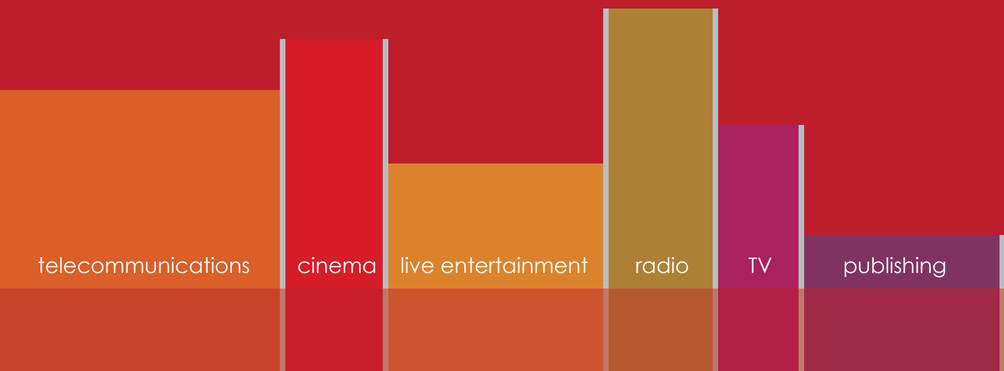
FONDAZIONE ROSSELLI

PUBLIC INVESTMENT IN CULTURE AND COMMUNICATIONS

Executive summary

XIII IEM Report

The communications industry in Italy



FONDAZIONE ROSSELLI

PUBLIC INVESTMENT IN CULTURE AND COMMUNICATIONS

by Flavia Barca, Andrea Marzulli, Luca Murrau, Lorenzo Principali and Bruno Zambardino

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Executive summary

Following in the footsteps of IEM's traditional research into culture and communications in Italy, aimed at identifying and analysing strategies and economic policies in the public and private sectors, the decision to focus on public investment seemed particularly relevant at a time when the whole concept of culture, and its boundaries are being re-defined, as are its funding sources. We are convinced that the nature of these financial resources actually inform, define and condition culture itself, the creative, production and distribution processes that shape it and give it visibility with audiences, whether large or small. So it is necessary to examine this area to understand the transformations currently taking place and to give public policies the transparency needed to operate in a virtuous and efficient way in line with EU guidelines.

In fact, the analysis of public spending trends, especially in investment, is not only to provide information about the amount of money received by the culture (and communications, see below) system. It is also an element on which to base a qualitative evaluation, about the efficiency of the policies underlying that funding.

However, the chosen range for this specific analysis is unique compared with the scope usually taken in traditional studies about culture. Therefore, for our study we have considered culture together with communications including live entertainment, cinema, television, radio and publishing under the umbrella of "culture". This choice is dictated by the desire to reflect on culture as a point of interaction between various, closely interconnected sectors within the same industry, where creation is upstream on one end of the chain and distribution lies downstream on the other end. We want to try to grasp hold of something very ethereal, that is complicated to define in its processes of transformation. We want to investigate those areas in which culture becomes a pervasive phenomenon, driven by technological innovation and by the multiplication of distribution platforms.

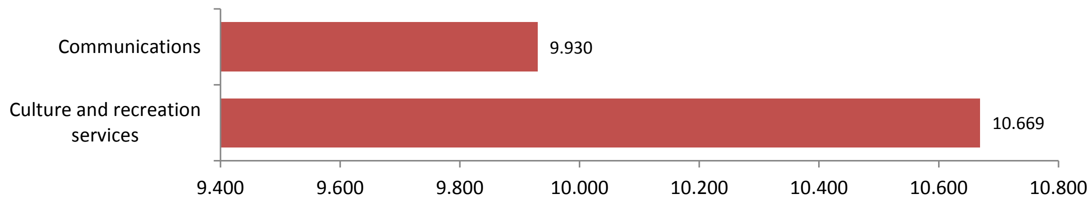
This approach, which is, moreover, in line with the industry traditionally examined in the IEM Report on the Communications Industry, allows for a horizontal reflection on the main platforms used to spread the culture system in Italy, and make the audiovisual sector face up to its responsibilities.

The problem is that some areas like cinema and live entertainment are historically branded as "cultural" and their status is (partially!) protected by the umbrella of the Ministry of Culture which also sustain their local promotion where possible, for example in the agreements negotiated with the inter-ministerial Economic Planning Committee (CIPE in Italian). But other areas are much more "unstable". For example, today it is pretty obvious that a TV drama is a cultural product just as much as a feature length film for cinemas, and yet the former does not fall under any ministry and does not have access to the public General Entertainment Fund (FUS). In addition, books, newspapers, television and radio programmes, video games and the cinema. Have never been considered by public policies as a unique "cultural ecosystem", and as such helped by the State as a single goal. More understandably, the development of telecommunications (TLC) has rarely been thought of from the standpoint of sociocultural progress, even if today all the distribution systems act as a crucial accelerator – or a bottleneck – for the growth and dissemination of culture.

