

Research & statistics bulletin

April 2007



01	Introduction
02	1. Theatrical market in 2006 – admissions slip once again
07	2. UK film production bounces back 2006
16	3. Trends in co-production and Schedule 1 certifications
18	4. Update on film piracy – digital piracy jumps 26% in 2006
19	5. What are the reasons for the plateau in UK cinema admissions?
20	6. Does a shorter theatrical window damage box office revenues?
22	7. Film on UK television in 2006

About the Research & Statistics Unit

The RSU provides research data and market intelligence to anyone with an interest in UK film and film in the UK. No part of this publication may be reproduced without written consent of the authors. We acknowledge the kind permission of the copyright owners to use their data in this Bulletin.

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Introduction

2006 was a year in which some of the challenges facing the UK film industry came into sharper focus. Although **film production** in the UK recovered to become the second-highest year ever in response to the settling of the new system of tax incentives for UK film (see section 2), **theatrical admissions** slid for the second year in a row, to a level of 157 million, about the same as in 2001.

There are a number of possible reasons for the decline in traditional forms of film viewing, but research conducted by the industry and by the UK Film Council's Research and Statistics Unit has established two influences with a significant effect:

- **Film piracy** (see section 4) is estimated to cost the industry several hundred million pounds a year, mainly attributable to losses in cinema admissions and legal DVD sales.
- **New digital media entertainments** and online social networking are putting pressure on traditional film viewing, particularly in the 15–24 age group (see section 5).

As technology continues to improve – particularly download speeds and the convergence of television with personal computers and the internet – we can expect to see a shift in film acquisition away from conventional media (such as the DVD) to internet-based applications and video on demand. The exhibition sector will have to work harder to capitalise upon its unique offer – the big screen in the darkened room – and all film sectors will have to find new ways of bringing film to the audience in the way the audience wants it.

In this context, a debate has developed around the desirable length of **the theatrical window** (the gap between the theatrical release of a film and its release on DVD). Distributors wish to maximise their revenue from the combination of all windows while exhibitors are dependent (at present) on the theatrical revenue. The theatrical window has fallen substantially over the last few years and research conducted by the Research and Statistics Unit has detected no measurable impact on the theatrical box office to date (see section 6). This conclusion must be treated cautiously however, as the available data extend only to a window of around 15 weeks. Beneath that level there may be a threshold at which a negative effect kicks in.

In contrast to the admissions plateau, 2006 was a good production year for the UK and we can expect to see a flow-through into the 2007 box office of some strong UK titles. It will take some time, however, for the full effect of the new tax regime to bed in and there is particular concern about the fate of **UK co-productions**.

In the recent past, co-production treaties provided a convenient framework for setting up productions and raising money. However, co-productions have the lowest average UK spend and with the shift in the UK tax regime to supporting UK spend rather than the whole budget, co-productions have become much less attractive in the last six months (see section 3).

It is expected that most new certifications in 2007 will be of Schedule 1 films applying for British status under the new cultural test.

1. UK admissions and box office gross in 2006

UK cinema admissions declined for the second successive year, down 5% to 157 million, the lowest figure since 2001. Monthly admissions fell below 10 million on three separate occasions during the course of the year, which has not happened since 2000.

The year started on a positive note, helped by the continuing strong performance of 2005 releases like the *Chronicles of Narnia* and *King Kong*, and awards contenders like *Brokeback Mountain* and *Walk the Line*. Two successive falls in February and March were reversed in April with the release of *Ice Age II*. The major distributors avoided releasing any significant titles in June as the World Cup kicked off and record temperatures also had a negative impact on cinema audiences – average weekly admissions fell to two million. With the football over, admissions in July were boosted by *Pirates of the Caribbean: Dead Man's Chest* and an average of 3.7 million tickets were sold per week. However, most of the late summer blockbusters failed to deliver as expected and admissions declined into the autumn. September's admissions were down to 8.5 million, the lowest since June 2000, and although ticket sales increased in October, the year-on-year comparison was still negative. Then, the release of *Casino Royale* in November ensured that admissions were up on 2005 for only the fifth time, with weekly admissions back up to 3.6 million. The monthly breakdown is provided in Tables 1.1 to 1.3.

Table 1.1: Monthly admissions in 2006

Month	2005 million	2006 million	% +/- on 2005
January	13.4	14.0	+4.5
February	14.8	12.8	-13.5
March	12.3	9.9	-19.5
April	10.6	13.6	+28.3
May	13.1	13.2	+0.8
June	10.5	8.7	-17.1
July	16.0	16.3	+1.9
August	15.9	15.0	-5.7
September	9.5	8.5	-10.5
October	15.6	13.5	-13.5
November	15.2	15.5	+2.0
December	17.6	15.3	-13.1
Total	164.7	156.6	-4.9

Source: CAA, Nielsen EDI.

Table 1.2: Average weekly admissions, 2005 and 2006

Month	2005 Weekly average million	2006 Weekly average million
January	3.0	3.2
February	3.7	3.2
March	2.8	2.2
April	2.5	3.2
May	3.0	3.0
June	2.5	2.0
July	3.6	3.7
August	3.6	3.4
September	2.2	2.0
October	3.5	3.1
November	3.5	3.6
December	4.0	3.5

Source: CAA, Nielsen EDI.

Table 1.3: Monthly admissions, 2002–2006

Month	2002 million	2003 million	2004 million	2005 million	2006 million
January	15.0	16.3	15.3	13.4	14.0
February	19.0	15.0	13.3	14.8	12.8
March	14.3	10.4	10.7	12.3	9.9
April	13.2	12.4	14.5	10.6	13.6
May	14.0	13.8	13.1	13.1	13.2
June	12.2	9.4	14.7	10.5	8.7
July	15.0	12.4	18.4	16.0	16.3
August	15.9	17.1	17.4	15.9	15.0
September	10.6	10.7	10.2	9.5	8.5
October	13.4	17.3	14.5	15.6	13.5
November	16.5	13.7	14.6	15.2	15.5
December	16.9	18.8	14.6	17.6	15.3

Source: CAA, Nielsen EDI.

