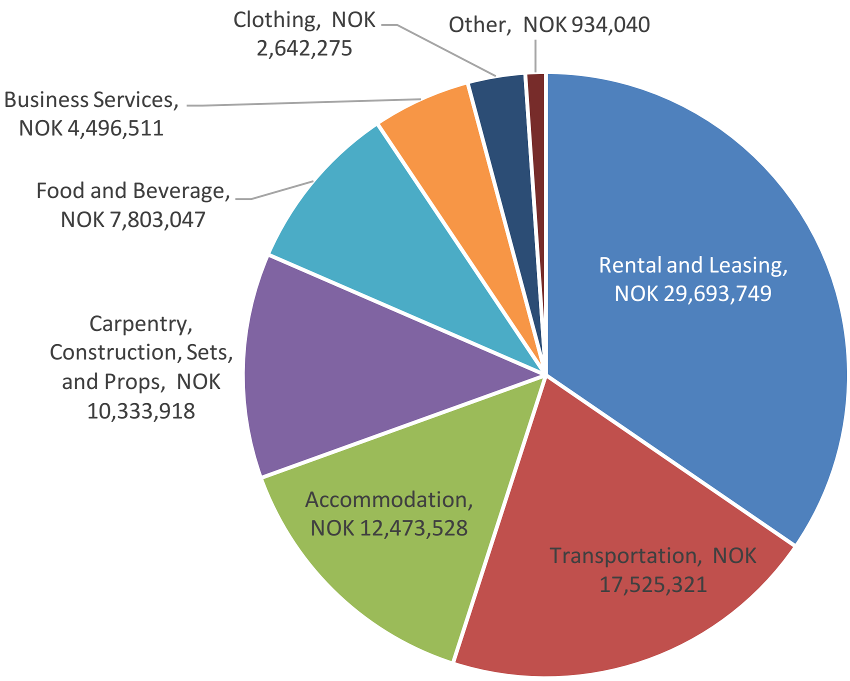
As we note below, though, we feel there are opportunities for Norway to capture some of this activity, should the proposed changes to the Incentive model be brought forward.

4.2. Goods and Services

A significant element of the budget of a film production is spent on the purchase of goods and services, and the two films which have utilised the incentive are no exception to this. Projects to date have spent an estimated NOK 86 million on such purchases in Norway based on an analysis of their budgets.

Rental and leasing (of equipment and property) was the single largest category of goods and services expenditures (35%), followed by transportation (20%), accommodation (15%), and construction, carpentry, sets, and props (12%).

Figure 2 - Goods and Services Purchased by the Supported Productions



Source: Olsberg•SPI analysis of data from the NFI

This is reflective of the amount of money which film productions spend in other industries, both those which are obviously necessary to the production of a film – such as set construction – and others which are perhaps not, for example transportation and accommodation. Through this mechanism, the film production will provide a significant degree of its support to the real economy, which we will analyse in the economic impact chapter which follows.

5. ECONOMIC IMPACT

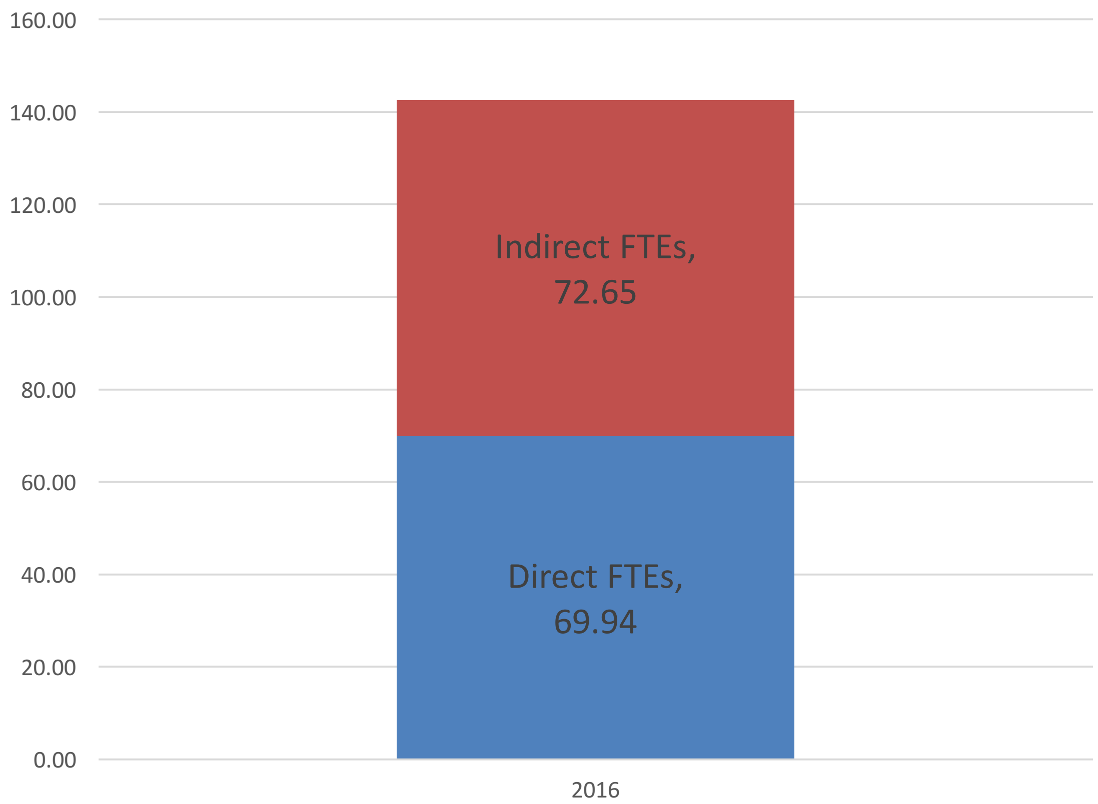
This chapter analyses the economic impact of the two productions to date, by considering the amount of employment created, the compensation (wages) provided to these employees, their contribution to the Norwegian economy (GVA) and their estimated taxation impact. We will also highlight some of the future economic impacts which are likely to occur following release, but which we do not – for the moment – have sufficient evidence to estimate the impact of.

