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FILM POLICY AND FILM PRODUCTION: THE POTENTIAL OF BALTIC CO-PRODUCTIONS AND NEW FILM FUND

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Abstract

The film industry can be considered the most important in creative industries since it possesses the characteristics of industrial organization, a high degree of demand uncertainty, contractual agreements, and business practices. What is more, the film industry strongly influences the other sub-sectors, because of the broad-based advantages that it delivers in terms of employment and economic growth. On the other hand, the economic value of creative industries does not arise from their relative contribution to economic value, but from the co-ordination of new ideas and technologies thereby influencing change in economic and cultural processes. Since European film industries are fragmented, there is a constant need to rethink possible model for their continuous growth. This is especially relevant in the context of smaller film industries in Europe such as in the Baltic States, because their budgets for film production are relatively small compared to bigger film industries. Therefore, in order to foster new industry development, which would also reflect the regional context of the Baltic States and its location strengths, the potential of co-productions - mission-economy approach is proposed as it emphasizes market co-creation, co-shaping, partnerships between business and public sector and other managerial and technological innovations.

Research purpose and objectives. The aim of the study is to provide new recommendations for the film centres in Lithuania, Latvia and Estonia regarding film policy based on the mission-economy approach. In order to achieve the aim two objectives were set: 1) to analyse the current financial support model for the national film production and co-productions in the Baltic film industries and 2) to investigate whether the Baltic co-productions can have a new value for the audience.

Design / Methodology / Approach. The study used both qualitative and quantitative methods for data extraction and analysis. Firstly, descriptive statistics as a method was used to analyse the financial support for national film production in Lithuanian, Latvian and Estonian film industries during 2018-2023 and the releases of co-produced films between the Baltic States. Furthermore, 6 semi-structured interviews with experts from the Baltic film industries were conducted.

Findings. As a result of the research, the authors conclude that there is long-term potential in the Baltic co-production films, but they have to be more oriented towards the audience and reflect the genre as in the case of Nordic films. Moreover, financial support models for co-productions in the Baltic film industries are different in regard to applications and their management. Therefore, a potentially new “Baltic Film and TV Fund” could be established to foster regional co-productions.

Originality / Value / Practical implications. As a result of the study, the authors have developed recommendations for the film policy that would reflect the new value of the Baltic co-productions. The results of the research can be used by the Lithuanian Film Centre, the National Film Centre of Latvia, and the Estonian Film Institute to continue establishing the “Baltic Film and TV Fund”. The research results will be partly used for further research within the framework of Audrius Dabrovolskas' doctoral thesis.

Keywords: film policy; film production; creative industries; mission economy; Baltic film industries.

JEL codes: M1, Z1, Z110, Z180.

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Introduction

The late 1990s was the period when the appearance of film funds, film commissions and film-friendly policies in Europe experienced certain acceleration influenced by public institutions where creativity was understood not as artistic value, innovativeness or the freedom of expression of talent, but as added economic value, driver of development and the ability to multiply tangible benefits to accrue marketable knowledge (Cucco, 2018). Mitkus and Nedzinskaite-Mitke (2016) emphasized that film industries on a global scale are a growing part of the world economy contributing to film-specific employment and stimulating other economic sectors of the country thus being one of the most important segments of the creative industries. In addition to this, many countries are aiming to grow their creative industries because of the broad-based advantages they deliver, for example in terms of employment, heritage awareness, consumer interest, economic growth, exports, tourism, and so-called national soft power (Olsberg & Barnes, 2014).

Since creativity is not something that only artists or the creative team (writer, director, and producer) do, it is vital to note its role in innovation and the importance of creativity as an application relevant to all the various elements of specialisation involved in content production (Ward, 2004). Furthermore, geography (including filming locations), regional development agendas and the convergence of film production and other forms of content delivery allow us to see the global economy and commodification of culture more neutrally in regard to polemics of national cinema (Ward, 2004). Moreover, different technologies, practices, fields of specialization, and knowledge-intensive jobs formed the core of the creative industries with an emphasis on skill sets that could be applied across a number of industry sectors (Morawetz et al., 2007; Ward, 2004).