The pattern of regional admissions remains largely unchanged from the previous year (Table 1.4). The London, Midlands and Lancashire TV regions typically account for half of all UK admissions.

Table 1.4: Cinema admissions by TV region in 2006

Region	Admissions	%
London	39,814,809	25.4
Midlands	21,861,057	14.0
Lancashire	17,418,916	11.1
Southern	14,090,556	9.0
Yorkshire	12,978,182	8.3
Central Scotland	11,197,632	7.2
East of England	10,272,548	6.6
Wales & West	10,025,205	6.4
North East	5,915,810	3.8
Northern Ireland	4,968,719	3.2
South West	3,291,111	2.1
Northern Scotland	3,289,629	2.1
Border	1,436,228	0.9
Total	156,560,402	100.0

Source: CAA/Nielsen EDI.

In value terms, UK gross box office in 2006 was £762 million, down 1% on 2005. Box office for the territory as a whole including the Republic of Ireland was £840 million, unchanged from the previous year.

Table 1.5 lists the top 20 performers by box office gross in 2006.

Three UK titles feature in the top 20 – *Casino Royale*, *The Da Vinci Code* and *Flushed Away* – which are all inward investment films made with US involvement. This compares with eight UK/USA titles in the previous year's top 20. The lower number of UK/USA releases in 2006 was a reflection of the downturn in inward investment production experienced in the UK in 2005. Six animated films appear in 2006's top 20, the most successful of which was *Ice Age II*. *Casino Royale* and *Pirates of the Caribbean: Dead Man's Chest* joined a select group of 10 films to have made more than £50 million at the 'all time' UK box office. The decision to re-energise the Bond franchise paid off handsomely, with the 21st official outing becoming the most commercially successful to date – taking just three weeks to surpass *Die Another Day's* final total of £36 million. *Pirates of the Caribbean: Dead Man's Chest* built on the theatrical and home video success of the original movie to become the hit of the summer. However, whereas six films earned more than £30 million in 2005, only three achieved that feat in 2006. In fact, only six films managed to break the £20 million barrier, down from nine in 2005.

Table 1.5: Box office results for the top 20 films released in the UK in 2006

Title	Country of origin	Box office gross (£m)	Number of opening cinemas	Opening weekend gross (£m)	Distributor
1 Casino Royale*	UK/USA/Cze	55.48	505	13.37	Sony
2 Pirates of the Caribbean: Dead Man's Chest	USA	52.52	514	13.74	Buena Vista
3 The Da Vinci Code	UK/USA	30.42	523	9.50	Sony
4 Ice Age II	USA	29.60	502	9.78	20th Century Fox
5 Borat	USA	24.11	428	6.24	20th Century Fox
6 Night at the Museum*	USA	20.77	488	7.69	20th Century Fox
7 X-Men 3	USA	19.22	446	7.09	20th Century Fox
8 Happy Feet*	Aus/USA	18.86	445	3.69	Warner Bros.
9 Cars	USA	16.45	513	2.67	Buena Vista
10 Superman Returns	USA/Aus	16.12	477	4.34	Warner Bros.
11 Mission: Impossible 3	USA	15.45	512	5.38	UIP
12 The Devil Wears Prada	USA	14.02	447	3.27	20th Century Fox
13 Chicken Little	USA	13.51	511	3.17	Buena Vista
14 Over the Hedge	USA	13.22	504	3.59	UIP
15 The Departed*	USA	12.80	363	2.30	Entertainment
16 The Holiday	USA	12.34	428	2.83	Universal
17 Flushed Away*	UK/USA	11.13	468	3.11	Paramount
18 The Break Up	USA	10.38	373	2.41	UIP
19 Walk the Line	USA	10.36	198	1.11	20th Century Fox
20 Brokeback Mountain	USA	10.08	125	0.99	Entertainment

Source: Nielsen EDI, RSU.

Box office gross = cumulative total up to 4 March 2007.

Films with an asterisk (*) were still being exhibited on 4 March 2007.

Table 1.6 focuses on the performance of the top 20 UK films at the box office.

The total box office gross of the top 20 UK films was £151 million, compared with £244 million in 2005, £176 million in 2004 and £122 million in 2003. The top three films, all 'inward investment' titles produced in the UK with some degree of US involvement, made almost £100 million between them.

Stephen Frears' *The Queen* featured strongly in the year's major award ceremonies with an Oscar and BAFTA win for Helen Mirren and a Best Picture award from BAFTA. *The Wind that Shakes the Barley* proved to be Ken Loach's most successful film to date at the UK box office whilst also winning the director the coveted Palme d'Or at the Cannes Film Festival. As well as being nominated for the Academy Award, Paul Greengrass won the BAFTA for Best Director for *United 93*. *Children of Men* was also successful in the Cinematography and Production Design categories.

Table 1.6: Top 20 UK films released in the UK in 2006

Title	Country of origin	Box office gross £m	Distributor
1 Casino Royale*	UK/USA/Cze	55.48	Sony
2 The Da Vinci Code	UK/USA	30.42	Sony
3 Flushed Away*	UK/USA	11.13	Paramount
4 The Queen*	UK/Fra/Ita	9.00	Pathé
5 Stormbreaker	UK/Ger/USA	6.79	Entertainment
6 Children of Men	UK/USA	4.86	Universal
7 The History Boys	UK	4.22	20th Century Fox
8 The Wind that Shakes the Barley	UK/Ger/Ita/Spa/Ire	3.91	Pathé
9 V for Vendetta	UK/USA/Ger	3.58	Warner Bros.
10 United 93	UK/Fra/USA	2.90	UIP
11 Match Point	UK/USA/Lux	2.47	Icon
12 It's A Boy Girl Thing	UK/Can	2.42	Icon
13 Derailed	UK/USA	2.30	Buena Vista
14 Alien Autopsy	UK	2.18	Warner Bros.
15 Confetti	UK	2.09	20th Century Fox
16 An American Haunting	UK/USA	2.02	Lions Gate
17 Severance	UK/Hun/IoM	1.72	Pathé
18 Basic Instinct 2: Risk Addiction	UK/USA/Ger/Spa	1.16	Entertainment
19 A Cock and Bull Story	UK	1.10	Lions Gate
20 Breaking and Entering	UK/USA	0.97	Buena Vista

Source: Nielsen EDI, RSU.