5.1. Employment

Film and television production is an industry which works, predominantly, on a freelance basis, with projects hiring cast and crew for a defined period, rather than full time. As a result of this, analysing solely the number of people employed would present a false sense of the industry, so instead, we utilise Full-Time Equivalents (FTEs). This considers the amount of time which freelancers employed by the films work, by comparison to an average work-year, set in Europe at 2,080 hours.[1]

Analysing the budgets provided, we can see that the two productions to date have supported a total of 142.59 FTEs to date, including 72.65 FTEs in supplier industries.[2]

Figure 3 - Direct and Indirect Employment Generated by Supported Productions (to date)



Source: Olsberg•SPI estimates based on data from the NIFI, Norwegian Central Statistics Bureau, and the OECD

[1] This represents 260 days' work at eight hours per day
[2] Indirect FTEs – those generated in supplier industries – are calculated by reference to the GVA calculation, below

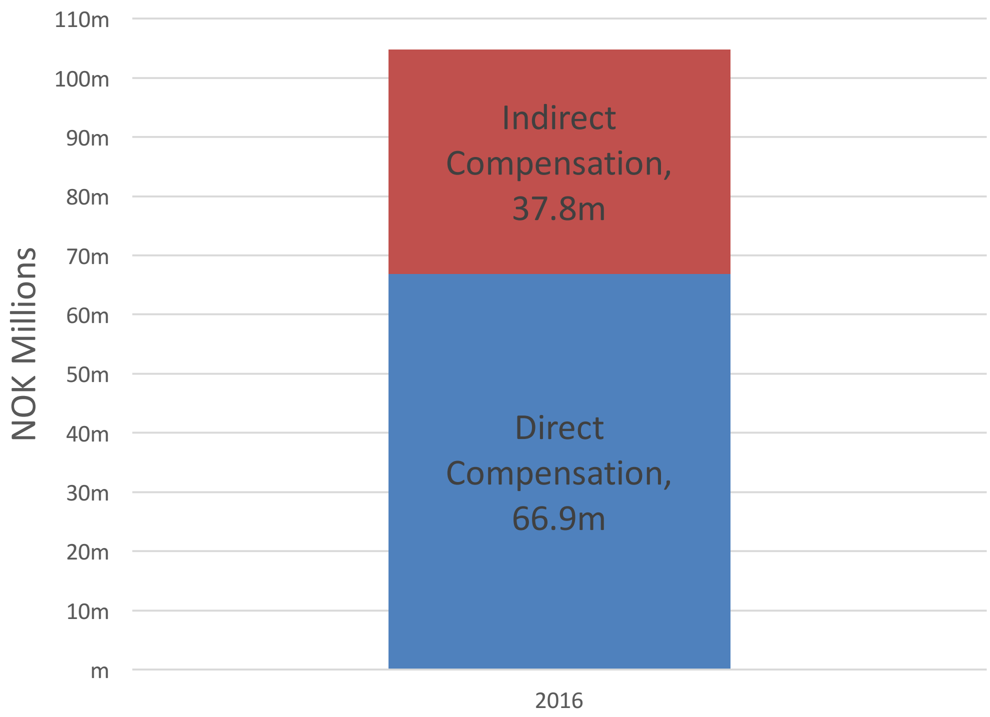
As we note above, the actual numbers of Norwegians working on the two productions were much higher than the number of FTEs, with the data suggesting that approximately 500 Norwegian residents were employed in some capacity over the two films.