The sectors in the industry investigated here are "helped" by the State in differing degrees, for a longer or shorter time, with greater or lesser attention and applying different principles. The State aids scope is to increase society's wellbeing by "deliberately" stimulating several crucial areas of the system, though without interfering with the natural laws of competition. Therefore, this work aims to measure this aid, that is the amount the public administration spends on culture and communications. Two levels are therefore been analysed: a "macro" one, using the tool of the Regional Public Accounts (RPA), and a "micro" one, examining each individual sector and the expenditure areas (and the regulations governing it).

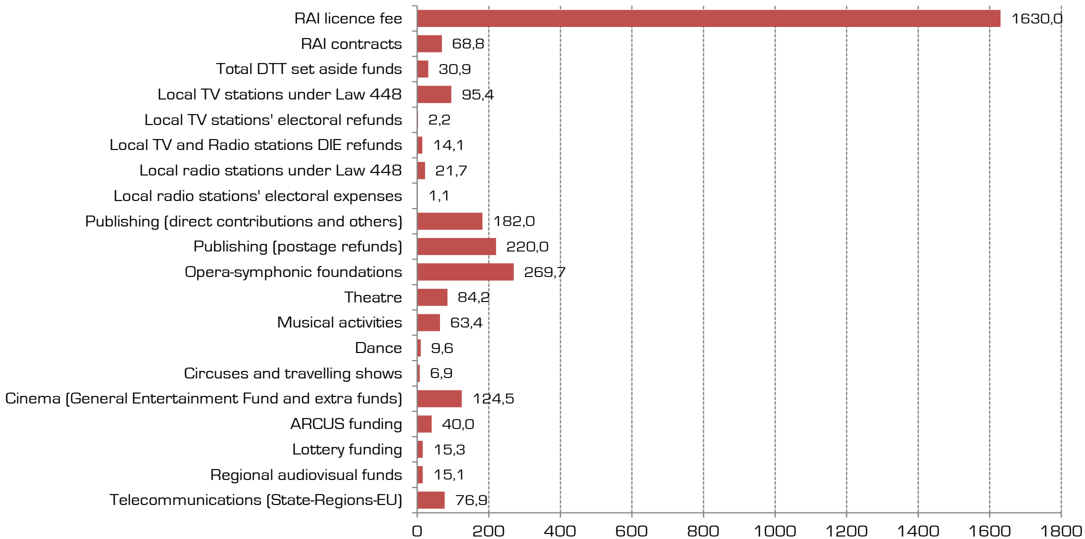
The RPA measures the "financial flows at the regional level. They provide information on central and local government revenues and expenditures. The RPA is organised as a Network and it is managed by a Cen-

"Enlarged" public sector spending on culture and communications, 2008



Note: figures in millions of euros. Source: IEM elaboration of RPA figures tral Unit based at the Public Investment Evaluation Unit of the Department for Development and Economic Cohesion supported by 21 operational units located in each region. RPA includes consolidated financial statements of the various entities, net of any flows between those entities. The figures are divided into 30 sectors including those two we are specifically interested in here, culture and communications. However, the category of "culture and recreation services", as it is defined in the RPA, is very broad and includes segments that even go beyond the wider definition of "culture" being used in this Report (e.g. the RPA category includes sporting activities or amusement arcades). This means that the figures cannot be

Contributions to the communications industry and live entertainment



Note: figures in millions of euros. Source: IEM elaboration of RPA figures.

compared with the second, micro level of research, where each sector is examined singularly, providing a detailed analysis of public funding measures and their monetary value (and the financing actually supplied) by evaluating all the available sources.
We hope this can be a useful starting point to think about the logic that underpins the spending strategies, and thus open the way for a broader debate on public policies with regard to culture.

In conclusion, we would like to thank for the support and valuable advice, in particular: Andrea Bairati, Fabrizio Barca, Carla Bodo, Maurizio Dècina, Gaudenzio Garavini, Andrè Lange, Mario Morcellini, Paolo Signorini, Alessandra Tancredi, Mariella Volpe.