Box office gross = cumulative total up to 4 March 2007.

Films with an asterisk (*) were still being exhibited on 4 March 2007.

2. UK Film production in 2006

2.1 The value of UK production in 2006

UK production activity rose to £842 million in 2006, reversing 2005's dip to £577 million and making 2006 the second highest production year on record after 2003. This reflected the greater degree of confidence in the industry as a result of the announcement of the new system of tax incentives for UK film (see note at end of section 2 of this Bulletin) and transitional arrangements to cover films in production in 2006.

There were 27 inward investment productions in 2006, with a UK production value of £570 million (see Table 2.1 for definitions). Some of the big-budget films contributing to this figure were *Casino Royale*, *Harry Potter and the Order of the Phoenix*, *His Dark Materials: The Golden Compass*, *10,000BC* and *The Bourne Ultimatum*.

There were 50 domestic features in 2006 (up from 39 in 2005) with a UK production value of £148 million. Larger-budget films contributing to this total included *Bean 2*, *Atonement*, *Definitely Maybe* and *The Magic Flute*.

UK co-productions (other than inward) fell from 67 to 57, but with an increase in UK spend from £96 million to £125 million. UK co-productions in 2006 included *Closing the Ring*, *Death Defying Acts*, *A Mighty Heart* and *Becoming Jane*.

Table 2.1: Feature film production activity, 2005 and 2006

	2005 Number of productions	2005 Value £m	2006 Number of productions	2006 Value £m
Inward feature films (single country)	19	237.5	25	502.8
Inward feature films (co-productions)	6	71.2	2	66.8
Total inward investment	25	308.7	27	569.6
Domestic UK feature films	39	172.1	50	148.0
UK co-productions (other than inward)	67	96.3	57	124.8
Total production investment	131	577.0	134	842.4

Source: UK Film Council.

Data for 2005 updated since publication of the 2005–2006 Yearbook.

The apparently lower UK spend associated with domestic UK features reflects better UK spend statistics rather than an actual decrease in spend.

Definitions

1. An inward feature is defined as a feature film more than 50% financed from outside the UK and where the production is attracted to the UK because of its infrastructure or locations.
2. An inward feature co-production is an official co-production that originates from outside the co-production treaty countries (usually from the USA) and which is attracted to the UK because of its facilities, services and crew.
3. A domestic UK feature is a feature made by a UK production company that is shot wholly or partly in the UK.
4. A UK co-production is a co-production (other than an inward co-production) involving the UK and other country partners under the terms of a bilateral co-production agreement or the European Co-production Convention.

Measurement

5. The above numbers include only the UK spend associated with productions shooting in whole or part in the UK.
6. Spend is allocated to the calendar year in which principal photography started.

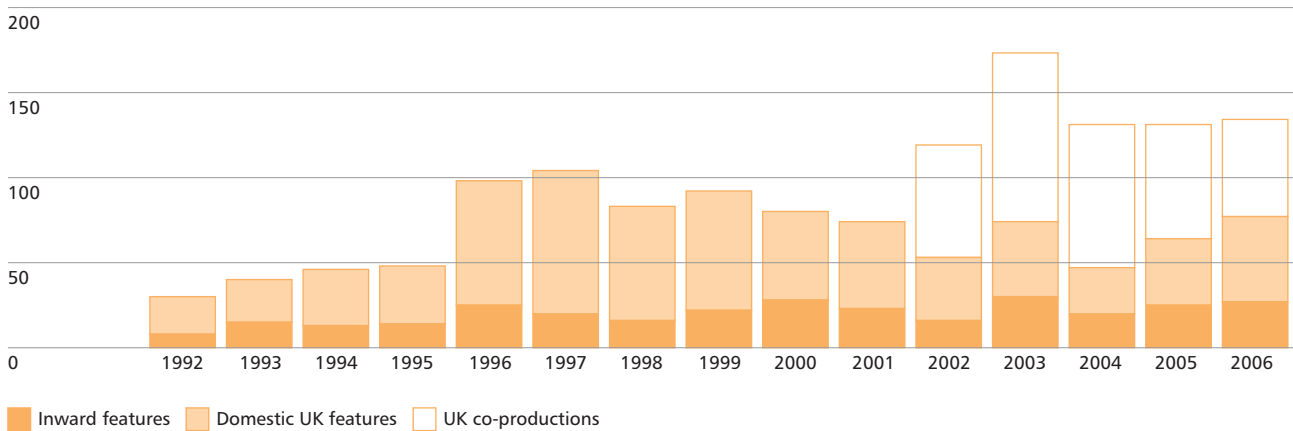
Exclusions

7. Spending on films with budgets under £500,000 is not included.

2.2 Inward, domestic and UK co-production features 1992–2006

Figure 2.1 puts the 2006 figures in a longer time perspective. The decline in domestic features between 1997 and 2005 occurred alongside a substantial growth in co-production activity, suggesting it was easier to make films as official co-productions than as stand-alone UK productions. In 2006 there was an increase in domestic productions and a decline in co-productions and this trend is likely to strengthen as the new tax rules take effect (the new tax incentive is based on UK spend rather than the total budget). The number of inward features returned to the levels reached in 2000 and 2003 and overall production numbers maintained a high level compared to the early 1990s, before the introduction of tax relief and Lottery support for UK film.

Figure 2.1 Number of inward, domestic, UK co-production and total features, 1992–2006



Source: UK Film Council.

Note: 'Inward features' includes inward investment co-productions from 2002.

UK co-productions not available by shoot date prior to 2002.

Data for 2004 and 2005 updated since publication of the 2005–2006 Yearbook.

