



MALTA FILM COMMISSION

ECONOMIC IMPACT ASSESSMENT: REVISED CASH REBATE EFFECT



MALTAFILM
COMMISSION

MaltaFilm.com

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Produced on behalf of the Malta Film Commission by
Sagalytics

 Sagalytics

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EXECUTIVE SUMMARY

This report presents the estimated domestic economic impact from the revision of the cash rebate scheme in 2019 that makes Malta one of the most attractive countries for pre and post-production activities thus further strengthening Malta's position as a Mediterranean hotspot for production companies alike and adding to its competitive edge globally. This revision will see the change of the cash rebate reimbursement ratio for eligible expenditure covered under the cash rebate scheme to increase from 27% to 40%.

A qualitative and quantitative review of market demographics, current facilities, fiscal regimes and further economic implications have been undertaken to identify the main contributing factors that add to the overall GVA of the local film and TV industry both directly and indirectly due to added generated demand solely due to this revision.

Upon an in-depth evaluation of current fiscal regimes in other countries worldwide, the 40% of eligible cost grant has contributed significantly to production demand whilst yielding considerable spill-over benefits in the form of direct injections and indirect effects, over the years 2019 to 2021, the period within which the cash rebate revision was in effect.

As such, the report will present the following analysis:

- An overview of MFC through MFS' current facilities, background and recent production expenditure
- In-depth industry analysis of the local film and TV sector, the cash rebate guideline changes and full evaluation of fiscal regimes globally as well as an estimation of the added demand generation solely due to the rebate revision.
- Assessment of direct effects ie the first-round, expenditure impacts from added production Malta spend upon the basis of clearly defined assumptions
- Quantification and evaluation of the wider economic impacts delivered from the added expenditure further segregated into a sector-by-sector analysis (through NACE classification). This through NSO provided input-output multiplier methodology and estimates (using Type I and Type II Multipliers).
- The aggregated comprehensive resulting impact of the revision within the local context including but not estimated as the value added by 'screen tourism' and other cultural and educational benefits.
- Overall conclusions regarding the MFC revision.

Resulting Economic Impact

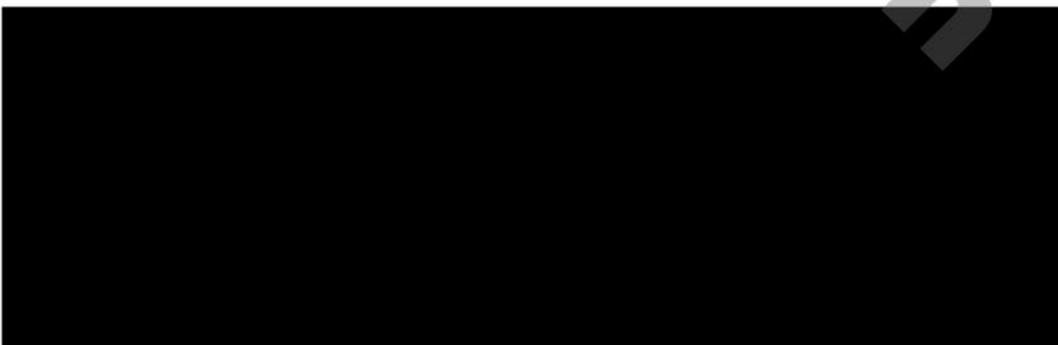




TABLE OF CONTENTS

1 - INTRODUCTION	7
1.1 Overview	7
1.2 Purpose and Scope.....	7
1.3 Methodological Approach and Data Sources.....	8
1.3.1 - Overview of Methodology.....	8
1.3.2 - Multiplier Approach Description	9
1.3.3 - Additional Research.....	11
1.3.4 - Data	11
1.4 Structure of the Report.....	12
2 – MALTA FILM COMMISSION: THE LOCAL FILM AND TELEVISION INDUSTRY	13
2.1 Introduction	13
2.2 Local Film Industry Background	13
2.3 MFC Context and Market Demographics	14
2.3.1 – Current Context.....	14
2.3.2 – Domestic Market SWOT Analysis.....	15
2.4 Recent Productions	16
3 – FINANCIAL AND FISCAL INCENTIVES	17
3.1 Introduction	17
3.2 Global Incentives Profile	17
3.3 Revised Cash Rebate Scheme.....	19
3.3.1 [REDACTED].....	19
3.3.2 – Overview: The Cash Rebate Scheme.....	20
3.3.3 [REDACTED].....	21
3.3.4 [REDACTED].....	22
3.4 [REDACTED].....	22
4 – [REDACTED]	25
4.1 [REDACTED].....	25
4.2 [REDACTED].....	25
4.3 [REDACTED].....	28
4.4 [REDACTED].....	28
4.5 [REDACTED].....	28

4.4		29
4		29
4		31
4		31
4		32
4.5		33
5 - CONCLUSION		34
APPENDIX		35
A - Glossary		35
B - Ancillary Documentation		36
C - Technical Reports		36

LIST OF FIGURES

Figure 1 - Total Economic Impact Methodology	9
Figure 2 - Multiplier Breakdown Methodology	10
Figure 3 - Market Analysis	15
Figure 4 - Malta Attractiveness Factors	16
Figure 5 - Annual Malta Spend (Eur Millions)	23

LIST OF TABLES

Table 1 - Global Financial and Fiscal Incentives Comparison	19
Table 2 - Annual Malta Spend and Cash Rebate Effect	23
Table 3 - Average Ratio of Expenditure to Total Malta Spend by Expenditure Category	24
Table 4 - Output Multipliers By NACE	26
Table 5 - Gross Value-Added Multipliers By Nace	26
Table 6 - Income-Output (COE) Multipliers By Nace	27
Table 7 - Employment-Output Multipliers By Nace	27
Table 8 - Pro-Rata Malta Spend by NACE	28
Table 9 - Direct employment multiplier for NACE CODE 36 – Motion picture, video and television	29
Table 10 - Type I and Type II Multiplier Effects for 2019	29
Table 11 - Type I AND Type II Multiplier Effects For 2020	30

Table 12 - Type I and Type II Multiplier Effects For 2021.....	30
Table 13 - Type I and Type II Multiplier Effects Per Year.....	31
Table 14 - Indirect and Induced Generated Employment.....	31
Table 15 - Tax Contributions Effect.....	32
Table 16 - Sector By NACE Value-Added.....	32

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1 - INTRODUCTION

1.1 Overview

For nearly a century, Malta has established itself to be a prominent film destination for all genres of productions. It's geographical location, climate and resources coupled with the various financial incentives issued by local government and authorities have fuelled significant interest from producers worldwide, most recently over the past decade. As such, Sagalytics was appointed to conduct an economic impact assessment of the Malta Film Commission's increase in cash rebates from 27% to 40% of eligible expenditure, including a wider definition of eligible above-the-line (ATL) labour costs. This to the end of identifying and quantifying the direct additional demand generated by film and television production together with the consequent indirect effect on other sectoral segments by this investment.