1. Public spending in Italy on communications and culture within the Regional Public Accounts (RPA)

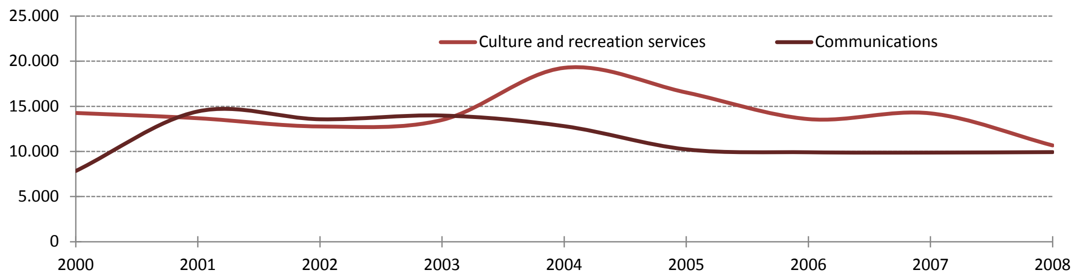
A lot of attention is paid to public spending trends in Italy, especially since the time when the country has to meet commitments and respect European obligations regarding the stability of public accounts. On the one hand, the budget restraints continually illustrate the need to make public spending more efficient and productive, but on the other hand there are parts of the economy (and these include culture and communications) that need considerable support from public investment because they are subject to market failures.

In order to study public spending in culture and communications, the first level of analysis uses the figures collected centrally by the Regional Public Accounts (RPA)[1].

The figures for the thirty sectors of the economy illustrated by the RPA system give us a wide and extremely varied picture of public spending trends in Italy. Additionally, examining this universe allows us to analyse the specific importance paid to communications and culture and see how the weight of public spending in these areas has evolved compared with the rest of the country's economy.

1 More detailed information about the activities of the RPA (some also in English) can be found on the website http://www.dps.tesoro.it/cpt/cpt.asp.

EPS spending in culture and communications, 2000-2008 (absolute figs.)



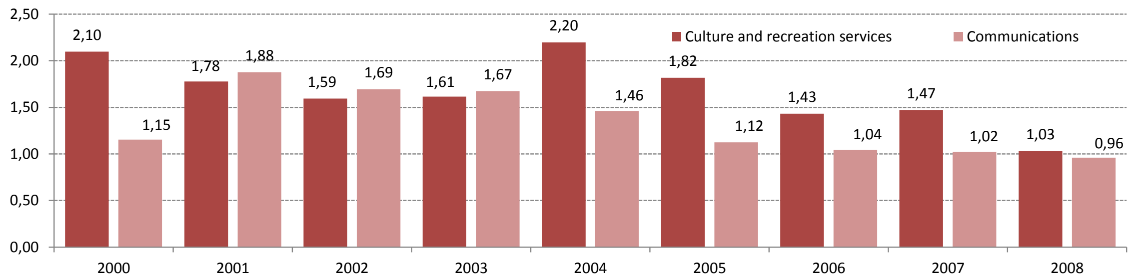
Note: figures in millions of euros. Source: IEM elaboration of RPA figures.

In the latest year of available RPA figures, 2008, spending in the "enlarged" public sector for culture was, in absolute terms, equal to 10.668 billion euros (1.03% of the total), while for the communications sector it was 9.929 billion euros (0.96%).

Moreover, the proportion of public spending in culture and communications on the whole of overall public spending has been falling in recent years.

In the culture sector, spending has actually halved in the time period being analysed: it represented 2.1% of total spending in 2000 and after dropping to 1.59% in 2002, rose to 2.20% in 2004, to then progressively drop, amounting to 1.03% in 2008. Whereas in communications, after spending increased significantly in 2001 (1.88% of overall expenditure), it constantly dropped in the following years to reach its lowest level in 2008, standing at 0.96% of the overall spending in the economy. Nevertheless, these figures should be viewed in the light of further considerations that allow for a better interpretation and description of the variations in spending throughout the years. For example, the doubling of expenditure on communications recorded between 2000 and 2001 (from 7.836,59 to 14.434,11 billion euros) is the result of two extraordinary factors: on the one hand the public energy company Enel's acquisition of Wind telecoms operator, and on the other, the increased spending by the Italian post office, Poste Italiane on personnel, purchasing goods, services and property. Similarly, the reduction in spending between 2004 and 2005, originates from the relinquishment of Wind.

EPS spending in culture and communications, 2000-2008 (% figs.)