Table 2.2: Number of inward, domestic, UK co-production and total features, 1992–2006

	Inward	Domestic	UK co-production	Total
1992	8	22		30
1993	15	25		40
1994	13	33		46
1995	14	34		48
1996	25	73		98
1997	20	84		104
1998	16	67		83
1999	22	70		92
2000	28	52		80
2001	23	51		74
2002	16	37	66	119
2003	30	44	99	173
2004	20	27	84	131
2005	25	39	67	131
2006	27	50	57	134

Source: UK Film Council.

Note: 'Inward features' includes inward investment co-productions from 2002.

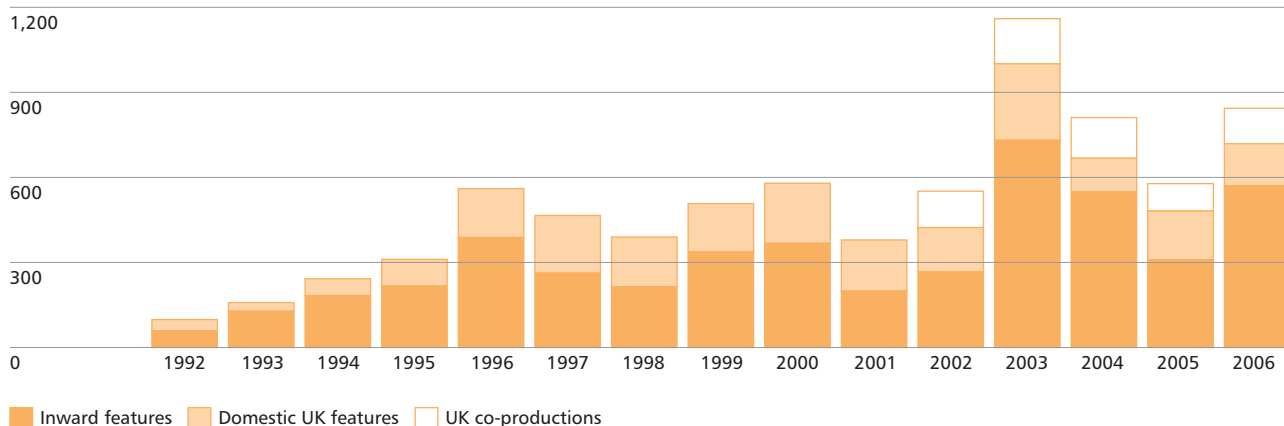
UK co-productions not available by shoot date prior to 2002.

Data for 2004 and 2005 updated since publication of the 2005–2006 Yearbook.

The value of UK production in 2006 bounced back from 2005's level, making 2006 the second best year on record after 2003 (Figure 2.2). Since 1997, the fluctuation in production value has principally been driven by inward features, showing the importance of inward investment to the UK film economy. The combined value of domestic features and co-productions was roughly the same in 2006 as in 2005.

Figure 2.2: Value of UK spend of inward, domestic, UK co-production and total features, 1992–2006

£ million



Source: UK Film Council.

Notes: 'Inward features' includes inward investment co-productions from 2002.

UK co-productions not available by shoot date prior to 2002.

Data for 2004 and 2005 updated since publication of the 2005–2006 Yearbook.

The apparently lower UK spend associated with domestic UK features in 2006 reflects better UK spend statistics rather than an actual decrease in spend.

Table 2.3: Value of UK spend of inward, domestic, UK co-production and total features, 1992–2006

	Inward	Domestic	UK co-production	Total
1992	58.50	39.98		98.48
1993	127.74	30.34		158.08
1994	182.65	59.51		242.16
1995	216.45	94.00		310.45
1996	387.10	172.20		559.30
1997	261.90	202.89		464.79
1998	214.20	174.96		389.16
1999	336.37	170.31		506.68
2000	366.57	211.70		578.27
2001	198.50	180.12		378.62
2002	265.86	156.36	128.23	550.45
2003	729.54	269.33	158.87	1,157.74
2004	548.49	117.81	143.37	809.67
2005	308.66	172.06	96.31	577.03
2006	569.60	147.96	124.85	842.41

Source: UK Film Council.

Notes: 'Inward features' includes inward investment co-productions from 2002.

UK co-productions not available by shoot date prior to 2002.

Data for 2004 and 2005 updated since publication of the 2005–2006 Yearbook.

The apparently lower UK spend associated with domestic UK features in 2006 reflects better UK spend statistics rather than an actual decrease in spend.

2.3 Budget trends

For the second year in a row the median budget of domestic UK features declined substantially, to £1.5 million in 2006, suggesting that the UK film sector is under considerable market pressure. The median budget for co-productions increased slightly and the median budgets for inward investment films increased substantially, reflecting the larger number of high budget US major-funded productions attracted to the UK.

Table 2.4: Median feature film budgets, 2003–2006

Production category	2003	Median budget £m		2006
		2004	2005	
Inward features (single country)	12.1	16.5	15.0	18.7
Inward features (co-productions)	46.6	38.1	33.6	51.9
Domestic UK productions	3.0	2.9	2.3	1.5
Co-productions (other than inward)	3.5	4.4	4.3	4.5

Source: UK Film Council.

'Median budget' is the middle value (ie there are equal numbers of films above and below the median).

The median in this case is a better measure of central tendency than the average as it avoids the upward skew of a small number of high budget productions.

Data for 2004 and 2005 updated since publication of the 2005–2006 Yearbook.

2.4 Size distribution of budgets

The size distribution of the budgets in 2006 for the four categories of film is shown in Tables 2.5 to 2.8. Nine features with budgets of over £30 million accounted for 75.6% of the aggregate budget for inward features (single country). Only seven out of 25 features had budgets of less than £10 million.

Table 2.5: Size distribution of budgets, inward features (single country), 2006

Budget band £m	Number	Total budget in band £m	% of total budget
£30 million+	9	587.0	75.6
£10 million–£30 million	9	150.5	19.4
Under £10 million	7	39.1	5.0
Total	25	776.6	100.0

Source: UK Film Council.