On the other hand, market-driven interests are also powerful when national and European film policies are addressed, especially due to the goals of countering US dominance, which require efficient competitive standards (Miranda & Santos, 2024). Small film industries such as Lithuanian, Latvian, and Estonian have a low audiovisual capacity and limited domestic markets for local film production. Consequently, considering the highly uncertain demand for the films and the costs of their production the question is about if producing more films can guarantee more audience. Therefore, the aim of the study is to provide new recommendations for the film centres in Lithuania, Latvia and Estonia concerning film policy based on a mission-economy approach. The latter approach is emphasizing the need for and importance of the policy direction, which can help solve concrete problems.

Literature Review

Film policy and the allocation, the administration of financial support for national film production in Europe are closely interlinked. According to Orankiewicz (2022), there are direct and indirect public support as financial intervention by the public authorities in the day-to-day running of a market sector. In European film industries, there are different support models: starting with the granting of prizes, loans, and credits for film producers, and finishing with the most common assistance to production – subsidies (Guback, 1969). The continued existence of national intervention in the film industry, combined with the proliferation of supra- and infranational initiatives has made policy-making more complex in a world characterised by the bloated profusion of policies and it is paramount to stress the changing role of film policies since policy-making has become increasingly complex due to the dramatic development of technology (Mingant & Tirtaine, 2018). If we look at the global level, sub-national and multicultural perspectives were already emphasized in the 1990s, which shows how complicated is the management of supranational organisations in regard to national film policies (Moran, 1996). On the other hand, small states especially those that dealt with tremendous post-soviet transformation, tend to have more multifunctional ministries, and there is often no clear-cut division between policy formation and implementation (Sarapuu, 2010), which brings to the attention not only economic aspects of national cinema in smaller film industries, but administration and management too.

Susan Ward (2004) has emphasized that convergence has caused governments worldwide to rethink film policy that acknowledges film and television as part of a much larger ‘creative sector. Changing film policy partially came from the development of the global film industry, which started to be viewed as a shining example of a "new economy" (Morawetz et al., 2007). Another argument was related to the specifics of geographical location, which provides a competitive advantage and especially how that information could be used later. Cunningham et al. (2008) highlighted four cultural and economic approaches that reveal the connections between technology and business in the cultural economy on a global scale.

The first (welfare) approach is characterized as a "subsidy approach" because the creation of public goods requires subsidies or state support since the economic value of these products does not meet the value criteria established in the market economy. The value of these products can still be defined as non-market value because cultural activities have a negative impact on the state economy due to higher consumption of resources – more resources are used rather than created (Cunningham et al., 2008). If we apply this model to film industries in Europe, there is a belief that national cinema plays an important role in negotiating cultural identity and articulating social consciousness (Gao, 2009), consequently, this prevents interruption of subsidies for the national film production based only on economic results. On the other hand, for a film to become a cultural object additional factors must be met – the film has to be viewed by an audience (Mitkus & Nedzinskaite-Mitke, 2016).

The second (competition) approach differs from the first in a way it characterizes the creative industries as being the same industry as any other. This argument is based on the fact that creative industries are neutral in relation to the country‘s economy, as their productivity, influence on the creation and development of technologies and the promotion of innovation do not exceed the average contribution of other sectors (Cunningham et al., 2008). The problem with this model is that film industries in Europe are usually not successful economically in comparison to the Hollywood film industry and partially it is because of the cultural and artistic approach, which was applied in Europe while forgetting the profit.

The third (growth) approach reveals a positive relationship between economic growth in the creative industries and the overall economy of the country. In this context, creative industries are a catalyst for growth as they create new value in the global market economy, while culture becomes a crucial factor due to its added value in the overall economy and increased attention to it (Cunningham et al., 2008). Mitkus and Nedzinskaite-Mitke (2016) highlighted the importance of economic outcomes for the country's development, which is generated by the film industry and especially the film production services sector, which contributes to the local economy.

The fourth (innovation or creative economy) approach is described as an element of the innovation system in the economy. The economic value of creative industries does not arise from their relative contribution to economic value, but from the co-ordination of new ideas and technologies thereby influencing change in economic and cultural processes. Also, co-production and in general international projects that usually have considerably larger budgets than the Baltic films often bring with them the latest innovations in film or other technical novelties, which allows local filmmaking crews to renew and develop their knowledge (Mitkus & Nedzinskaite-Mitke, 2016). Skilled production and its service sector means not only foreign money is left in the local economy, but also the employment, experience and acquired skills that later are used Mitkus & Nedzinskaite-Mitke, 2016).