Through one of the largest production facilities in the world, the Malta Film Studios (MFS) has attracted world renowned producers, contributing to the production of feature films and TV series of box office receipts of more than 400 million euro worldwide, with more than 200 million euro in foreign direct investment injected into Malta's domestic economy. It is most predominantly known for its special effects water tank facilities that offer a naturally seamless horizon, as the main backdrop to various successful motion pictures. This to the likes of 'Captain Phillips' and 'By the Sea', managed by their experienced SFX crew that merit credit to their acclaimed reputation.

Notable increase in demand has been recorded, cemented through recent increases in film incentives such as the 40% cash rebate that increase Malta's competitive edge globally, attested to by this impact assesment. Albeit subject to cultural eligibility criteria, such incentives coupled with the recent construction and operation of multi-level soundstages are considered to be 'a game changer' by prominent German producer Holger Reibiger, who recently shot the high-end TV series 'Das Boot' in Malta for a third consecutive year covering over 120 production days and employing over 800 maltese crew, cast and extras at an average Malta spend of €7 million per season.

1.2 Purpose and Scope

The purpose of this project is to conduct an economic impact report determining and assessing the direct and indirect effects generated by the value added of the 2019 increase in cash rebate available to eligible audio-visual productions from 27% to 40%. This will involve an in-depth analysis of the spill-over effects generated by the increase in eligible productions (forecasted through potential demand) resulting from this increase in cash rebate, onto other sectors of the domestic economy.

The main objective of this evaluation, as outlined in these Terms of Reference is thus, to analyse and derive the direct, first round effects generated from the additional potential demand as estimated by a recent MFS regeneration study, Cash rebate Option Appraisal by Saffrey Champness and RSM Review of the same Options Appraisal in extending effects to 2020 and 2021 productions. More relevant, is to thereafter identify, quantify and evaluate the indirect value-added that is generated onto the wider sectoral dynamic, in the form of multiplier effects via Leontief demand coefficients, within the domestic economy.

1.3 Methodological Approach and Data Sources

1.3.1 Overview of Methodology

The study will measure the value-added in film productivity as directly generated from the loosening of cash rebate regulation, particularly in relation to above-the-line (ATL) labour costs, and overall increase in total rebate available. The baseline year of additional demand will be founded on Saffrey and Champness' (2020) evaluation for 2019 potential generated demand. Furthermore, the study will thereafter utilise projections of generated demand via the Saffrey Champness (2020 report) for 2019 expenditure and RSM's review and estimation of 2020 and 2021 expenditure to add to the final generated demand, pro-rata to the increase in demand estimated in the previous report to derive an estimate for the increase in audio-visual productions solely due to the revision of the cash rebate incentive.

Data, provided by MFC, listing the total film and production expenditure breakdown by sector will be used to estimate the wider impact of the additionally generated demand onto the wider sectoral base. Using Leontief coefficients, in data also provided by MFC, the study will thereafter estimate the sectoral value-added generated by the increase in demand due to the cash rebate revision. The study will also be utilising updated multiplier data from the 2008 original study (thereafter reviewed via 2015 Working Paper by the same author) published by the Central Bank of Malta to estimate corresponding total income, employment and output multiplier effects by NACE. This allows for a more 'disaggregated approach' that better captures the individual component effects generated by this revision.

The analysis follows a quantitative incremental methodology that captures an estimate of each expenditure segment categorised by NACE. This to ensure that only the benefits associated with and brought about directly because of the fiscal revision are captured. As such, these levels are evaluated in three distinct stages as depicted in Figure 1 below;

- The direct expenditure accrued from generation of added demand as a direct result of the cash rebate revision for the three-year term, in totality as well as on a disaggregate sector-by-sector basis via Leontief coefficient multipliers.
- The wider economic impact of this direct expenditure calculated by multiplying the identified direct expenditure to local industry multipliers (indirect and induced effects).
- The value of exposure through 'screen tourism' advertising in box office receipts, social or otherwise, that spill over onto future demand and add to Malta's GVA.