There were only two inward feature co-productions in 2006, one with a budget in the £10 million–£30 million range and one with a budget of £30 million+. For reasons of business confidentiality, the individual budgets for these films cannot be shown.

Table 2.6: Size distribution of budgets, inward features (co-productions), 2006

Budget band £m	Number	Total budget in band £m	% of total budget
£30 million+	1	–	–
£10 million–£30 million	1	–	–
Under £10 million	0	0.0	0.0
Total	2	103.9	100.0

Source: UK Film Council.

Note: For reasons of confidentiality, the budgets of the two inward feature co-productions cannot be shown separately.

As in 2004 and 2005, there were no domestic UK features in 2006 with budgets over £30 million. Most domestic UK features had budgets under £5 million, though the nine films in the £5 million–£30 million budget range accounted for two-thirds of the combined budget.

Table 2.7: Size distribution of budgets, domestic UK features, 2006

Budget band £m	Number	Total budget in band £m	% of total budget
£30 million+	0	0.0	0.0
£10 million–£30 million	5	93.4	50.5
£5 million–£10 million	4	29.0	15.7
£2 million–£5 million	13	35.1	19.0
£0.5 million–£2 million	28	27.6	14.9
Total	50	185.1	100.0

Source: UK Film Council.

Most UK co-productions were in the budget range £2 million–£10 million (42 out of 57) accounting for 68% of the combined budget. Compared with 2005, there was a larger number of films in the £10 million–£30 million budget range, similar to the pattern in 2004 (see UK Film Council Statistical Yearbook 2004–2005, Table 12.6, page 81).

Table 2.8: Size distribution of budgets, UK co-productions (other than inward), 2006

Budget band £m	Number	Total budget in band £m	% of total budget
£30 million+	0	0.0	0.0
£10 million–£30 million	8	94.1	29.3
£5 million–£10 million	17	131.2	40.9
£2 million–£5 million	25	86.2	26.9
£0.5 million–£2 million	7	9.3	2.9
Total	57	320.8	100.0

Source: UK Film Council.

2.5 Big-budget productions, 2002–2006

The importance to UK spend of a small number of big-budget productions – most of which are inward investment films – is demonstrated in Table 2.9. In 2006, the 10 films with budgets of £30 million or more accounted for 52.5% of total UK production spend.

Table 2.9: Big-budget films' contribution to UK spend, 2002–2006

	2002	2003	2004	2005	2006
Number of films with budgets >£30 million	5	15	8	8	10
Value of associated UK spend	196.6	671.6	432.4	173.5	442.4
Total UK spend	550.5	1,157.7	809.7	577.0	842.4
Big-budget film share of UK spend	35.7%	58.0%	53.4%	30.1%	52.5%

Source: UK Film Council.

Data for 2004 and 2005 updated since publication of 2005–2006 Yearbook

2.6 UK share of expenditure

Table 2.10 shows the UK expenditure shares for inward investment films, inward co-productions, domestic UK productions and co-productions (other than inward). Domestic productions had the highest UK expenditure share (80.0%), followed by inward investment films at around 65%. Co-productions (other than inward) had the lowest UK expenditure share of 38.9%, reflecting the larger number of national partners involved in co-productions and the requirement for balance between national investment and expenditure under the co-production treaties.

Table 2.10: UK expenditure shares, 2006

Inward investment films	64.7%
Inward co-productions	64.3%
Domestic productions	80.0%
Co-productions (other than inward)	38.9%

Source: UK Film Council.

2.7 UK co-productions by country of shoot

Table 2.11 shows the shoot locations for UK co-productions (not including inward investment) in 2006. The most frequent locations were the UK (28 productions) and Ireland and Spain with eight each. Hungary (six) and the USA (five) were next, followed by Canada, France and Romania with three each. Three countries which were popular in 2005 (Germany, Italy and Luxembourg) figured far less in 2006.

Table 2.11: UK co-productions by country of shoot, 2006

Country	Number of productions
UK	28
Ireland	8
Spain	8
Hungary	6
USA	5
Canada	3
France	3
Romania	3
Belgium	2
Bulgaria	2
Czech Republic	2
Portugal	2
Russia	2
South Africa	2
Others	17

Source: UK Film Council.

Note: Some productions were shot in more than one country, hence the total in Table 14.11 is greater than the number of UK co-productions.

The shoot locations by region for UK co-productions shot abroad between 2004 and 2006 are shown in Table 2.12. Western Europe (not including the UK) was once again the most frequent destination. Shoots in Eastern Europe and Russia (led by Hungary and Romania) increased for the second year in a row, after dropping in 2004. Shoots in North America were also up (more in the USA than Canada). Elsewhere, numbers continued to be relatively small in 2006.

Table 2.12: Location of shoot by region, UK co-productions shot abroad, 2004–2006

Region	Shot abroad in 2004	Shot abroad in 2005	Shot abroad in 2006
Not available	19	2	1
Western Europe	49	48	30
North America	7	4	8
South & Central America, Caribbean	4	1	1
Eastern Europe and Russia	8	16	20
Australia and New Zealand	7	1	1
Asia	0	0	1
Africa & Indian Ocean	4	4	4

Source: UK Film Council.

Note: Of the co-productions in 2004 for which location information was not available, some may have been shot in the UK.

2.8 Production company activity levels

UK film production in 2006 was, as usual, dispersed over a large number of production companies, as shown in Table 2.13. The UK Film Council recorded 342 production companies associated with films shot in the UK or co-productions involving the UK in 2006. Of these, 332 companies were associated with a single feature. These were a mixture of distinct production companies and single-purpose vehicles (that is, companies set up to make a single film). The most prolific production company was associated with six features, followed by one with five features, two companies with three features and six with two features.

Table 2.13: Film production company activity, 2006

Number of features per company	Number of companies
6	1
5	1
3	2
2	6
1	332

Source: UK Film Council.

Notes: Includes all types of films involving the UK.