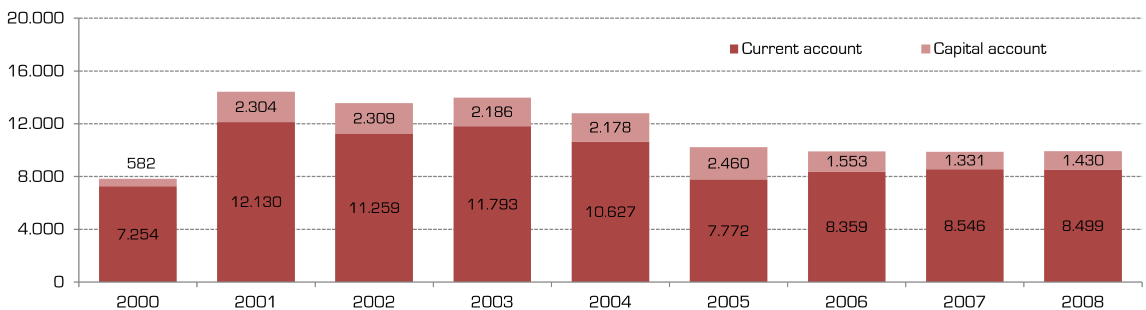
Source: IEM elaboration of RPA figures.

1.1. Public expenditure in communications

There has been a drastic reduction in spending on communications since 2005. In particular, after the rise between 2000 and 2001 (from 7.836 to 14.434 billion euros) it started to decline to reach its lowest level in 2007 (9.876 billion euros), with a slight increase in 2008 (9.929 billion euros). In addition, there was an interrupted period from 2004 to 2007, where the level of growth of public spending in communications was always negative, while it returned to a slightly more positive situation in the year being examined here.

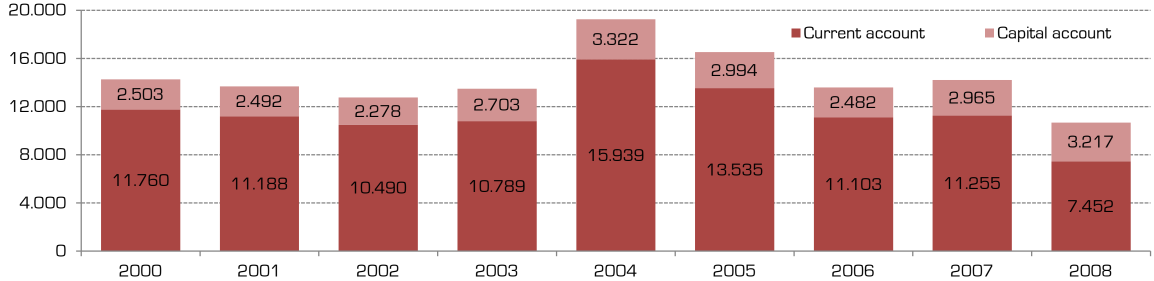
A similar trend to that of the total public expenditure can be seen in the current and capital (investment) account components of the spending. Spending on investment saw a considerable rise in 2001, going from 582 million to 2.303 billion euros. From 2001 to 2005, the average spending on investment tended to have increasing weight while the current account spending saw reductions. Then, from 2005 onwards this trend was reversed, with the current account expenditure rising to the detriment of spending on investments, but then in 2008 the capital account spending sees a renewed increase to the disadvantage of current account spending, marking an upturn in investment in the sector.

Total spending (in current and capital accounts) the "enlarged" public sector makes in communications, 2000-2008 (millions of euros)



Source: IEM elaboration of RPA figures.

Total spending (in current and capital accounts) the "enlarged" public sector makes in Culture (2000-2008) (millions of euros)



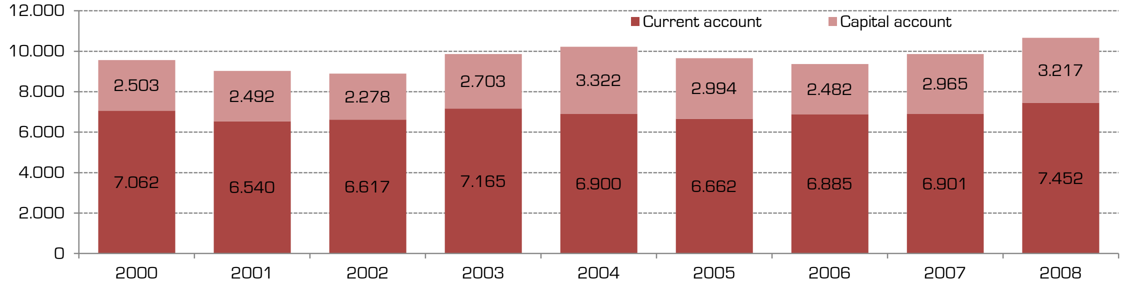
Source: IEM elaboration of RPA figures.