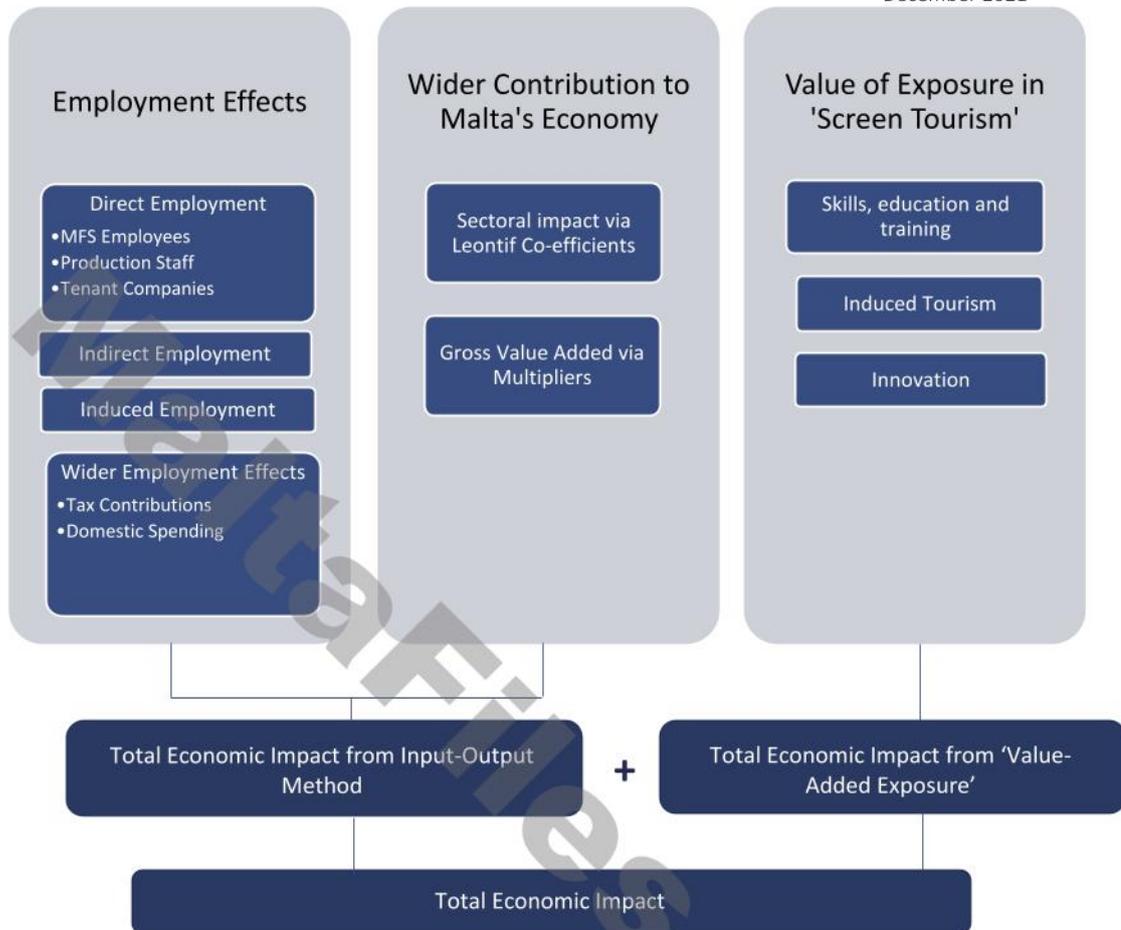


FIGURE 1 - TOTAL ECONOMIC IMPACT METHODOLOGY

1.3.2 Multiplier Approach Description

Local industry multipliers provide detailed information on the production processes, the interdependencies of sectoral production's value-added, the use of goods and services and consequent generation of income catalysed in production. In other words, they show the structure of the costs of production and income generated within that production process together with the indirect and induced latent value-added effects on the flow of goods and services produced within the national economy. Derived via the use of Leontief-Demand estimation techniques, such multipliers allow for the analysis of the impact of a potential increase in demand for a particular industry on the demand for other industries either on a sectoral or a more component-segregated basis. The consequent overarching impact will thus be segregated as follows:

- **Direct Effect** - The economic impact generated from employment and additional Malta spend that directly result from the revision of the cash rebate scheme

- **Indirect Effect** - The impact generated through supply chain interdependencies, or 'business-to-business' transactions, indirectly brought about by the initial level of additional Malta spending. This will increase through the generation of additional demand for local goods and services such as accommodation and food related activities captured through the multiplier indices.
- **Induced Effects** - The impact of spending relative to respective industries that add to generated demand within the domestic economy.

The overall economic impact will thus be the summation of all incremental benefits through direct effects and multiplier calculated indirect and induced effects. Noteworthy of mention are the two types of multipliers to be employed, summarised in Figure 2 below:

- **Type I Multipliers** – These are used to measure the economic impact derived from the direct and indirect effects
- **Type II Multipliers** – These are used to measure the economic impact derived from all three effects ie. direct, indirect and induced.

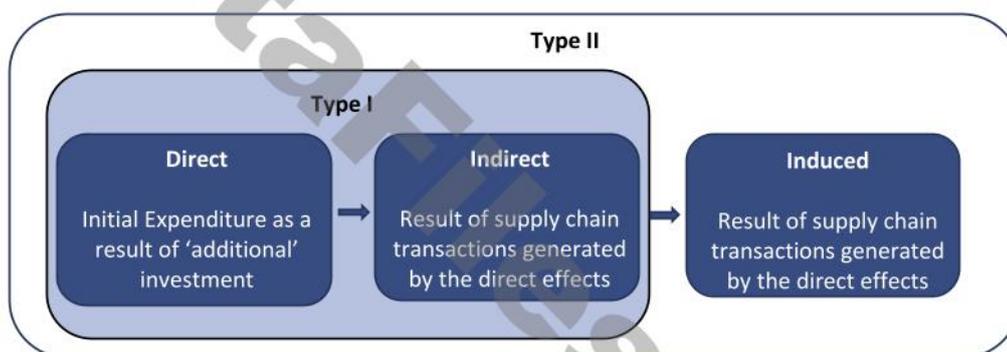


FIGURE 2 - MULTIPLIER BREAKDOWN METHODOLOGY

Limitations of Multiplier Methodology

While multipliers have been the go-to economic tools in estimating industry-specific economic impacts, one must bear in mind that such are simply estimates and in no way represent the actual stimulus, cause and effect of the industry with complete accuracy. Moreover, Malta's most recent input-output tables date back to 2010 values (Revised in 2015) and as such are not perfectly representative of current trends, albeit still widely used due to a lack of significant structural change in the composition of our local economic sectors. As such, we do not expect this limitation to hinder our estimates of economic contribution given that no significant inter-industry relationships have changed since the date of composition of these indicators¹.

¹ Multipliers will be extracted from a 2015 publication by the Central Bank of Malta annexed in this report.

Additionally, Oosterhaven, Peik and Stedler (1986)² assert that the true economic impact lies between Type I and Type II multipliers. This due to the fact that Type I multiplier calculations tend to omit household and factor income activities that underestimate the true economic effects. On the other hand, Type II multipliers are criticised for overestimating the same effects by applying more stringent assumptions on household behaviour and consumption patterns. For this reason, we contend that the true economic impact lies somewhere in between, by calculating both multipliers in our analysis.

We also point out that expenditure data by recent productions per film size category, directly referenced within this report, have been provided by MFC and as such were taken at face value as valid and representative estimates for generated demand. Due to the nature of this evaluation, certain assumptions regarding generated demand and Expenditure to NACE ratios needed to be undertaken, that directly affect the total economic impact reported in this analysis. All assumptions will be clearly defined in relevant sections.

1.3.3 Additional Research

Supplementary to this, the report will feature an in-depth analysis of the local industry sphere, Malta spend categorisations per production segregated by production size together with a thorough review of the global and local fiscal incentives landscape for production companies worldwide. This to the end of getting a better understanding of the various fiscal regimes and value-added to the local economy that merits or discredits the revision in cash rebate scheme in Malta. This all solidified with market demand research as part of the qualitative analysis in the economic impact assessment, whereby such will provide an all-rounder perspective in terms of demand, attractiveness and estimated impacts. This all will be compiled from independent research together with references from the data reports provided by MFC, including Saffery and Champness' Options Appraisal together with RSM's Review of the same Options Appraisal within the local context.