Films frequently have several production companies associated with them (including single purpose vehicle subsidiaries of parent companies), so the sum of (number of features) • (number of companies) is substantially greater than the total number of features involving the UK in 2006.

2.9 US studios' involvement in inward features

US studios increased their activity in the UK in 2006. This reflected a greater degree of certainty about the tax regime, particularly as it applied to the types of studio film suitable for making in the UK. The US majors accounted for 11 out of 27 inward features (single country and co-productions) and £360 million (63%) out of £570 million UK spend associated with inward features (Table 2.14).

Table 2.14: US studios' involvement in inward features and inward co-productions, 2006

Studio	Number of inward features in 2006
Warner Bros.	3
20th Century Fox	1
Universal	2
Sony/Columbia/MGM	5
Paramount	1
Total films	11

Source: UK Film Council.

Note: Universal and Columbia collaborated on one film; hence the sum of studio involvement (12) is one greater than the number of films (11).

In addition to the films tabulated above, Universal pictures financed four domestic UK features via its output deal with Working Title and 20th Century Fox financed two UK domestic features.

2.10 The new UK film tax incentive

2006 saw a switch from the previous UK tax incentives for film (Section 42 and Section 48) using the sale and leaseback mechanism to a new tax incentive based on an enhanced deduction from taxable income for film production companies capable of being converted into a payable tax credit. For UK films with production budgets up to £20 million, the value of the relief increases to a maximum of 20% of qualifying production costs where 80% or more of the budget is spent in the UK. For UK films with production budgets of £20 million and over, the maximum value is 16%. In addition to meeting a minimum spend test (25% of qualifying expenditure must be spent in the UK) UK films must pass a cultural test administered by the Department for Culture Media and Sport. The emphasis in the cultural test is on the UK cultural elements (story, setting, characters, diversity etc) of the film.

The new incentive system received state aid approval from the European Commission on 22 November 2006 and came into force on 1 January 2007. It applies to films starting principal photography on or after 1 January 2007. Transitional provisions apply to films commencing principal photography before that date.

3. Trends in co-production and Schedule 1 certifications

3.1 Co-production certifications

Co-production statistics collected by the Department of Culture, Media and Sport throw additional light on the evolution of co-production activity. Under the UK's various co-production agreements, co-productions must be certified by the competent authorities in each country as meeting the certifying criteria. Once certified, a film counts as a national film in each of the territories and qualifies for public support on the same basis as national films in that territory. DCMS grants 'provisional approval' prior to the completion of the film to films that meet the criteria and 'final certification' once the film has been completed and final documents submitted.

In 2006 there were 69 final certifications, to a total investment value of £462 million. 40% of the films' expenditure occurred in the UK. Fifty-nine of the co-productions took place under the European Convention on Cinematographic Co-production, with the remaining films qualifying under the UK's bilateral agreements, particularly with Canada and Germany.

The data on provisional approvals give a clear picture of the rise and fall of co-production activity in recent years, extending the picture presented in Figure 2.1. From a relatively low level in the late 1990s (Table 3.1.), co-production activity grew to a peak in 2003. The UK expenditure share fell to a low of 25% in 2001. In 2004–2005, DCMS tightened the certification criteria, to make sure that balance in co-production relations was maintained under each of the UK's agreements. Coupled with uncertainty over the future tax regime (prior to the Government's tax announcement in December 2005) this brought about a cooling in co-production activity and an increase in the planned UK expenditure share to 40%.

Table 3.1: Provisional co-production approvals by year, 1998–2006

Year	Number	Total investment £m
1998	20	84.9
1999	15	50.7
2000	37	196.1
2001	65	462.9
2002	87	626.8
2003	137	1,297.2
2004	118	747.6
2005	76	504.5
2006	64	441.5
Total	620	4,413.3

Source: DCMS, UK Film Council.

In the past, part of the attraction of co-production activity in partnership with the UK was that tax incentives could be claimed in relation to the whole budget of a film even when only a minority of the expenditure occurred in the UK. Under the new system, tax relief will be available only in relation to UK spend (above a minimum threshold). A further cooling in co-production activity is therefore anticipated in 2007.

3.2 Schedule 1 (UK film) certifications

Schedule 1 films are films certified as British under Schedule 1 of the Films Act 1985. Under the old rules, the main qualifying criterion was 70% UK spend, but films commencing principal photography on or after 1 January 2007 will be required to have a minimum 25% UK spend and pass a UK cultural test emphasising UK elements in the story, setting and characters (see DCMS website for full details of the cultural test). All the films receiving final certification under Schedule 1 in 2006 were certified under the old rules. The first films to be certified under the new rules are expected to be certified during 2007.

In 2006 there were 75 British films certified under Schedule 1 of Films Act 1985. The total production budget was £402 million. 85% of the total production budget was spent on production activities that took place in the UK. The average budget of a Schedule 1 film fell from the record level of £11.5 million in 2005 to a much lower level of £5.4 million. A similar drop in the average production spending in the UK was observed.

Table 3.2: Schedule 1 films, production budget and UK spend, 1998–2006

	Number of films	Activity in the UK		Production budget	
		Spending in UK £m	Average £m	Total £m	Average £m
1998	40	151.4	3.8	232.1	5.8
1999	70	277.7	4.0	421.5	6.0
2000	111	292.7	2.6	361.5	3.3
2001	80	482.2	6.0	561.5	7.0
2002	77	520.9	6.8	583.8	7.6
2003	81	294.1	3.6	330.8	4.1
2004	72	560.2	7.8	643.5	8.9
2005	66	685.4	10.4	757.7	11.5
2006	75	341.1	4.5	402.1	5.4

The drop in the value of Schedule 1 certifications in 2006 reflects the lower number of qualifying big budget USA/UK films in production in 2005. (Certification takes place after production is completed, when final accounts are prepared.)

With the increase in UK/USA productions in 2006 (see section 2 of this bulletin) it is anticipated that the value of Schedule 1 certifications will increase in 2007.