1.2 Public expenditure in culture

There have been highs and lows in the enlarged public sector's spending on culture: first there was a phase where the amount decreased, from 2000 to 2002, followed by an upturn in 2003 and especially in 2004 when the funding reached a peak in the timescale under consideration (19.262 billion euros), before then dropping again to the levels recorded in 2008 (10.669 billion euros). The figure for the last year is particularly striking: if between 2006 and 2007 there was a recovery in spending trends, in 2008 it seems to have gone into free fall, amounting to the lowest level in the last nine years.

Yet, the severe swings in the spending are the result of annual transfers the State makes to the monopolies to pay for the winnings paid out in the National Lottery, which is an inherently variable sum of money. If the data is corrected to bear this transfer in mind, the historic trend seems much more stable. In fact, in 2008 there would actually be an increase in spending for culture, both in current and capital accounts. Looking at this in more detail, the total spending for culture would rise from 9.865,95 to 10.668,64 billion euros, radically changing the situation above described, revealing an increase in support for the sector. On average, between 2000 and 2007, around 80% of the expanded public sector's expenditure on

EPS spending on culture, in current and capital accounts net of transfers to the State Monopolies, 2000-2008 (millions of euros)



Source: IEM elaboration of RPA figures.

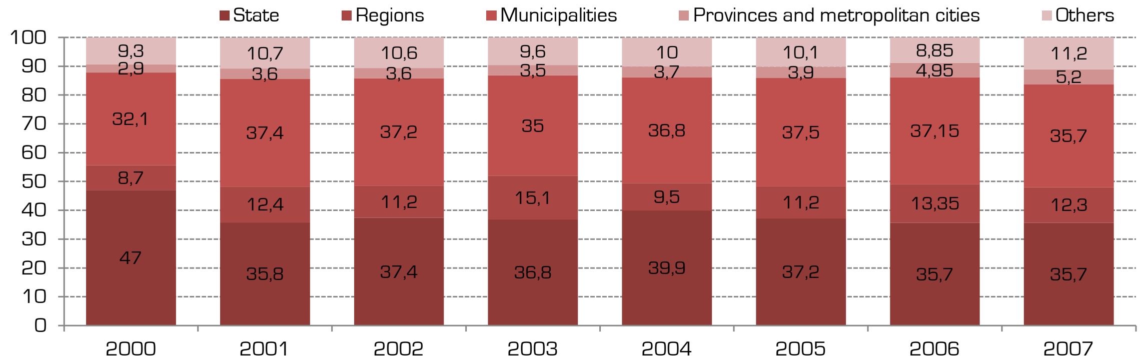
culture is in the current account, representing a limit on the ability to support demand for investment in the sector, for example by undertaking works to exploit the country's history-artistic heritage for tourism. Nevertheless, in 2008, in the face of a general reduction in spending on culture, there was a considerable increase in spending on investments[2], with its proportional weight of overall spending rising by no fewer than 10% compared with 2007.

If one separates out the public spending figures to reflect those made by different tiers of government, they show how, over the years, the State has modified its central role as a spending provider, while local entities have increased their proportion of money given to support the sector and have taken more of a leading role (especially Municipalities).

In 2000 public spending allocated by the State (predominantly the Ministry of Culture), represented 47% of the total expenditure in the enlarged public sector, while in 2007 that proportion drops to 35.7%, the same as the financial weight born by Municipalities. There has also been an increase in the proportion of funding substantiated by the Regional authorities (12.3%) and the Provinces and Metropolitan Cities (5.2%).

2 On average, the financial entries make up just 3% of the total in the capital account, and 0.6% of the overall account, so their inclusion does not distort the spending figure.

EPS spending in culture by tier of government, 2000-2007 (%)



Source: IEM elaboration of RPA figures.

2. Analyses by sector

2.1 A comparative picture

Public intervention in the culture and communication industry has been divided up, by sectors of intervention, into 4 macro-areas:

- Radio and TV (sub-divided into public radio and Television, local TV and local radio stations);
- Publishing (newspapers and magazines);
- Cinema and live entertainment (split into: cinema, music, theatre, opera, dance, circuses and travelling shows);
- Communications (where interventions to encourage the development of broadband are considered).

Basically, these are the segments of the "communications industry" macro-market (ICT and media) that have public support, with the addition of the various areas of live entertainment, which share ministerial resources with cinema.