1.3.4 Data

This evaluation has thus been informed by evidence drawn from the following sources:

- *MFC* – consultations with management, detailed expenditure break-downs by film category and multiplier estimate reports that have been reviewed and analysed³.
- *Market and Fiscal Regime Reviews* – Market demographic and fiscal structure assessments within the local and international context.
- *Sector Specific Reports* – Various reports have been reviewed and data sources analysed from relevant entities such as the Malta Film Commission, Nordicity and RSM Malta.
- *National Policy Documents* – A review of national policy documents such as the National Film Policy and the MFC's Cash Rebate Guidelines on Financial Incentives for the Audiovisual Industry
- *National Data Statistics* - a vast array of published data sets directly or indirectly involving the creative arts specifically motion picture and film industry have been analysed and

² Oosterhaven, J., Peik, G. and Stedler, D., (1986) - Theory and Practice of Updating Regional Versus Interregional Interindustry Tables

³ Data relating to total Malta spend is based on effective Malta spend

reported. This was extracted from published reports by the National Statistics Office (NSO) and Central Bank of Malta (CB)

1.4 Structure of the Report

The report will proceed as follows; Section 2 provides an overview of the Malta Film Commission, including its context and current facilities via the Malta Film Studios (MFS), together with recent major feature film and TV series productions. Section 3 will delve deeper into the various financial incentives that stimulate local film and TV production investment together with forecasted generated demand over the three-year period within which the cash rebate increase was in effect. Section 4 will estimate and assess the segregated and aggregate economic impact of the cash rebate increase within the domestic economic context, together with any wider contributions to policy objectives. Section 5 will conclude.

2 – MALTA FILM COMMISSION: THE LOCAL FILM AND TELEVISION INDUSTRY

2.1 Introduction

This section details the local setting within which the film and television industry operates. It also outlines the context within which this analysis is undertaken together with an overview of recent productions serviced by both MFS and MFC on a wider scale.

2.2 Local Film Industry Background

Within recent decades, Malta has positioned itself as a top Mediterranean film location and production hub specialising in exterior filming, with high-budget and ranking films and TV series from producers worldwide. These to the likes of world-renowned productions such as 'Troy', 'Gladiators', 'Popeye', 'Munich' and more recently 'Captain Phillips' ranking over a billion euro in combined worldwide box office receipts alone. In line with current market demographics, Netflix series 'Sense8' has paved the way for powerful cable TV networks to be filmed in Malta, to be followed by Foundation, Apple+ TV's flagship series aired on September 24th of 2021 to date and "The Last Voyage of the Demeter" recently shot in Malta.

The frequency of international filming in Malta has increased more than tenfold over the past two decades, substantially propelled by the introduction of a series of cash rebates by the Malta Film Commission. As stated by the Malta Film Commissioner Johann Grech, since 2019 alone, over 21 films and TV productions were filmed in Malta, totalling over €40 million as a direct injection contribution to the Maltese economy with local crews working on back-to-back projects since May 2018⁴. In the last 13 months, even during the COVID-19 global pandemic, circa 21 productions have been shot locally generating over €75 million within the domestic economy⁵.

Within the local context, since 2018 alone, more than 16 different local service providers have been engaged in more than 35 productions beneficial not only from a financial perspective but also in terms of exposure and spill-over skill generation. This is reflected in the National Statistics Office (NSO)'s annual report, whereby a 43% increase in employment statistics within the local film sector between 2018 and 2020, sub-classified as 'Motion picture, video and television programme production, sound recording and music publishing activities', was recorded⁶. This followed by a National Film Policy dubbed "An important achievement, with the Malta Film studios as instrumental in the evolution of our industry." by Commissioner Grech.

⁴ This information was revealed in the Malta Film Commission's 2019 annual report which was tabled in Parliament by Minister for Tourism Julia Farrugia Portelli - albeit not being published.

⁵ Comments by the MFC Commissioner on a recent podcast.

⁶ NSO: Registered Employment: December 2017,2018,2019 and 2020 Reports.

One of the Commission's most recent successes is the local hosting of the multi-million production for "The Last Voyage of the Demeter" for which more than 50% of the movie production is to be shot in Malta. With a nearly 1000-head count crew and extras involvement, such a production is expected to contribute to circa €18 million to the domestic economy. Sectoral spill-over effects remain key to this investment through the construction of a ship nearly 60 metres in length by Maltese local craftsmen in less than 4 months. This excellence in service and trade diversification was described as "world-class" by executive Producer Brad Fisher who to the utmost degree praised the product offered in Malta, particularly the local film facilities.

This growth was in part due to the fact that during 2019, the government had re-evaluated the cash rebates on expenditure⁷ for filmmakers from 27 percent to a maximum of 40 percent to strengthen the local film industry scene. This all in part to the whole regeneration plan by the MFS that furthers Malta's competitive edge globally. Moreover, the Commission have also launched the 'Opportunity for All' Programme alongside the Malta Film Fund which provides a content-based, freely accessible database of all studios, producers and film makers locally showcasing Malta's talent for foreign producer's perusal. MFC stated that over 363 companies have registered and 700 individuals, doing away with monopolised industries and moving towards a more liberal and competitive industry.

In recognition to such talent, Malta has recently launched the first ever Malta Film Awards to be held in the first quarter of 2022 in celebration of its 100-year-old industry. Film Awards are an opportunity to shine a light on the individuals and projects that have taken the film scene by storm and raised the bar for Malta's media sector

2.3 MFC Context and Market Demographics

2.3.1 – Current Context

For the past decades, Malta has been a historic destination for film production, hosting some of the world's most prominent motion pictures. In its 54 years of operation, Malta Film Studios (MFS), has serviced over 200 feature films, television movies, documentaries and commercials as one of the largest production facilities in the world. Most prominently, it is known for its special effects water facility, 300 feet wide, situated alongside the southern-eastern coast of the island blending seamlessly into a natural horizon. Constructed initially for shooting of "The Bedford Incident" in 1964, MFS's reputation as a world-renowned production facility flourished, towards a thereafter two more indoor tanks being built in 1980 through to the mid 90's. The Studios also offer production offices and workshop spaces that are situated next to a 17-acre space where many sets were built, flexible for dressing rooms, costume storage, catering and crowd holding areas.