5.2. Employee Compensation

Employee compensation – the wages paid by productions to their Norwegian cast and crew, and the compensation generated in supplier industries – is also calculated by reference to the budgets. Within these, we are able to identify the wages paid to each individual in a below-the-line department, summing these to generate an overall compensation figure of NOK 66.9 million.[3]

For the purpose of calculating indirect compensation, we multiplied the number of FTE jobs generated in this element of the economic impact by the average wage for Norway of NOK 520,800 per annum.[4] This provides us with a multiplier wage spend of NOK 37.8 million.

Figure 4 - Direct and Indirect Employee Compensation Generated by Supported Productions (to date)



Source: Olsberg•SPI estimates based on data from the NIFI, Norwegian Central Statistics Bureau, and the OECD

Overall, Incentive-supported production has therefore generated NOK 104.8 m in employee compensation in Norway. The majority of this compensation was earned by cast and crew employed on the two film productions, indicating the significant level of compensation which such work attracts, even within the highly developed Norwegian economy.

[3] Above-the-line compensation is treated differently – as key creatives tend to act more like businesses, spending their money on other employees, or investing in their careers, as well as spending compensation in the real economy, it is preferable to consider this a service purchase rather than wage spend

[4] Norwegian Statistics Bureau data; given the spread of wages between sectors is not significant within the Norwegian economy, taking the mean figure was considered an accurate proxy for the compensation which those working in supplier industries were likely to receive

At an overall level of NOK 957,000 per FTE, this is significantly greater than the Norwegian average; it is, however, worth highlighting that such compensation will not be identical on each project. Our analysis also includes a proportion of Above-the-Line spend, which will impact the average given the significant level of remuneration that key creatives receive.

5.3. Gross Value Added

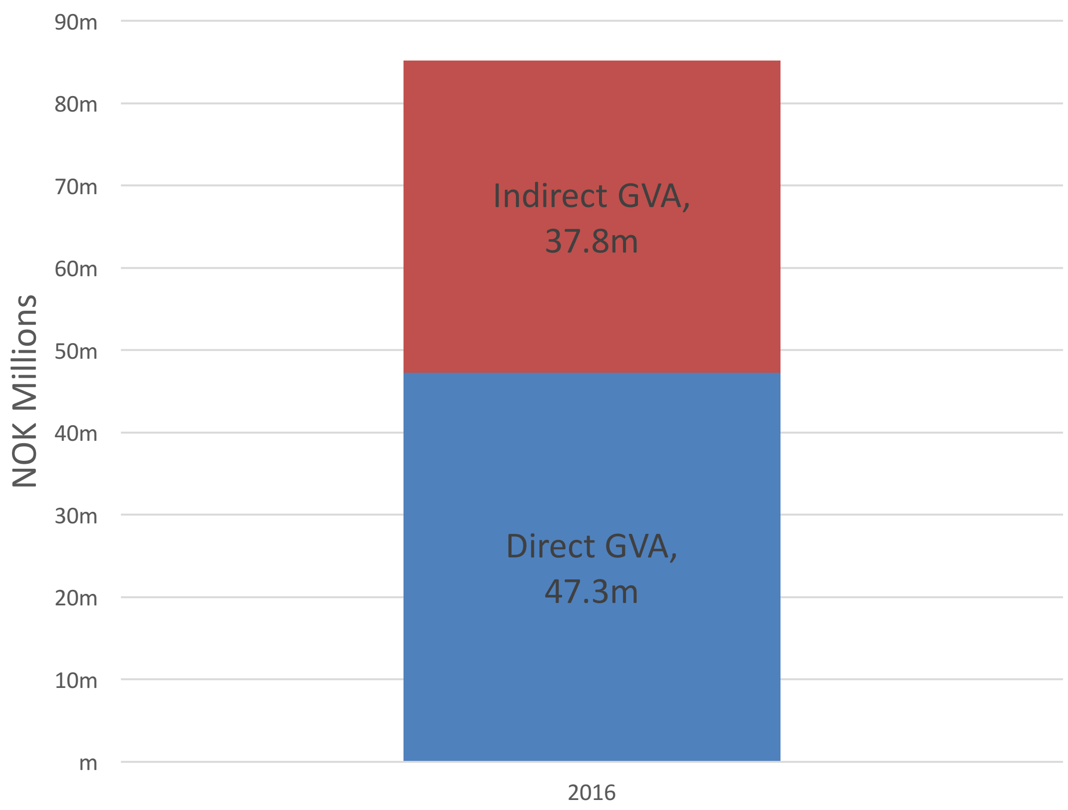
In order to calculate the Gross Value Added (GVA) of the projects – or the amount to which they contribute to the Norwegian economy – we took a number of steps. The key element which goes into our GVA contribution is the below-the-line wage spending, all of which can be expected to translate into the real economy.