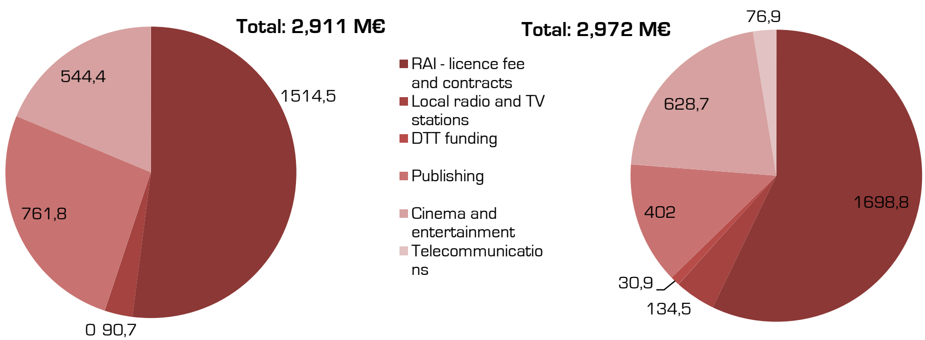
The analysis of each sector does not just look at public spending alone, but mainly (with a few limited exceptions) the public support for the various industries and operators working within them. In some cases this refers to public companies (like the public broadcaster RAI or the various public bodies that work in live entertainment) but the majority of cases involve private companies or associations (publishing companies, professionals working in all levels of the cinema industry, local radio and TV broadcasters, telecoms companies, and the many cultural institutions working in live entertainment).

The overall quantification relating to the latest year where figures are available from various sources (almost all relating to 2009) is ***2.972 billion euros*** *in favour of the culture and communications industry. There has been very little increase compared with 2003 (+2.1% in nominal terms).*

The lion's share of this figure goes to RAI which, with the licence fee and contracts with Public Administration, collects 1.7 billion euros (namely 57.2%). Without this budget line, the figure would drop to 1.273 billion.

The second largest macro-aggregate for volume of resources is cinema and live entertainment, which collect around 629 million, coming from the General Entertainment Fund, other non-entertainment fund sources such as ARCUS, the Lottery and regional audiovisual funds. The next area is publishing with 402 million in 2009, according to the provisional accounts from Prime Minister's Office and the accounts from Poste Italiane, which has seen considerable cuts

Public resources for the culture and communications industry, 2003 and 2009



Source: IEM elaborations and estimates from various sources.

compared with previous years (just over 500 million in 2008, and over 700 million in 2007). Finally a minor part of the financing is allocated for building communications infrastructure, to encourage the spread of broadband, with rough 77 million euros allocated in 2009, equating to just 2.6% of the total worth approximately 3 billion euros.

The public resources analysed here are used for a variety of many different kinds of activities, not only from the point of view of different sectors but also within the various industry segments: from the production of content (movies, television programmes, shows, journalistic reports) to distribution, from operational costs to refunds for specific items of spending to the building of infrastructures. The majority of these resources are in the form of direct contributions and only a minimal part come from indirect contributions (through mechanisms like the tax credit and tax shelter, indirect funding for film production or funds for subsidized credit and postage refunds for publishing companies).

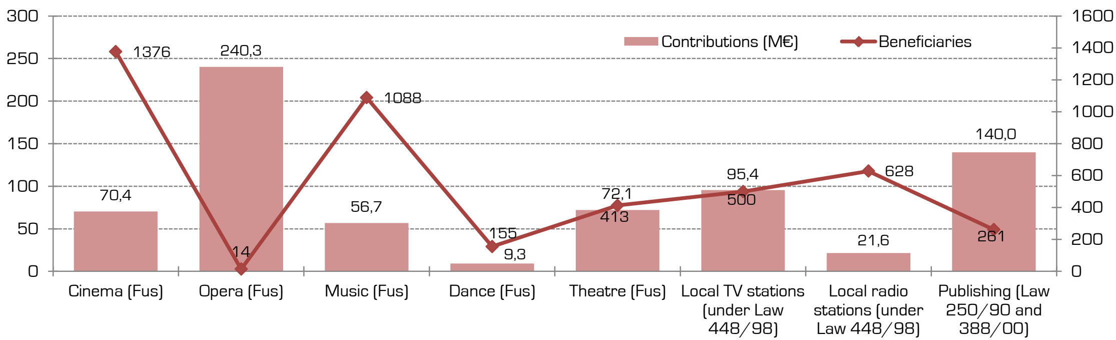
A very limited portion of these funds is for "projects", with resources being used, in many cases, to cover operational costs (public service concessionary, publishing companies, local broadcasters, opera-symphonic foundations and permanent theatres), fixed costs, and in just a few cases (RAI, opera institutions and theatres) is on the basis of a "planned programme" (which translates, according to the different cases, into a percentage of public service broadcasts, or a certain number of concerts or theatre shows, or even in the evaluation of initiatives put on by film clubs).