4. Film piracy – physical piracy drops but digital piracy increases in 2006

In recent years, with the development of DVD and download technology, piracy of films has become a serious problem. A significant minority of the population has either been unaware of the intellectual property issues involved in film piracy, has regarded it opportunistically or has seen it as a way to redistribute some film industry income to themselves.

As part of the film industry's anti-piracy effort the UK Film Council has participated in research to gauge the extent and trends in film piracy. In November 2006 the latest wave of piracy research, conducted under contract by the research company IPSOS, was carried out. The results relate to the year 2006 and use a new methodology designed to assess not only the impact of people directly engaged in acquiring pirate copies of films but also the impact on legal sales of borrowing or viewing pirated material.

The research was based on a sample survey of the UK population and asked a series of questions relating to pirate consumption in general and the impact on particular high-profile titles released in 2006.

The full results will be released later in April, after presentation to the industry partners, but some key points were:

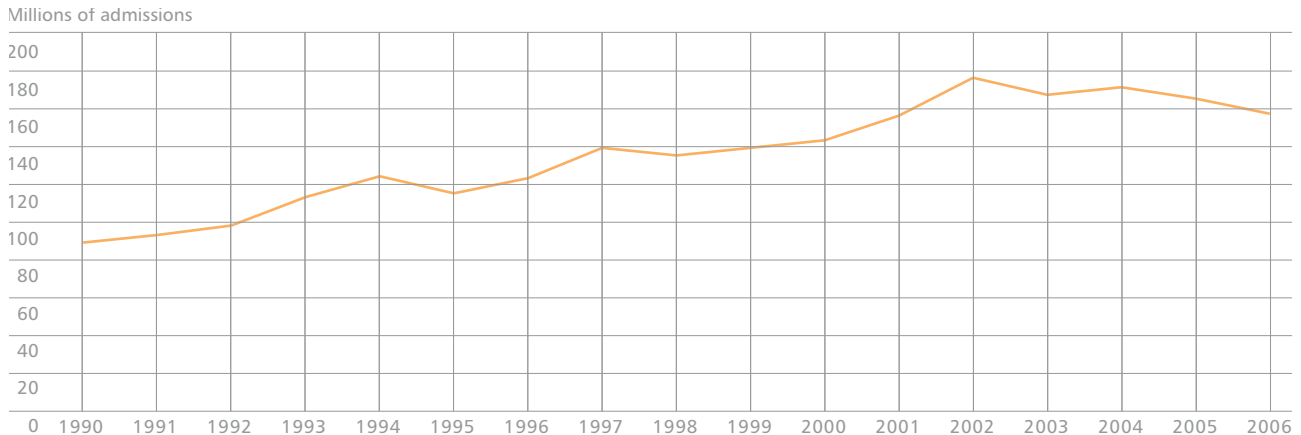
- The overall level of piracy in 2006 was roughly the same as in 2005.
- 29% of the population had acquired or viewed some type of pirate film material in 2006.
- Physical piracy and borrowing were still the main forms of film piracy, but declined compared with 2005.
- The proportion of the population downloading and burning was stable at around 5%, but the number of titles downloaded/burnt increased by 26% between 2005 and 2006.
- The two main reasons given for not downloading were 'don't know how to do it' (33%) and 'too much effort' (30%), suggesting that the industry will have to work hard to persuade people not to engage in online film theft as technology and skills improve over the next few years.
- Downloaders were roughly equal male and female and predominantly in the age groups 15–21 and 22–34.

These results reinforce evidence presented elsewhere in this Bulletin of the challenge to the traditional film business model from new forms of consumer behaviour facilitated by digital technology, particularly that of the young who are the fastest adopters of this technology.

5. What are the reasons for the plateau in UK cinema admissions?

When the 2005 cinema admissions figures were announced in early 2006, it was evident that cinema admissions had arrived at a plateau. The plateau has been confirmed by the further drop in admissions in 2006 (see section 1 and Figure 5.1). This is a serious issue for the UK film industry, particularly the exhibition sector, as it reverses the rising trend observed from the mid-1980s until 2002. It is important to understand why the plateau (or fall) is occurring and to see if it can be reversed. Just as the development of the multiplex helped spur an increase in cinema admissions in the UK in the 1980s and 1990s, it may be that fresh strategies are required to stimulate renewed growth.

The seriousness of the issue was underlined by 2006's drop in sales of film on video/DVD, the second such drop after years of rapid growth and a possible indicator that the challenge to traditional film viewing is occurring across a broader front in the UK. (There was a drop in unit sales of video/DVD as well as in average prices.)

Figure 5.1: The plateau in cinema admissions, UK, 2002–2006

To address this question, the UK Film Council in mid-2006 commissioned a study of substitution effects between cinema attendance, video/DVD viewing and other activities. The research drew on a wide range of sources, including private sector surveys and the National Statistics' Expenditure and Food and Time Use surveys.

The study found clear evidence of a shift in consumer behaviour. Consumers were spending less time watching films at the cinema and on DVD and spending more time on various online activities. The shift was most marked in the 15–24 age group, consistent with anecdotal and other evidence of a surge in online social networking and exchange of audio and audio-visual files by the young.

The study revealed that the cinema plateau had a differential age composition over time. The plateau arrived as early as 1996 for the 15–24 age-group, while older age-groups (particularly the 45+ group) continued to increase their cinema attendance until recently. This differential effect was found to be a combination of demographic changes and changes in the rate of cinema attendance.

The report ends by proposing a more detailed analysis of the National Statistics datasets, international comparisons of film consumption patterns and an econometric study of cinema demand.

A copy of the report can be found at <http://www.ukfilmcouncil.org.uk/usr/downloads/plateau.doc>

6. Does a shorter theatrical window damage box office revenues?

The length of the theatrical window has become a hotly-debated topic within the international film industry. In many countries around the world, the window has been shortening as distributors seek to maximise revenues from DVD sales, minimise the effects of piracy and maximise the impact of theatrical marketing in an era when information travels around the world faster than ever before. In the US, some studio executives have suggested the film industry should consider releasing films simultaneously or near simultaneously in cinemas, on DVD or pay-per-view and that it will be up to consumers to determine how and when they watch them. Theatrical exhibitors have maintained that simultaneous or near simultaneous release would mean 'fewer movies, fewer movie theaters, and [that] consumers would have fewer choices'.¹

More recently, other studio distributors have said that they wish to retain the theatrical window, although they did not specify their view of the optimum length.²

In the UK, a very small number of independent films have been released using a different window strategy. They include *The Road to Guantanamo*, which was released in cinemas, on DVD and online the day after it was shown on Channel 4.