The below-the-line spend cannot be treated in this way, as a significant percentage of this will not enter the real economy, having been spent on people who are not ordinarily resident in the country. Instead, we have estimated a 30% share of this will be left in Norway, on the basis of our consultations and prior analyses. This brings a total direct GVA for the Norwegian economy of NOK 47.3 million, representing the sum of these two elements.

In order to calculate indirect GVA, a number of models are possible, but within the constraints of this assignment only the application of a multiplier was feasible. As no multiplier presently exists for Norway – this would be a significant project by itself, and would require analysis of more productions than have yet been completed – we have therefore inferred a multiplier of 1.8 for Norway. This has been derived by comparison to the multipliers for the UK (2.0) and for Västra Götaland (1.6), both of which are known.

The analysis of the direct GVA by the inferred multiplier provides us with an indirect GVA figure of NOK 37.8 million, or 80% of the direct GVA.

Figure 5 - Direct and Indirect GVA Generated by Supported Productions (to date)



Source: Olsberg•SPI estimates based on data from the NIFI, Norwegian Central Statistics Bureau, and the OECD

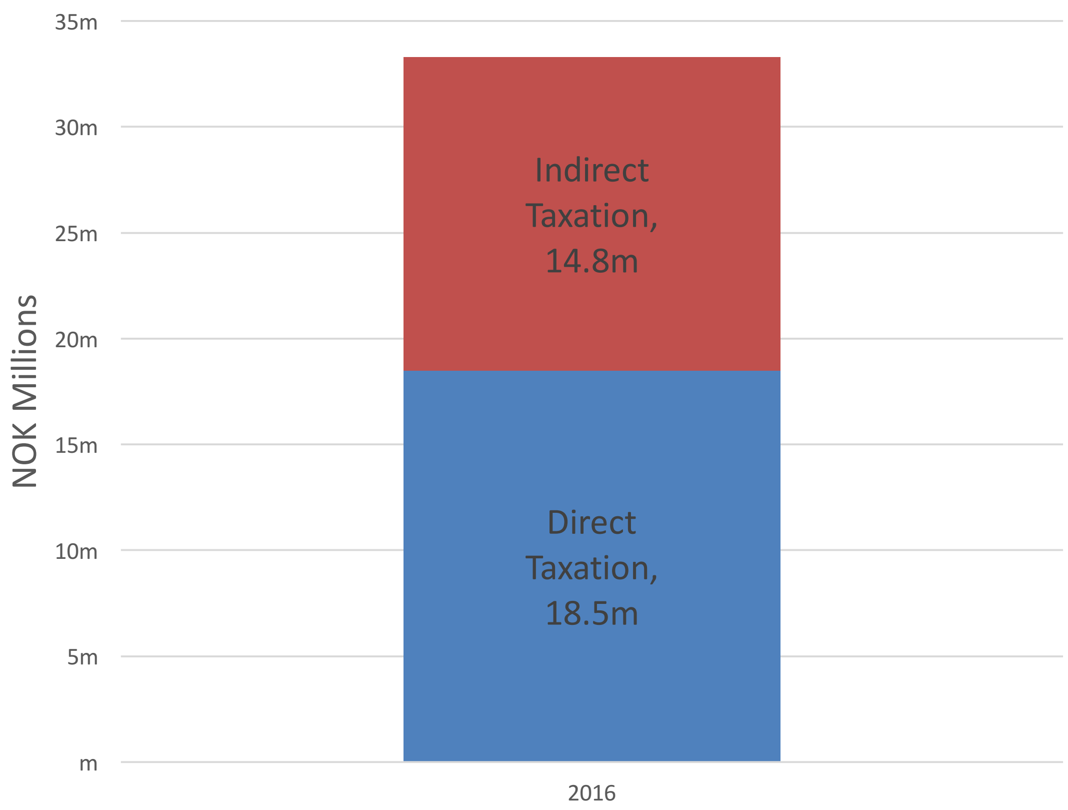
As a result of this, we can determine that the two productions have generated NOK 76.7m in total economic contribution to date, though as we note in section 5.5 (below), this is likely to increase as the downstream impacts of the two productions begin to vest.