It is through these same service offerings, coupled with its talented crew, geographical location and ideal climate that makes Malta the ultimate host to some of the world's largest motion pictures, to the likes of "Gladiator" and "Captain Phillips". With more than €200 million in foreign direct

⁷ Subject to eligibility criteria

investment and over 50 productions shot in Malta since 2013 alone⁸, current, and potential growth trajectory for the industry and its spill-overs are of great significance to the domestic economy.

2.3.2 – Domestic Market SWOT Analysis

As contended in the previous section, Malta has positioned and established itself as a reputable filming destination celebrated by various world-renowned producers. It has been praised primarily for its island-specific and inherent Mediterranean features such as sunny climate (approx. 300 days of sunshine with long daylight hours throughout the year⁹) and connectedness and proximity to other European countries. Furthermore, it has also been commended for its favourable financial incentives and service offerings, including the MFS water tank facilities and highly educated and skilled work force. An overall market analysis¹⁰ has been conducted by the MFS on August 2019 whereby the following strengths and weaknesses listed in figure 3 overleaf were identified. This is at par with other key factors identified as contended by other key evaluations of the local film industry.

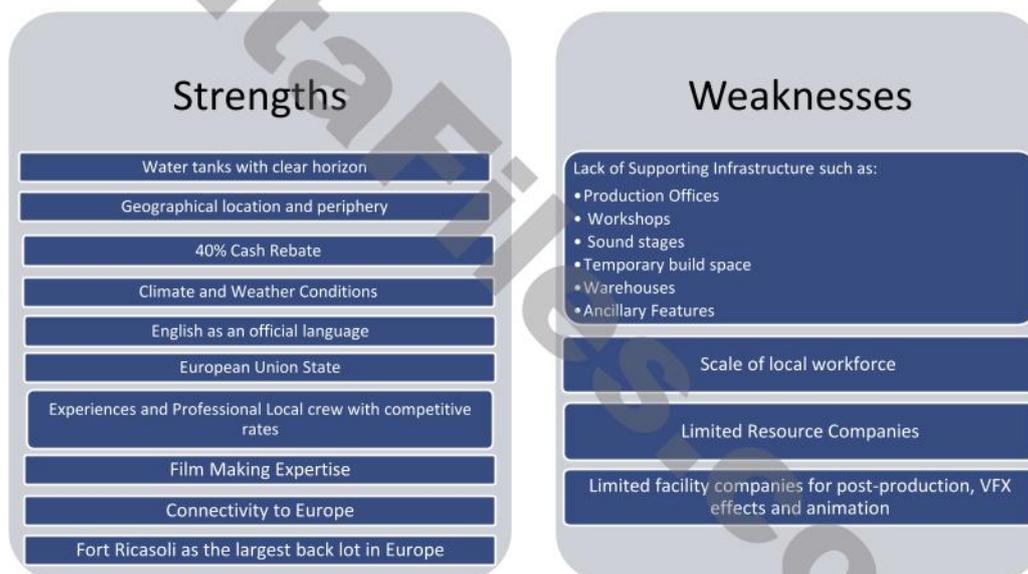


FIGURE 3 - MARKET ANALYSIS

In addressing these weaknesses, through the Malta National Film Policy, it was iterated that for Malta to retain its competitive edge, infrastructural developments on the island need to move in tandem with technological advancements and fiscal developments in other filming destinations. This directly references the need for key nimble and agile investment structures that facilitate further domestic production expenditure as initiated with the increase in cash rebate scheme from 27% to 40% and widening of definitions, particularly ATL costs that attract further productions locally.

⁸ As quoted by the Malta Film Commission

⁹ References from a study of the Film Industry in Malta by Nexia BT.

¹⁰ This document was provided by the MFS, referenced to in Annex C.

Solidifying this assertion is survey findings¹¹ carried out by Saffrey Champness & Nordicity (2020) addressing key demand factors that influence foreign producers' interest in Malta as a production shooting destination. As depicted in Figure 4 below, they find that favourable changes to the regulations governing cash rebates and other fiscal incentives as one of the determining features, ranked second in importance at a 4.8 out of 5 rating.

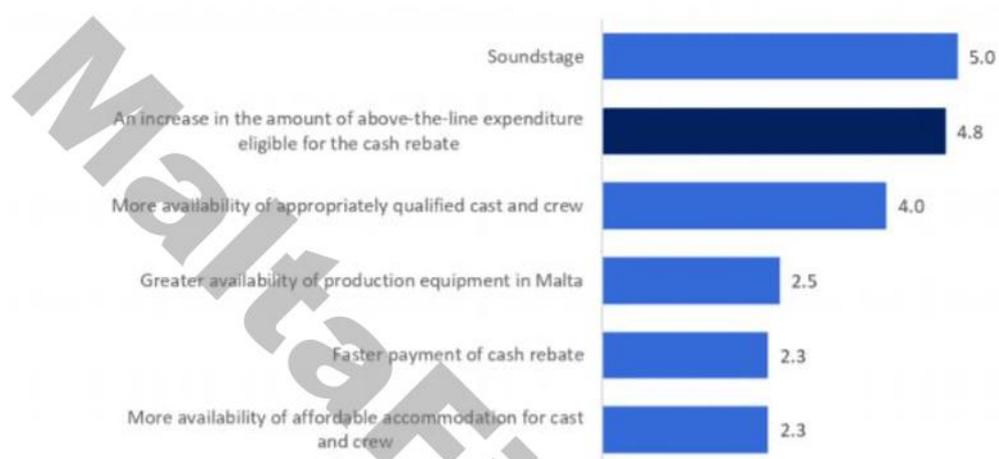


FIGURE 4 - MALTA ATTRACTIVENESS FACTORS

2.4 Recent Productions

Production shooting duration and budgets all depend on a vast array of factors, namely the range and construction and/ or rent and hire requirements of sets, location filming, intricacy of script, special effects, crew logistics and head count together with other expenses. For this reason, any production comparisons/gauging needs to be provided on a set of assumptions further detailed in subsequent sections.

Due to our climate, geographical and historical location and famous architecture, most productions being shot in Malta usually follow traditional era-specific themes. Together with our water tank facilities, this puts Malta at the forefront of location scouting for both war films and other open-water themed motion pictures such as 'Captain Phillips'. Although, use of such facilities are all dependent on the type of production being shot. The cash rebate re-evaluation would thus attract and introduce new varied themed motion pictures to the island.