Funds allocated for "projects" can be considered as indirect support for film production or direct contributions for production, promotion and circulation in certain areas of live entertainment. In some cases, the funds are bestowed on the basis of ex post parameters: examples we consider fall under this bracket include contributions to producers and cinema authors related to box office performance or direct contributions to publishing based on the number of copies printed (or, in the near future, circulated).

Quality is another element at the heart of the debate about public contributions. In the live entertainment sector, the criteria for allocating resources are both quantitative and qualitative. The quantitative side is related to the partial or total coverage of sustained costs, with varying percentage rates for the different kinds of costs. The qualitative criteria are based on a points system that assesses circulation capacity, technical-managerial capacity, the training of the staff and the quality of the project. Quality is also a determining criteria for cinema production, both relating to the previous films made by the applicant production company in the past, and relating to the project presented (quality of the treatment, the screenplay …). In the other sectors under consideration here, quality is not a criteria for the attribution of funds: it does not apply for public broadcasting service (even if the service contract foresaw the introduction of a Qualitel index for public service programming) or for funds to local broadcasters (many people are calling for the introduction of qualitative appraisals, which are not as yet required under the law) or for contributions to publishing (which are based on the sum of costs and the print run/circulation).

Another evaluation tool used is the degree of apportionment of public funds, that is the number of beneficiaries in relation to the amount of funding allocated. This indicator is extremely variable depending on the market under consideration. Obviously it is at its highest for the public broadcasting service, where there is only one player, and it is also very high for the operatic-symphonic foundations, operations that are known for being complex with a greater need for resources. But, for all the other areas, over 1,000 beneficiaries for cinema and music activities – as a result of many parish cinemas, film clubs, festival organisers and national and local promotional

Public funds and beneficiaries



Source: IEM elaborations and estimates from various sources.

initiatives - and the several hundred local radio and TV broadcasters, printed publications and people working in the theatre, receive up to a few thousand euros a year, allocated through many phases. As the system stands they are forced to include new projects without shelving others and without rationalising or channelling economic efforts.

One element of assessment used in the segments that receive public resources is the relationship between the segment and the importance of its downstream market, with the aim of quantifying the weight of the public intervention on the market and the allocated funds' capacity to generate a market[3].

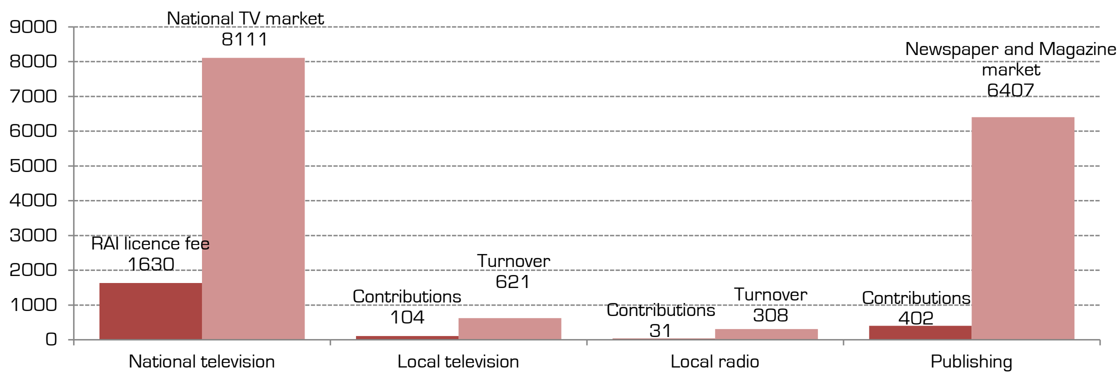
For television and radio, the incidence upon the various segments varies from 10 to 20%, while for publishing it stands at around 6%.

Vice versa, when the same comparison is made for cinema and live entertainment, in various cases State support is actually greater than the money generated at the box office[4].

3 With the specification that in some cases (publishing and part of local radio and television broadcasting), many of those who receive funding are not covered by those who monitor the market and produce the related figures (like category associations) and so the comparison between the two values can only give an idea rather than a strict relationship between them.