5.4. Taxation

In order to calculate the taxation impact of these productions, we determined the average rate of taxation for Norway in the most recent available year, against which we multiplied the GVA. According to the OECD, taxation in Norway for 2014 was equivalent to 39.1% of all economic activity; while we are aware the present government is lowering the rate of various taxes in Norway, this nonetheless represents a good proxy for our analysis.[5]

This ratio indicates that the taxation spend as a result of the two productions to date will have been approximately NOK 18.5 million from direct spend, and NOK 14.8 million as a result of multiplier spend. In total, the two productions would therefore have generated a total spending of NOK 33.3 million in taxation to date.

Figure 6 - Direct and Indirect Taxation Generated by Supported Productions (to date)



Source: Olsberg•SPI estimates based on data from the NIFI, Norwegian Central Statistics Bureau, and the OECD

This represents a strong return to the Norwegian government compared to the outlay – as *The Snowman* is expected to return the contingency element of its spend, this will have been approximately NOK 37.5 million in total. As a result of this, we estimate that the Norwegian government will have recovered around NOK 0.89 for each NOK 1 of incentive disbursed; this

[5] http://stats.oecd.org/Index.aspx?DataSetCode=REV [accessed 26th September, 2016] – this tax rate represents the total tax take from economic activity in Norway, and will include elements such as VAT, corporation, and personal taxes

is before the full impacts of the production are recouped to Norway, as we explore in the following sub-chapter.

5.5. Future Impacts of Supported Productions

Incentives launched around the world have demonstrated a number of spin-off benefits as a result of increased production, relating to the downstream impacts which released productions have on the way Norway is perceived, or from merchandising sales in relation to the projects.

Such future impacts are likely to have a large impact on the final GVA accruing to Norway from the Incentive-supported production, but the available data do not allow us to estimate these with any degree of accuracy. Consequently, this sub-chapter will describe the potential areas of these future impacts, identifying other studies which have described their scale in comparable markets.

5.5.1. Tourism Benefits

Screen tourism impacts are a key, increasingly recognised benefit of the film production sector. Such benefits occur when the audience for a production chooses to visit the locations at which it was filmed. Often – such as with *Game of Thrones* in Croatia – such choices are deliberately made, but in some cases the decision is unconscious, though the individuals first contact with a location through the production will have generated the initial interest.

Research relating to the specific impact of such tourism is limited, with anecdotal evidence often used, however SPI have conducted a study in England (except London) measuring this phenomenon, which produced a value of between £100-140 million (€116-162 million) for the impact of screen tourism.[6] As part of our study relating to the impact of screen sectors within the UK, we scaled this figure up to £840 million (€970 million) for film within the UK, and £210 million (€242 million) for television drama.[7]

A number of films – including *Trollhunter*, *Ex Machina*, and *Frozen* – already have anecdotal evidence of tourism impacts in Norway, demonstrating the potential for such downstream value creation across a range of different productions, including one not created in the country. *The Snowman* would be expected to generate similar impacts, akin to *The Killing* and *The Bridge* in Copenhagen, both of which have generated strong tourism benefits for the local economy, and been instrumental in the reframing of the Copenhagen tourism offer within Europe.

5.5.2. Advertising Equivalent

Alongside tourism impacts, this same mechanism generates broader brand-promotion value for a country, advertising it in a way comparable to product placement. The value of this advertising can be significant, as we demonstrated in the UK – by calculating the Box Office of British films seen outside the UK, and the estimated cost of product placement based on such box office, we were able to estimate an advertising value equivalent of £717 million for UK incentive-supported production.[8]

This calculation implied that the cost of advertising the UK in a similar way would have been around £55 million, which would have been a significant outlay to the taxpayer; this would have been unlikely to have had the same impact had it not been made through film.

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[6] Olsberg•SPI, Quantifying Film and Television Tourism in England (March 2015) p. 1
[7] Olsberg•SPI with Nordicity, Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors (February 2015) pp. 1 and 50-51
[8] *ibid*, p. 39

This is because such advertising equivalent is a key mechanism within the soft power generated by a nation's cultural output, which helps to build understanding, trust, and interest in a country when it is engaged within other markets. Norway already demonstrates elements of this through its existing cultural output, but the expansion of its international presence in the film and television markets would be expected to increase this.

5.5.3. Merchandising Sales

Finally, for certain types of productions, merchandising sales can also generate significant value back to an originating country. Such a mechanism requires that the underlying IP is domestically-held, otherwise value accrues elsewhere, but this is nonetheless the case with one of the productions supported by the Incentive.

Whereas this phenomenon is particularly felt with children's content – with the estimated value of merchandising for *Peppa Pig* being around £2 billion per year worldwide – it may well occur in the case of *The Snowman*. This reflects the fact that the release of such films, based on an underlying series of books with a number of titles, tends to generate additional interest in, and sales of, the original material. As a result of this, further book sales for Jo Nesbø, not only of *The Snowman* but also of other titles in the Harry Hole series, would be expected.