The latter model is relevant in the context of policy missions since they are related to the direction and concrete problems to be solved. According to Kattel and Mazzucato (2018), mission-oriented innovation policy relies on two pillars:

1. Setting a purpose for public investments;

2. Creating conditions for new markets: enabling spillovers from "big science" in the form of new demand and supply.

Since mission-oriented innovation policy is a market-shaping public investment and policy framework that aims to shift the direction of innovation systems, market failure as proposed by creative industries in the welfare "subsidy approach," is not an approach to be followed as a theoretical foundation for public sector activities. To create new value, which would be generated collectively by a range of stakeholders, including the private sector, the state and civil society, the market and the economy itself should be seen as an outcome of the interactions and the state should be considered as a lead investor and risk-taker (Mazzucato et al., 2019). According to Foray (2018), mission-oriented policy is not only about centralized strategic decision-making, governance, and evaluation capabilities but also concerns a logic of strategic choice, selection, and establishment of priorities with a logic of decentralized and entrepreneurial information and initiatives. If the role of the public sector is limited to one that simply "administers", "fixes", "regulates", and at best "facilitates" and "de-risks" the private sector, it prevents us from thinking creatively about how to allow public sector vision, risk-taking, and investment to lead and structure the necessary transformational changes (Mazzucato, 2016). Mazzucato (2016) also suggests the necessity of transformational changes in public policy since certain organizational culture and policy capacity are required because if certain failures (that could be considered as learning opportunities) resulting from experimentations are allowed, then the next round can be financed using the rewards coming out from successes. According to Lindner et al. (2016), these transformations are paramount, because new practices that are established allow institutions to continue operating with the aim of improving innovation capacities by 'getting the structures right,' thereby overtaking the question of 'getting the structures right to achieve what?' One of the aims might be related to diffusing new technologies since activities and interactions of a network of institutions in the public and private sectors are to initiate, import, and modify them (Freeman, 1995), but the market itself must be redefined as an outcome of the interactions between different agents, including public policy makers (Mazzucato, 2016). In the organizational context, there is a necessity to transform public organizations into ones that welcome learning, experimentation and self-discovery and the crucial element in organizing the state for its market-creating role is building absorptive capacity (Cohen & Levinthal, 1990). This capacity would allow public agencies to learn in a process of investment, discovery and experimentation and see policy as a process.

Research Methodology

The aim of the research is to provide new recommendations for the film centres in Lithuania, Latvia, and Estonia in regard to film policy based on a mission-economy approach. Objectives were formulated as follows: 1) to analyse the current financial support model for the national film production and co-productions in the Baltic film industries and 2) to investigate whether the Baltic co-productions can have a new value for the audience.

For the first objective, the critical analysis of statistical data (financial support for national film production, market share of national film production, the number of co-produced films and TOP-10 most watched co-productions) was selected. The critical analysis of statistical data was based on descriptive statistics (Vaughan, 2001). The statistical data was collected from *Facts and Figures* reports published during the 2015-2024 period. The reports are published every year by the Lithuanian Film Centre, the National Film Centre of Latvia, and the Estonian Film Institute.

For the second objective, the content analysis of the interviews was selected. 15 questions for the experts of the Baltic film industries were prepared according to the mission economy principles that are applied in the context of film policy (financing, market shaping and co-creation, innovations, and partnerships).

In total – 6 experts were selected. Three experts represented the Lithuanian Film Centre, the National Film Centre of Latvia, and the Estonian Film Institute that on a daily basis deal either with financial support administration for national film production and co-production or are responsible for the most important decision-making related to film policy. The other three experts were represented by film production companies that deal with co-productions and at least had one production that reached TOP-10 most watched films per year in the Baltic States – Fralita Films (Lithuania), Ego Media (Latvia) and Allfilm (Estonia).