¹¹This snippet was provided by MFS and not made publicly available. A factor that was ranked first is allocated a score of 6, with second highest ranked factor assigned a score of 5 and so on.

3 – FINANCIAL AND FISCAL INCENTIVES

3.1 Introduction

This section delves deeper into the global financial and fiscal incentives landscape together with a country-centric analysis of alternative fiscal structures. It will also detail the eligibility criteria and dynamics of the revised cash rebate scheme and the consequent **additional spending categories by generated total Malta spend via additional demand** that would benefit from the revised criteria.

3.2 Global Incentives Profile

Many countries worldwide have set up and presented various fiscal structures to attract movie and TV producers worldwide that not only bring direct investment through expenditure to the domestic economy but also generate indirect value-added to other, related and non-related sectors. Through the increase in total screen viewership over recent years, all the more propelled due to the COVID-19 pandemic closures of daily entertainment, global TV viewership alone increased by circa 130 million viewers since 2017 alone and projected to reach 4.36 billion viewers worldwide by 2025. This presents unique opportunities for countries to have domestic production shot and edited locally, with on-screen induced tourism also indirectly contributing to the benefits reaped from this investment, estimated to be circa 3.5% of all inbound tourism.

Most commonly, countries employ a mix of fiscal incentives from cash grants/rebates to tax incentives or waivers particularly aimed at the audio-visual industry. Most typically, the level of funding or exemptions attributable would depend on the producers' ability to demonstrate a promotional element of the domestic culture and/or generates added employment locally. Specifically, in order of popularity, such incentives include:

1. Cash Grants/Rebates

Such funding is typically attributable to a vast array of eligible production costs for qualifying productions as a percentage of total expenditure or jobs created domestically. Prior to 2019, Malta had launched a cash rebate scheme that covered 27% of eligible costs of qualifying companies having passed a cultural test, increased to 40% since 2019, further detailed in subsequent sub-sections.

2. Tax Incentives

Production companies would be eligible for tax credits claimed against eligible costs as a percentage of total expenditure subject to qualifying criteria. Tax returns would need to be filed with the respective local authorities and claimed against tax owed or other income generating activities. Other forms of tax incentives include tax shelters and/or tax waivers that would entitle investors in such productions to be exempt from tax on investments owed. A case example would be the Investment Aid grant administered by Malta Enterprise that

covered up to 10-30% of eligible costs of qualifying production companies locally, although this scheme ended in October 2021 and has not as yet been extended.

3. National or Regional Film Funds

Funds sourced either locally or from other designated funds to be utilised purposely for investments in local productions for qualifying companies against eligible costs. The Malta Film fund is one such example administered by the MFC, that aims to support the development and production of locally-shot and produced films and/or scripts. To reach all objectives, the €350,000 fund is segregated into three main sub-strands incentivising all aspects of production namely, the Writers' Grant and Development Grant; Short Film Production for New Talent, Short Film Production and Production; and one for distribution. Additionally, a co-production fund has also been established to foster and support further collaboration between Maltese and other foreign productions distributable on the international platform. The main purpose is to capitalise on knowledge spill-overs foreign producers partaking in multi-national productions pass over to the local audio-visual industry and local talent.

4. Other local support

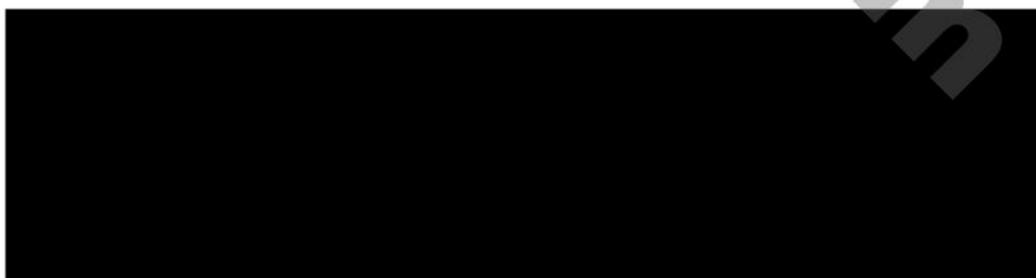
Local entities such as tourism authorities also offer additional financial assistance to eligible productions to attract further investment. Locally, the Malta Tourism Authority (MTA) provide financial coverage of eligible costs if productions satisfy cultural criteria in the country's promotion via the film and TV industry. Particularly during the initial phases of production including location scouting, MTA offers financial aid on logistical costs such as flight expenses, transportation costs of cargo and production vehicles, location fees of public areas and hotel accommodation for cast and crew.

All countries provide funding on different basis and definitions of qualifying criteria and eligible cost, together with varying ratios of eligible costs to total production expenditure. Table 1 overleaf presents a cross-country comparison across the major European and global players in film production in direct competition to Malta and the respective fiscal service offerings provided by each country.

TABLE 1 - GLOBAL FINANCIAL AND FISCAL INCENTIVES COMPARISON

Country	Incentive Type	Percentage Rate	Eligible Costs
Malta	Cash Rebate	40% (50% in special circumstances) of eligible costs	<ul style="list-style-type: none"> 30% on all expenditure excluding animation/VFX Additional 10% on local usage of resources including ATL costs up to €500,000
	Film Fund Co-Production Fund	€600,000 €1 million pa	
Italy	Tax Credit	30-40% of eligible costs	<ul style="list-style-type: none"> Costs related to follow all COVID-19 protocols (most recently). Cinematography works Includes post-production costs
	Fund	€640 million pa	
Spain	Tax Deductions	30-50%	<ul style="list-style-type: none"> Costs for creative staff, technical industries and other providers. Other Audio-visual production spending
Croatia	Cash Rebate	25% - 30%	<ul style="list-style-type: none"> Covers all expenditure subject to a minimum spend condition depending on the type of production
Greece	Cash Rebate	40%	<ul style="list-style-type: none"> All production and post-production related cost including: Insurance premiums and completion bond guarantees (5%), Production service company's fee (10%), Fuel expenses up to 0,02%, Cash receipts up to 0,005%, Per-diems, Travel expenses from and to Greece as well as domestic and Dubbing / Subtitling.
Ohio	Tax Credit	30%	<ul style="list-style-type: none"> All production and post-production related costs
Louisiana	Tax Credit	25%	<ul style="list-style-type: none"> All production and post-production related costs

3.3 Revised Cash Rebate Scheme





3.3.2 – Overview: The Cash Rebate Scheme

While the focus of the above-mentioned reports were ATL labour costs, the scope of this report is to however quantify the added economic benefit generated from the increase of eligible cost percentage from 27% to 40% and the effect such additionally generated demand imparted in value-added onto other sectors within the domestic economy since its revision.