6. TRENDS IN EUROPEAN INCENTIVES

In order to help locate the debate relating to the future of the Incentive in Norway, as well as to contextualise the results of this study, this chapter will present available data on other incentive schemes within comparable European countries, and an overview of trends which are occurring with these models.

6.1. Overview of Trends

In recent years, a number of trends have been evident in the provision of fiscal incentive schemes in Europe, underlining the evolving nature of the sector within which the Norwegian Incentive operates.

6.1.1. Expansion of the Market

Key among these trends is the expansion of the sector, the number of incentives operational in Europe having increased from 12 to 26 since 2008, with a further four presently proposed or announced. With the exception of Iceland, the Nordic countries have been one of the few regions not to engage with this model until recently – now, however, Sweden and Denmark are investigating the issue, and Finland has introduced a cash rebate, which became available 1st January, 2017.

6.1.2. Transition to Rebate Model

A second key trend has been the change of model from Tax Shelters to a Rebate or Tax Credit model.

Historically, investor-driven Tax Shelters – which provide a rebate against the tax bill of high net worth individuals following their investment in productions – were the preferred model, however in many cases such schemes have gone out of fashion. This reflects their complex models, requiring intermediaries to facilitate the connection between investor and production, and often leaky nature. Such additional steps often limited the amount of money reaching productions as different stakeholders took a percentage to make the transaction work.

Nowadays, the rebate-type model – of which Norway's Incentive is an example – is preferred. Such models are structurally simpler and, while they have the negative (from a public sector point of view) of requiring a line item in a department's budget, they are also less prone to misuse. Tax credits operate on a similar model to rebates, the difference being that the rebate due is used as a credit against tax due, and only paid in cash if the benefit exceeds the liability.

A number of examples of this changing environment exist, of which the most recent are the following:

- The Netherlands introduced a new Rebate structure in 2014, having closed its Tax Shelter in 2007
- Ireland's Section 481 transitioned to a Tax Rebate in 2015
- Belgium's Tax Shelter remains, but has been heavily reformed

6.1.3. Current Status of the Market

A final key trend is the expansion of existing systems, as countries fine-tune their incentive models to balance outgoings and benefits. As a result of this, the amount of incentive paid is increasing in many cases, and whereas 20% used to be the norm, it is now 25%.

Figure 7 - Current Incentives in Comparable European Territories

Incentive	Type	Value	Annual Spend	Tax Impact per €1 incentive
Austria	Rebate	20-25%	€7.5m	n/a
Belgium	Tax Shelter	n/a	€15m cap per production	€1.21
Croatia	Rebate	20%	€2.5m	€1.26[9]
Czech Republic	Rebate	20-30%	€29.6m	€1.5-1.625
Finland	Rebate	25%	€10m	n/a
Hungary	Tax Shelter	25%	€59.5m	€1.25
Iceland	Tax Credit	20% (25% from 2017)	n/a	n/a[10]
Ireland	Tax Credit	32%	€45m (budgeted)	n/a[11]
Netherlands	Rebate	30%	€29.2m	n/a
Norway	*Rebate*	*25%*	*€5m*	*€0.89*

Source: Olsberg•SPI analysis

Note first that the Norwegian figures are based on estimates, not final budgets – given the structure of the incentive, it's likely that the final tax impact will land around the €1.2 figure, as this is very common for similar models

[9] First year of Croatian impact was €1.07, growing to €1.33 in year 2 (average of €1.26)
[10] Incentive started in 2017
[11] Irish estimate for last evaluation of old Section 481 was €0.51, but wide variations noted depending on the evaluation model used; RoI for Ireland also heavily dependent on current status of the UK industry, with which Ireland competes for Inward Investment

7. FINDINGS AND RECOMMENDATIONS

This section addresses the findings of our study, together with the recommendations we are making for the Incentive as the Norwegian government and NFI takes it forward.

Reflecting the fact that the Advisory Board for the Creative Industries has brought forward suggestions for the future of the Incentive over the summer, our recommendations are made in two sections. The first of these reflects our suggestions should the intervention be kept in its current format, while the second is for the Incentive should the Advisory Board's own recommendations be adopted.

7.1. Findings

7.1.1. Potential Scale of Sector

In undertaking the study, we asked consultees about the level of production which could be undertaken in Norway given the current stage of development of the sector, and number of crew available to the sector. These consultees estimated that approximately four productions of the scale of *The Snowman* could be accommodated per year, and this fits within the scale of the sector as described by other documentary evidence.

As this is the current scale of the sector, below this level it is unlikely that cost inflation will impact the system.