Interviews were taken in October-November of 2023. The length of the semi-structured interviews was ranging from 34 to 64 minutes. 5 interviews were conducted and recorded using the MS Teams platform and one interview was conducted via email. The analysis of information gathered from semi-structured interviews with the experts was performed using the content analysis method (Bryman & Bell, 2007), which was applied in order to code, categorize, evaluate, and calculate the frequency of the answers from experts of the film industries. The categories and their evaluations are represented in the tables number 2 to 7. The evaluations that were provided by the experts are structured by the highest frequency meaning the higher the frequency – the more matching evaluation between all experts that were interviewed.

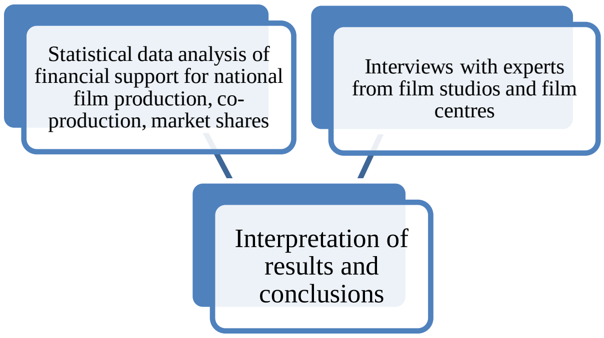

Fig. 1. Research methodology (Source: created by the authors)

Figure 1 represents the use of a mixed-method approach, which allows to capitalize on the strengths of each while offsetting their respective weaknesses and is useful when it comes to data evaluation and triangulation. This is useful when different aspects of a phenomenon are studied such as financial support for national film production and co-production, the decisions taken in order to shape the market, and where the relationship between macro and micro levels are explored (Bryman & Bell, 2007).

Research Results

While comparing the financial support for national film production in Lithuania, Latvia, and Estonia it is noticeable the growth especially from 2019 till 2021 and then from 2022 and further on.

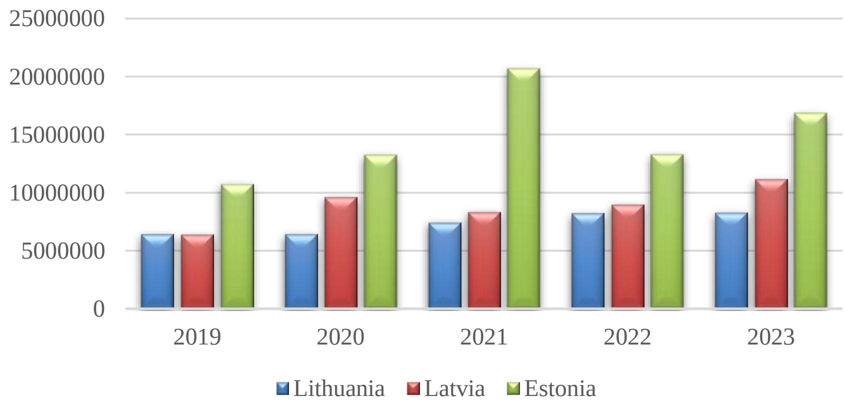

Fig. 2. Financial support (EUR) for national film production in the Baltic film industries (Source: Facts and Figures, 2023, 2024)

The increase in financial support does not always guarantee the growth of attendance and market shares. Figure 3 indicates that while Lithuanian and Latvian film production received more financial support, the market share of national films decreased in recent years. A similar situation happened in Estonia, and this might be related to post-covid influence on the audience since from 2022 the market share of Estonian films started again to increase.

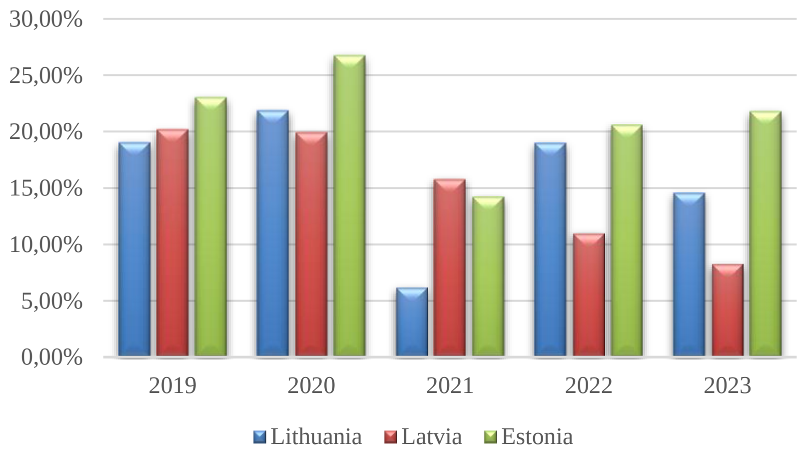

Fig. 3. National film production market share in the Baltic film industries (Source: Facts and Figures, 2024)