As of January 2019, qualifying audio-visual companies could receive up to a maximum of 40% in cash rebates for film production in Malta, a 13% increase in funding on eligible costs, with ATL labour costs capped at €500,000, considered to be one of the highest and thus most advantageous financial incentive in Europe.

Eligibility was only extended to production companies who are fully responsible for all activities involved in the making of the audio-visual production with qualifying productions being those either partially or wholly carried out in Malta and processed to commercial release standards for international distribution for cinema and television. These may include: feature films; television production; creative documentaries; reality programmes and game shows. Eligibility will extend to those production companies having a minimum spend in Malta of €100,000 and a total budget exceeding €200,000. Furthermore, the production must contain a cultural element in satisfying a cultural test in ensuring a valid contribution in creative local flavour promotion, specifically “that it makes a valid contribution in terms of creative expression and culture through the development of production capability skills in the audio-visual sector in Malta” as quoted by the guidelines themselves.

¹² Above-the-line (ATL) labour costs are being defined as costs relating to directors, producers, casting directors, cast and stunt crew

¹³ Malta spend is defined as the total Malta elements/expenditure within the domestic economy

¹⁴ Below-the-line (BTL) labour costs are being defined as costs relating to the rest of the crew and production team (not included in ATL labour costs) ie. Employees in positions responsible for the day-to-day production and making of the production

3.3.3 – Qualifying Expenditure

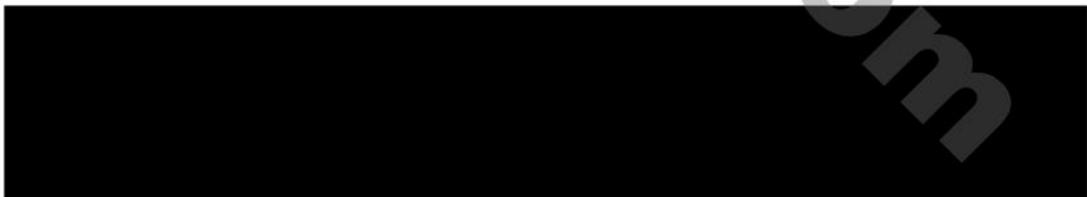
For application, qualifying companies need to quote eligible expenditure that is directly attributable to the productions' needs and to the qualifying production. The following list presents the eligible expenditure under the cash rebate scheme, extracted from the MFC Cash Rebate Guidelines, January 2021:

- **Accommodation** – expenditure on hotel accommodation and rental or real estate for foreign cast and crew
- **Air Travel** – Flight expenditure to and from Malta (within EU/EEA/UK) including logistical expenditure such as airport taxes, departure tax, extra baggage charges, passenger service charges, security charges and other expenses incurred at Malta International Airport (MIA) for air travel
- **Recce Costs** – Accommodation, air travel and transport costs (as in the above-mentioned points) and transport costs in Malta
- **Labour Costs (Inclusive of fringe benefits)** – Expenditure (engagement fees, salaries, wages, overtime, holiday pay, employment bonuses and fringe benefits such as mobile and car allowances and box rentals) on employees directly engaged with the qualifying company or legal representatives on a full-time or part-time basis or with a contract of service, of EU/EEA/UK nationals (Exemptions applicable for non-EU/EEA/UK nationals engaged with the production company and pay taxes locally). All labour costs for the making of animation/VFX studio/facility for the qualifying production company must be on local payroll. Further definitions:
 - **ABL total labour costs** – relating to directors, producers, casting directors, cast and stunts shall be capped at €500,000
 - **Crew and Trainees labour costs** – only eligible if the qualifying company ensures that recruitment of new members and trainees in Malta is conducted from the Malta Film Commission's Official Directory of a pool of local talent.
 - **Labour cost for local case** – hire of extras, stand-ins, day players and for which 15% withholding tax has been deducted.
- **Per Diems** – Daily subsistence allowance, including any living allowance, subject to a maximum of €100 per person, per day.
- **Location Fees** – Fees and courtesy payments directly related to the qualifying production which are paid to location owners, local councils, non-governmental organisations or other individuals or entities in Malta.
- **Rentals** – Audio/sound equipment, grip equipment, camera equipment, drone camera and ancillary equipment, video playback and assist and ancillary equipment, DIT and ancillary equipment, electrical equipment, ground transportation, any other production props such as furniture, stools and tents, helicopters, mobile toilets, scaffolding, health and safety equipment and other rentals falling within this category.
- **Services** – catering and craft services, laundry and cleaning services and location and purpose issued-permits locally, security services and courier services between Malta and EU/EEA/UK countries, other shipping and logistical costs and other costs falling within this category.
- **Professional Services** – Fees relating to professional services carried out in Malta such as health and safety inspections, architecture inspections, accountancy firms, bank charges, audit and legal fees, any historical research and any form of professional/consultancy services provided that the total expenditure for such services shall not exceed €100,000.

- **Construction including set builds** – Construction and adaptation of ships and other vessels (other than set builds) including barges, pontoons and similar crafts together with any other set builds in any form
- **Malta Film Studios** – Services, equipment, rentals, purchases including offices/workshops/storage, water facilities, locations managed by MFS, props, costumes and set builds including vessels
- **Entertainment** – organised by the qualifying company for cast and crew provided that total expenditure does not exceed €4000.
- **Post-Production** – Carried out in Malta and linked to the production totally or partially shot/animated/VFX in Malta including: editing services, crew and equipment; sound design; music rights and composition; colour correction; sub-titling and credits and trailers
- **Miscellaneous Services Procured in Malta** – Other costs directly related to the qualifying production



3.4 [Redacted]