Of course, it may be that productions do not come at the same scale as *The Snowman*, but our impression is that the amount of production spend should scale. As an example, eight films of half the size would likely come to a similar production spend and number of crew, and also be feasible within the Norwegian market.

7.1.2. Section 7

This said, there are challenges within the current approach. Section 7 of the model is the first of these – requiring a 20% overrun to be given to each successful production, this is a major challenge to the effective operation of the scheme. As a reflection of this, the amount of money which *The Snowman* was expected to return to the NFI is approximately the same as the shortfall in Incentive which *Downsizing* faced following its application.

Had *Downsizing* been able to access this money, it would likely have filmed more in Norway, increasing the economic impact of this production and the Incentive model.

7.1.3. Awarding the Incentive

The model for determining which productions receive the incentive is, at present, somewhat subjective. It requires the calculation of a coefficient for productions based on the amount of money which they are bringing into the country, and their likely impact abroad, among other factors.

This is, undoubtedly, a reflection of the difficult task which the NFI faces in achieving the required policy ends of the Norwegian Government's White Paper within the context of the money granted for the policy. Nonetheless, the model adopted is unlike anything seen in other countries to determine this model, and is likely to create a challenge moving forward; this reflects the increase in overhead which will result from a complex weighted model were the scheme to be provided with additional funding. It is worth considering whether the additional time this would take is proportional with the aims of the scheme, and the amount of money being disbursed.

Comparing the model for the Norwegian incentive with others in Europe, the present complexity becomes apparent – whereas most use a cultural test as the major approach to determine eligibility, this is only part of the Norwegian model. Some element of selection is, of course, required in a scheme with limited funding – either by the awarding body, or through the selectivity which comes in a first come, first served model – but it is worth considering if this is the most efficient model, and whether it can scale if the scheme changes.

It is also worth noting that more complex appearing schemes – as this is from the outside – tend to be less favoured by applicant producers, which may represent a challenge to Norway, given the introduction of other incentives in the Nordic region.

7.1.4. Domestic Productions

This question of subjectivity aligns with a broader unease in the domestic production sector relating to the role of the incentive, and its present location within the Ministry of Culture's budget. A number of consultees raised these concerns, which tend to show the need for ongoing communication around the division between different interventions – and the ends to which they are aimed – as the system continues to evolve.

With regard to the availability of the scheme to domestic productions, our conclusion is that the internationally-fcoused approach is broadly correct. The limited size of the Nordic market will always inhibit the ability of a Norwegian film to have the same scale of impact as a production like *The Snowman*, even allowing for the recent positive run of Nordic drama in the international TV market. This notwithstanding, any ambitious Norwegian film with wider international potential should be encouraged, and as such keeping the system open is desirable.

7.2. Recommendations (Current Model)

7.2.1. Expand the Available Funds

In order to achieve four productions a year, the size of the incentive would have to be expanded, which is recommended as a priority. As we note above, the size of the present Incentive – if more efficiently used – would be feasible for around two productions a year of a similar scale to *The Snowman* and *Downsizing*.

Were the incentive to be expanded, a change in the application model – to two deadlines per year – is also recommended, as this will facilitate different kinds of productions coming in, not just those which have their finance near closing in January. In such a model, the division of funds should be half and half, with any funds left over following the January application round going towards the second deadline, which would usefully be in May.

This would reflect the fact that most films shoot in the summer, but continue the present system and allow flexibility on the part of the filmmaker. A system biased to summer would not allow this, and may lead filmmakers to apply in summer for a winter shoot, which is less desirable. We note that a small expansion to NOK 55m has been put in place for 2017, and agree with the NFI that this remains too small to justify such a division.

7.2.2. Remove Section 7

Removing section 7 is also recommended, since this requires the money is spent inefficiently, and is not something seen in other incentive systems. Planning for cost overruns is something which productions will do as a matter of course, and our view is that they should be taking the risk on this, not the incentive provider.

Removing this element of the model will also, as we note, allow the funds to be used more efficiently, increasing both the immediate and the long-term economic impact for Norway. Were there funds available following the end of a production – for example, if another production had under-spent – these may be used to provide additional funding to a production with unforeseen expenses, or they could be recouped into the budget for the next round.

7.2.3. Reconsider the Decision-Making Model

We also recommend that the model for determining the Incentive is reconsidered as the scheme expands, as it will make the intervention difficult to manage as the number of applications increases. The present model is somewhat subjective, and while it has been carefully designed to balance the competing needs of the White Paper and the Incentive's budget, should the latter expand the model may well become more difficult to use, or unhelpful in determining which projects should be supported.