Another paramount factor is the increasing number of co-productions between the Baltic States and other countries. The Baltic countries are co-producing more than twice as many films compared to the 2015-2018 period when only 10 films (Dabrovolskas, 2023) were produced between Lithuania, Latvia, and Estonia.

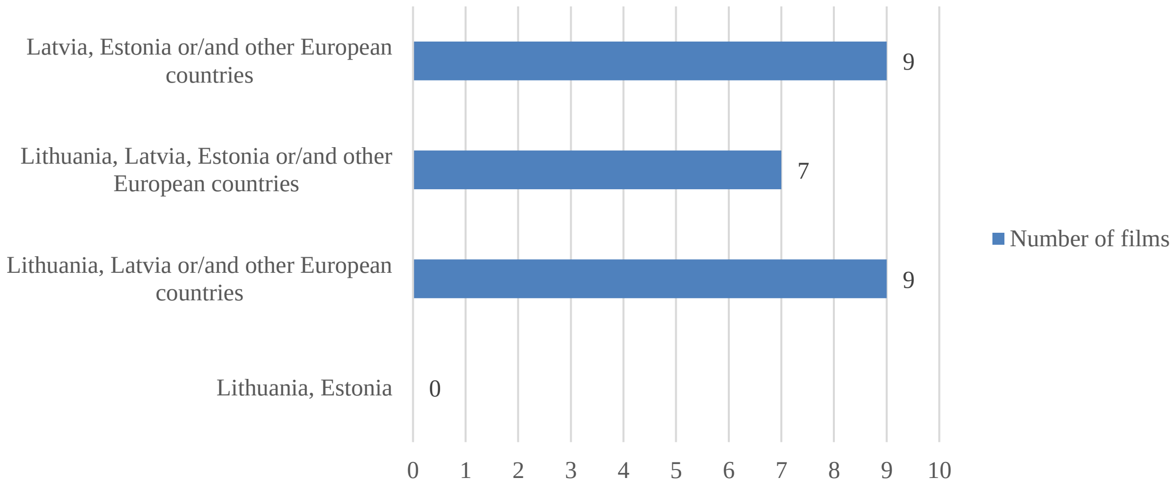

Fig. 4. Co-produced films between Lithuania, Latvia, Estonia, and other countries during 2019-2023 (Source: Facts and Figures, 2024, 2023, 2022, 2021, 2020)

Moreover, the Baltic co-productions started to be recognised by the audience. Especially, the co-produced films are visible and visited in cinema theatres in Latvia and Estonia since they were the major co-production countries.

Table 1. Baltic co-productions in TOP-10 most watched films per year (Source: Facts and Figures, 2023, 2022, 2021, 2018, 2015)

Year	Film title	Production country	Admissions	GBO (EUR)	Position in TOP-1O	Exhibition country
2022	January/Janvāris	Latvia/Lithuania/Poland	35267	152620	10	Latvia

2021	The Sign Painter/Pilsēta pie upes	Latvia/Czech Republic/Lithuania	70372	309567	1	Latvia
2020	Dawn of War/O2	Estonia/Finland/Latvia/ Lithuania	75270	489137	4	Estonia
2017	Sangarid/ The Dissidents	Estonia/Latvia/Finland	85306	480610	4	Estonia
2014	Lošėjas/Spēlmanis/The Gambler	Lithuania/Latvia	7 891	357144	8	Lithuania

When we take into consideration that 10 years ago the question was about domestic films in TOP-10 and their market shares in Lithuania, Latvia, and Estonia, but recently it is noticeable the potential of Baltic co-productions that already can reach TOP-10. For instance, at least two co-produced films in Latvia and Estonia were reaching a significant number of admissions between the 2017 and 2022 period. It means that there is already an audience interested in the Baltic co-productions. Therefore, the question is about what factors have an influence on this type of film production.