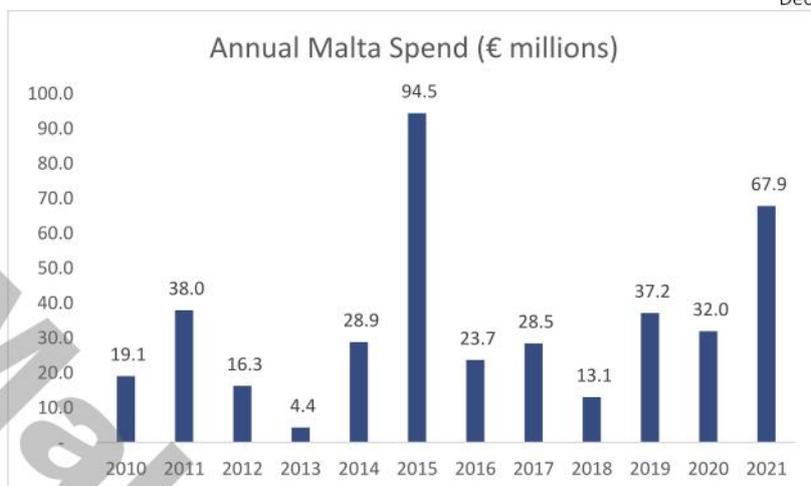


FIGURE 5 - ANNUAL MALTA SPEND (EUR MILLIONS)

In estimating the control baseline, the average year-on-year increase (moving average) in total Malta spending prior and post to the cash rebate increase was calculated and found to be €22,305,917 representing the general baseline level of expenditure by productions in Malta per year. As such, by subtracting this baseline level of spending by the total annual Malta spend in years 2019, 2020 and 2021, the generated demand solely assumed to be due to the cash rebate increase can be deduced.

As such, the generated Malta spend increase in demand solely due to the cash rebate increase in 2019, 2020 and 2021 is detailed in the table 2 below;

TABLE 2 - ANNUAL MALTA SPEND AND CASH REBATE EFFECT

Year	Annual Malta Spend	Moving Average	Cash Rebate Effect
2016	23,792,891	22,305,917	-
2017	28,494,054	22,305,917	-
2018	13,128,082	22,305,917	-
2019	37,248,868	22,305,917	14,942,950
2020	32,002,616	22,305,917	9,696,698
2021¹⁸	67,974,629	22,305,917	45,668,711

Additionally, the expenditure profile by productions was also estimated, in taking the average of the respective Expenditure to NACE Ratios of productions filmed and produced between 2019 and 2021, listed in the summarised table (Table 3) overleaf;

TABLE 3 - AVERAGE RATIO OF EXPENDITURE TO TOTAL MALTA SPEND BY EXPENDITURE CATEGORY

	Average Ratio of Expenditure to Total Expenditure
Non-Qualifying Expenditure (Materials and Supplies Purchased)	6.8%
Accommodation	5.9%
Recce Costs (location scouting)	0.5%
Air Travel	1.6%
Labour Costs during production	28.6%
ATL (screenplay rights and salaries of top talent (actors, directors, producers), casting director, screenwriter and others)	11.4%
Per Diems (Bonuses)	2.0%
Location Fees (paid to location owners, local councils, non-governmental organisations or other individuals or entities in Malta)	1.5%
Rentals (Equipment, and Props)	12.0%
Services (Transport, Electricity, Storage and Telecommunications)	13.1%
Professional Services	0.4%
Malta Film Studios	1.6%
Construction of Sets	2.3%
Post-Production, VFX and other miscellaneous costs	3.7%
COVID-19 related costs	8.6%
TOTAL	100.0%

	Average Ratio of Expenditure to Total Expenditure by NACE
Wholesale and Retail	6.8%
Accommodation and Food Service Activities	5.9%
Rental and Leasing Activities	14.0%
Air Transport	1.6%
Land Transport, Storage, Electricity and Telecommunications	13.1%
Other Professional Services	4.1%
Motion Picture, Video and Television	1.6%
Manufacturing	2.3%
Health Activities	8.6%
COE	42.0%
TOTAL	100.0%



















5 - CONCLUSION

Since its inception, the MFC through MFS has established itself as a leading production servicing entity in Malta and abroad. With more than €200 million in foreign direct investment and over 116 productions since 2010, it has attracted world-renowned production companies to the likes of HBO, Netflix and Warner Brothers starring prominent figures within the international film industry. This not only champions its recent success but also allows for the widening of fiscal incentives that capitalise on an ever-increasingly expanding industry.

Resulting benefits directly from the revision in fiscal and financial incentives has materialised across the board, influencing employment, tax contributions and other spill-over economic components. As such, the revision has been estimated to have generated circa **2062 local employment opportunities over a 3-year trajectory**, additional to other professional services that are outsourced to third-party local entities affecting a range of industries in further induced demand and income generation. This has in turn generated an additional circa **€28.4 million in tax contributions** feeding directly to the domestic economic system over this 3-year period.

Moreover, this revision has been estimated to have contributed towards circa **€120 million over the three-year period** in direct and wider economic impacts derived via indirect and induced effects. The comprehensive economic effect will be all the more inflated upon inclusion of other significantly positive spill-overs induced by the project, including the value added by 'screen tourism', national export figures and wider cultural and educational benefits that are consequently generated.

The evidence is clear that the revision to a higher and more favourable fiscal regime has derived significant economic benefits, without which would prove Malta inadequate to keep up to high industry practices and quality of competitiveness as contested by other fiscal regimes worldwide. As such, this revision would not only put MFC at level with industry trend requirements but also place Malta as one of the Mediterranean's leading production servicing hub securing further demand and industry longevity.

APPENDIX

A - Glossary

ATL	Above-the-line
BTL	Below-the-line
CB	Central Bank of Malta
GVA	Gross Value Added
MFC	Malta Film Commission
MFS	Malta Film Studios
MTA	Malta Tourism Authority
NSO	National Statistics Office

B – Ancillary Documentation

The documents listed hereunder have been provided by MFC as ancillary documentation to produce this analysis. All figures have been taken as factually correct and provide the basis on which this assessment is set:

- MFC Analysis Exercise Data Set
- Exercise_Film Industry Data Set
- Malta Economic Impact Data Samples
- MFC Production Expenditure Breakdown Data Set

C – Technical Reports

The technical reports hereunder have been referred to and utilised as primary sources of information to produce and supplement this analysis:

- Saffrey Champness Report titled '*Malta film and Television cash rebate: Qualifying expenditure options appraisal*' (December 2020)
- MFC '*Financial Incentives for the Audio-Visual Industry: Cash Rebate Guidelines*' (January 2021)
- RSM Report titled '*Review of Options Appraisal on cash rebate scheme*' (November 2021)
- NSO Statistics
- Economic Research Institute
- Other documentation referenced to in the report