As has been well-documented elsewhere, the economic interests of distributors and exhibitors are different. Distributors have a desire to optimise the balance of revenues obtainable from each window, so as to accrue the largest possible amount of overall income. Exhibitors, who rely exclusively on the theatrical releases, seek to maximise their income from cinema exhibition alone.

Against this background, the UK Film Council commissioned a piece of work by economist Hasan Bakhshi looking at the evidence to date of the revenue implications of shortening the theatrical window. The study used a dataset prepared by the Research and Statistics Unit comprising 804 high-box office films released between 1999 and 2006 for which we had both box office and video/DVD data. The approach taken was to model the length of the theatrical window as a function of box office, DVD penetration and a number of other relevant variables and seek evidence of statistically significant effects. The findings were:

- The length of the average theatrical window fell from 190 days to 125 days between May 1999 and April 2006.
- The growth of the DVD market was a significant influence on the fall in the length of the window.
- The theatrical windows for different films tend to be tightly bunched around the median, despite the wide differences in the theatrical and DVD potential of different films. This suggests the length of the window is set institutionally rather than by market forces alone.
- To date there has been no detectable cannibalisation of theatrical revenues by the reduction of the window.
- During 2004–2006, other (non-measured) factors were also significant. A prime candidate (particularly in view of the plateau work reported in section 5) would be competition from new digital technologies.

Of the above, potentially the most controversial finding is that there has been no detectable cannibalisation of box office revenues to date. This does not mean there may not be a threshold below which cannibalisation will occur, only that at the window lengths so far observed no cannibalisation has occurred.

The policy of the Government and the UK Film Council remains that the length of the theatrical window is a matter for contractual negotiation between the relevant market participants.

For a copy of the report, see <http://www.ukfilmcouncil.org.uk/usr/downloads/Theatrical%20window.doc>

¹ Remarks by John Fithian, president of the National Association of Theater Owners in *Better Mousetrap* Wall Street Journal, 1 October 2005 in response to reported remarks by Bob Iger, President and CEO of the Walt Disney Company. See also transcript of comments by Dick Parsons, Chairman and CEO of Time Warner Inc during an Earnings Conference Call at: <http://online.wsj.com/documents/transcript-tw-20050204.pdf>.

² See, for example, comments by Marc Schmuger, Chairman of Universal Pictures, Rob Moore, President of Worldwide Marketing, Distribution and Home Entertainment, Paramount and Jeff Blake, Vice Chairman, Sony Pictures Entertainment in *Wait Time on DVD releases shrinks*, Los Angeles Times, 12 March 2007.

7. Film on UK television in 2006

Each year the Research and Statistics Unit analyses films shown on UK television, with a particular emphasis on recent (defined as theatrically released within the last eight years) UK films shown on television. For the broadcast channels, the results for 2006 were as follows:

- 2,011 films were shown on the five main network channels in 2006. Channel 4 scheduled the most feature films (580) and ITV1 the least (183).
- Just over one in five films broadcast were of British origin. Three out of every 10 films shown on Channel 4 and a quarter of BBC2's film output were British. Only 7% of films scheduled on Five last year were British.
- 5.2% of films were recent UK titles (i.e. made in the eight years prior to TV broadcast). Over 8% of films shown on BBC1 were recent UK productions, as were 7% of Channel 4 films.
- There has been a gradual decline in the number of films shown on BBC1, BBC2, ITV1 and Channel 4 over the last 10 years – and the total has fallen from 2,807 to 2,011 (a decline of 28%).
- There was a sharp fall in the number of films shown on ITV1 last year, a reflection of the change emphasis of the late-night schedule towards interactive game shows.
- The proportion of recent UK films shown on the main networks has increased over the last five years, from 2.8% in 2002 to 5.2% last year. The share of film scheduling devoted to recent UK product on BBC1 has increased from 3.8% to 8.2% in five years.

Table 7.1 Feature films broadcast on network television 2006

Channel	Number of film slots	Number of UK film slots	UK film as % of total	Recent UK (ie released theatrically since 1999)	Recent UK as % of total film slots
BBC1	367	80	21.8	30	8.2
BBC2	397	103	25.9	20	5.0
ITV1	183	38	20.8	9	4.9
Ch 4	580	181	31.2	42	7.2
Five	484	36	7.4	4	0.8
Total	2,011	438	21.8	105	5.2

Source: DGA Metrics, UK Film Council RSU

Table 7.2 Number of feature films broadcast on network TV 1997-2006

Channel	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BBC1	497	449	394	319	339	342	432	434	356	367
BBC2	541	456	495	513	516	388	448	498	425	397
ITV1	358	300	324	291	284	255	310	270	373	183
Ch4	998	975	774	562	616	544	587	506	563	580
Five	413	551	531	629	641	574	562	529	608	484
Total	2,807	2,731	2,518	2,314	2,396	2,103	2,339	2,237	2,325	2,011

Source: UK Film Council RSU, DGA Metrics

Table 7.3 Percentage of recent UK films (i.e. made in previous eight years) on network TV 2002–2006

Channel	2002	2003	2004	2005	2006
BBC1	3.8	4.6	6.2	8.7	8.2
BBC2	3.4	3.3	9.6	4.2	5.0
ITV1	0.8	3.9	3.3	3.5	4.9
Ch4	5.7	2.6	6.5	5.3	7.2
Five	0.2	0.5	0.4	1.6	0.8
Total	2.8	2.8	5.3	4.4	5.2

Source: UK Film Council RSU, DGA Metrics