Table 2. National film production and its financing (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
National film production	Culture and its policy, tradition, national identity, art, and economic element	5
	Relevant to the audience	4
	More financing needed	4
	Market share of national films is increasing	3
	Not enough investment in film marketing	2
	Film is stuck in old funding models	2
	Bigger box office of national films creates interest for private capital to invest	2
	Family (genre) oriented films do better	1
	Lack of cinema theatres in regions	1

Information provided in Table 2 indicates that national cinema in the Baltic film industries is considered a culture and art that needs policy, yet at the same time economic element is recognized. This is especially relevant in the context of financial support, which is still needed even though national cinema is increasingly relevant to the local audience.

Table 3. Market shaping and co-creating (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
Future trends of national film production	Adaptation to market changes (for instance, more production of TV series)	2
	Separate support scheme for genre films is needed (for example, for children and youth films)	2
	More focus on the target audience	2
	Technological and genre developments	2
	Balance between art and entertainment	2
	Local talent	1
	Film education is needed to grow the audience for national films and Baltic co-productions	1

Therefore, the future trends of national cinema in Lithuania, Latvia and Estonia are related to adaptation to market changes, more focus on the target audience, genre films and their development together with separate support schemes. Similarly, the potential of Baltic co-productions is recognized.

Table 4. Co-production and its financing in the Baltic film industries (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
Co-production	Majority co-production attracts audience and minority does not (target audience and unknown Baltic actor problems)	5
	TV and VOD distribution is selected instead of exhibition in cinema theatres (distribution problems)	5
	If filmmakers have stories that travel to other Baltic States – co-production is natural	5
	Special support scheme for minority co-production needed or higher financing in general	4
	Potential in future (also, currently becoming increasingly accessible in all Baltic States)	4
	Baltic Film and TV Fund would be relevant for film production companies doing co-productions, but political agreement to boost cooperation is needed	3
	Competitive advantage and skills in filmmaking that international environment creates	3
	The biggest problem is language if the film is not in English	3
	Orientation towards genre films and involving broadcasters	2
	Programmes that support Baltic development (Baltic-Italian)	2
	Film policy should address the demand of markets	1

Current limiting factors of Baltic co-productions and their attendance are related to unknown Baltic actors, who are only known in their home country, languages, targeting the audience and distribution. Since minority co-productions are not attracting enough audiences to cinema theatres, video-on-demand distribution is selected and partially solves the problem of attendance. On the other hand, better stories and scripts are needed to attract the audience too. At the moment small TV series are produced in Latvia, but higher financing in general is needed. There is potential in future related to dubbing films for children and using more actors from minority co-production partners.

Table 5. Innovations in the Baltic film industries regarding national film production (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
Innovations	AI engagement in the system of film policy management and administration (for instance, application submission) needed	3
	Erasmus exchange for short mobility as an opportunity for scriptwriters to exchange ideas in the Baltic States or other European countries	3
	Lack of strategy and funding to foster sustainability in the film industry	3
	Private facilitators could more engage in supporting local content (film and TV series)	2
	Public participation, which allows one to express an opinion about evaluating certain film projects (currently working in Latvia)	2
	Changes are needed in the way financing is being provided for the film centres and also cash rebates for private investors in the local market (not only for foreign film production)	2

If we analyse innovations that are needed for the development of the Baltic film industries, AI engagement is mentioned to design the application system for financial support and its administration as well as the lack of strategy and funding to foster sustainability of the industry. Erasmus+ short mobilities were mentioned too, which would potentially help to develop better scripts for the Baltic films.

Table 6. Partnerships in the Baltic film industries regarding film production (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
Partnerships between public and private sectors	Film centre is a platform that unites producers and other film associations	3
	Film centres and film producers cooperate when promoting films locally or internationally (in film festivals)	2
	In regard to film policy, only exchange of information is possible, but not one Baltic film policy	1
	Experts from film distribution companies could be involved in decision-making (expert commissions that decide about financial support for film production)	1

In regard to partnerships, film centres already help to unite producers, and other associations and public participation in Latvia is useful, because it allows different experts to express their opinions even though not always the National Film Centre of Latvia use it when deciding about financial support for national film production.