Our impression is that the present approach, as we articulate in 7.1.3, is not scalable to the demands of an expanding incentive model. For example, were 20 or 30 applications to be received, the time it would take to balance the model would be disproportionate to the aims of the incentive. As such, we recommend change at this point, ensuring that the approach is able to scale were more money to become available.

Any changes should have a long lead-time though, ideally being announced 6-12 months before implementation; this represents best-practice for the industry, and allows change without penalising projects which are already planning to base in Norway. Such best-practice is important in helping build industry certainty in a production model, particularly in its early phases, when all incentives are treated with a degree of suspicion.

7.2.4. Train to Build the Skills Base

In order to allow the scale of the sector to grow as the Incentive expands, training should be provided to increase the skills base in the sector, recognising the fact that the existing market within the sector tends to be slow at responding to the increased demand.

In many countries, funding is made available to transition crew from comparable sectors, such as theatre or construction, into specific jobs roles within the industry, and this is recommended for Norway. This model is helpful as it is the most straightforward way of responding to demand, given the similar needs of other creative industries in particular.

A number of consultees also highlighted that the Norwegian government is providing funding through the counties to aid workers move from oil jobs into other sectors. Given that a number of roles within the film and TV industry will require comparable skills – particularly building and electrical work – it is recommended that this route is also explored.

Of course, such training should not only cover bringing new workers into the sector, but also ensuring that those already in the industry are able to maximise their exposure to Incentive-supported productions. This is particularly important given the fact that there were some issues noted in the production of *The Snowman*, reflecting the differences between the US and the Nordic production model. Training existing crew around these issues should be undertaken, to ensure they are aware of such differences, and know how to work within the new environment.

Management and coordination of this would ideally be through the NFI, though with the engagement and involvement of the counties and unions. A model akin to Screen Training Ireland – run by the Irish Film Board and Broadcasting Authority of Ireland, and which responds to immediate demand with short courses – might be the most flexible for Norway.

7.2.5. Undertake a Mapping Exercise

Further training of crew is likely to be required, in order to service the different demands of inward investment productions and to allow crew to progress their careers, but investment should be limited prior to the identification of which parts of the sector have gaps that will inhibit its development. In order to identify these, we recommend that a data collection exercise is undertaken to map the sector, noting the areas of shortfall, and then developing models to fill these areas.

Ideally, this would be funded and managed by the NFI or the Ministry of Culture, given their oversight roles for the industry.

7.2.6. Require the use of Interns

To consolidate training, we recommend that incoming productions are required to use trainees or interns on set, providing them with experience in a real production, as well as contacts to find their next job should they perform well. This is a common way of getting students to have a first exposure to the sector in other incentive schemes, and should be used as a quid pro quo for the receipt of the Norwegian Incentive.

7.3. Recommendations (Automatic Incentive)

If the Incentive becomes automatic, the recommendations above will still apply, but take on a different prioritisation and urgency given that the volume of applications received for the Incentive, and the scale of the projects looking to film in Norway, may well increase rapidly.

7.3.1. Prioritise Training

Within the context of an automatic incentive, training would become a priority, as the NFI and its partner organisations would need to ensure both that local crew have the right skills to service incoming productions, and that sufficient other crew are coming through to meet the increased demand.

Within such a model, it is likely that a formal mapping process would be too slow, and as such the NFI, and Norwegian Film Commission, Producers Association, and Filmworkers Association are likely to have to work more informally to identify and fix priority gaps. This is, however, an approach which is successfully used in Ireland through the Screen Training Ireland system, so should not prove difficult to adapt to the circumstances in Norway.

7.3.2. Use only the Cultural Test

Within the context of an automatic incentive, the present model for determining which productions to support would no longer be viable, as it is designed to balance cultural goals against a limited availability of funds which would no longer be an issue. As such, the present selection criteria would be unnecessary, and a movement to the cultural test only would be the most effective option.

Under such circumstances, it would be worth confirming that the cultural test is able to filter out undesirable applications – for example, moving the requirements around foreign financing into the Production Criteria, if this is considered a key priority.

7.3.3. Approach VFX-Only Projects

Should the incentive become automatic, it would also be desirable to pitch for VFX-only projects, which use Norwegian workers and facilities solely for their post-production, rather than undertaking any element of physical production within the country.

This would leverage the talent Norway has in this area, as well as the 80% cap on in-country incentive spending under the EU Cinema Communication. This cap means that no EU Member State can offer an incentive against more than 80% of the budget of a supported production, and as such producers often look to use other countries to receive incentive on the remaining 20%. VFX elements of the project are an obvious outlet for these, as they can be separately packaged for production elsewhere, and are readily portable over an internet connection.

Such production is also less weather-dependent, and can be conducted year-round, which will ensure that activity in the Norwegian film sector driven by inward investment is feasible on an ongoing basis.