When producers apply for co-production support they face different deadlines in Lithuania, Latvia, and Estonia. If a regional fund were established it could result in a different system. Another issue is related to support schemes for co-production. Currently, co-productions compete for financing altogether with other applications therefore there is a need for a separate support scheme for the films that would compete with the same genre films.

Table 7. The Baltic Film and TV Fund (Source: Author collected interviews with experts)

Categories	Evaluation	Frequency
Joining Nordic Film and TV Fund	We would be happy to join, but not ready yet, because of lack of financing	3
	Baltic public broadcasters' investment policy and attitude, which is not in favour of local productions	1
	Joining would be better for the Baltic film industries and then it would be possible to have third co-production country from Nordic region	1
Baltic Film and TV Fund	Would allow to create stronger films and is needed	4
	Would allow being more visible and stay more relevant, supported by the audience, and would foster Baltic co-productions	2
	Would allow one to represent all three Baltic States and participate in bigger projects	2
	Would solve deadline problems of co-production applications that apply for financial support in Lithuania, Latvia, and Estonia	2
	One national cinema might dissolve, because of competition	1

For a high-quality product that would target an international audience more funding should be allocated and the Baltic Film and TV Fund could potentially do this. The Fund would also help to foster Baltic co-productions and would allow to represent all three Baltic States. Positioning the Baltic film industries as a region in European film industries potentially could attract bigger projects to work with.

If we compare the situation in other small film industries in Europe such as in Scotland, Ireland, and Denmark (MacPherson, 2010), there is either a weak positive, slight positive or moderate positive correlation between production volume and market share. It means that the more financing is allocated the more it can impact the market share of the films. On the other hand, financial factors are not the only ones to consider since the successful completion of major productions such as *The Frighteners, Hercules* and *Xena* enhanced New Zealand's reputation as a potential film location and paved the way to the making of *The Lord of the Rings* trilogy (Leotta, 2015). Moreover, the so-called Nordic countries have the tendency to select policy solutions that are consensual and based on consultation with both public and private stakeholders, which also reflects the Nordic Model or Media Welfare State (Ibrus & Rohn, 2019). The establishment of the Nordic Film and Television Fund in 1990 constituted a move towards international co-production and distribution for both television and film, which also meant a stronger position of audiovisual content in the Nordic region and beyond while intensifying cross-boundary cooperation (Ibrus & Rohn, 2019) that is needed in creative industries.

Conclusions

Looking from the creative industries' perspective film industries in Europe would match the welfare or "subsidy approach," because of the government's active support for national film production. The current financial support model of the Baltic film industries is no exception and as it is possible to notice – the growth of this type of support does not always guarantee that national film production will reach bigger market shares. As research results showed, there is already a lack of investment in marketing, which is a separate – film distribution problem. Moreover, the future trends are related to market adaptation, separate support schemes for genre films and also rethinking the current financial support model.

As it is possible to see from the descriptive statistics analysis and interviews with film industry experts, co-productions between Lithuania, Latvia, Estonia, and other European countries are growing and there is a potentially new value for the Baltic film industries, its films and region. Even though the audience is still not as interested – especially if we take into consideration the minority co-production, the exchange of ideas, and technical personnel and portraying the Baltic locations are needed to promote competitive advantage, skills and positioning the Baltic region internationally to attract bigger film productions (also from Hollywood film industry).

Looking from a mission-economy perspective, there is still a constant need for innovations and partnerships between business and the public sector. Some society and business experts' involvement in the Baltic film industries is related to public participation, which allows expressing an opinion about evaluating certain film projects (in Latvia), but sustainability is not addressed strategically, AI engagement is about to be used in future, Erasmus+ short mobilities are also not used as much to foster future script writer collaboration in Lithuania, Latvia and Estonia.

Partnerships are working in a limited way where film centres in the Baltic States are only acting as platforms to unite producers. Consequently, there is a need for a new structure that would allow to unite more industry players such as public broadcasters to invest more in film production, which could be not only local but regional. More financial support for the Baltic co-productions, its distribution, and the involvement of public and private sectors to exchange management practices and to foster new value, co-creation and co-shaping of the Baltic film production markets are necessary for the economic growth, stronger films, and their better visibility. The Baltic Film and TV Fund would be a new step and a challenge for the Baltic film industries but is necessary in order to address the issues of the film policy.

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