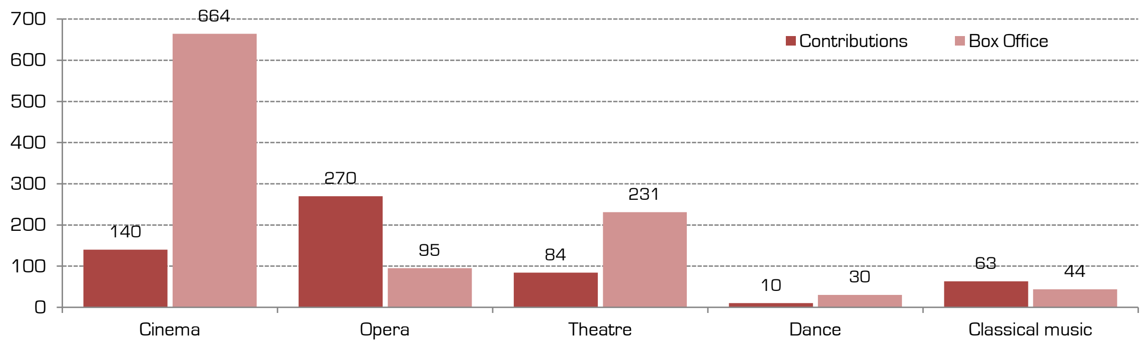
4 It should be clarified that the public funds for cinema basically fund Italian products, which only represents part of the market, and which, above all, gains the majority of its

Television, radio and publishing: a comparison between public resources and market value



Note: figures in millions of euros, latest year available. Source: IEM elaboration and estimates from various sources.

Cinema and live entertainment: a comparison between public resources and market value



Note: figures in millions of euros, latest year available. Source: IEM elaboration and estimates from various sources.

2.2 Television and Radio

The kinds of public support for radio and television businesses can be divided into six different areas, by the source of the funding (Ministry, Region) and/or by beneficiary of the contribution (broadcasters):

- Support for national public television;
- RAI Contracts with Public Administration;
- Contributions from the Ministry of Economic Development – Communications department;
- Contributions from the Department of Information and Publishing at the Prime Minister's Office;
- Refunds for election advertising;
- Contributions for digital terrestrial.

*Even though the various items are misaligned in terms of timescale, the overall sum can be easily quantified as **1.894,4 billion euros**, of which 1.630 relating to the compulsory **TV and radio licence fee**.*

proceeds from other exploitation channels (home video, pay TV and free-to-air television). This is not the place for a closer analysis of the exploitation "windows" for Italian films. The only comment to be added is that from research done by IEM, the revenue for Italian films generated from all channels are just a bit higher than the total investment for the production of the same films (it should be added, with budgets that have received increasingly less state financial contribution over the years).

The trend in revenue from the payment of the licence fee (given to the concessionary RAI by the Income Tax Office on the basis of Royal Decree-Law of 21 February 1938 N. 246) reflects the sum of the tax, annually adjusted for the planned rate of inflation (in recent years this equates to around 1.4%). The latest adjustment for the year 2010 fixed the licence fee at 109 euros. From 2002 the growth rate has been 19%.

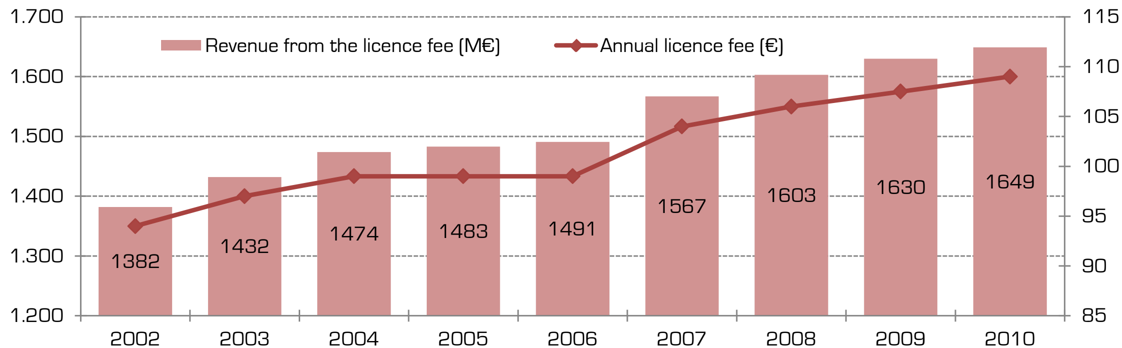
Alongside revenue generated by the licence fee and from advertising, the public broadcaster also receives income from the state in view of the ***Contracts drawn up with the Public Administration for delivery of radio and television services in Italy*** *(in the Regions with minority languages) and abroad[5]. In 2008 the resources allocated for these services amounted to* ***70 million euros****.*

The figure is an increase on 2007, the year when revenues dropped to just under 65 million (the worst figure since 2002) as a result of the failure to renew the Contract for shortwave radio broadcasts for abroad.

The most important Contracts include: those safeguarding minority languages that the broadcaster

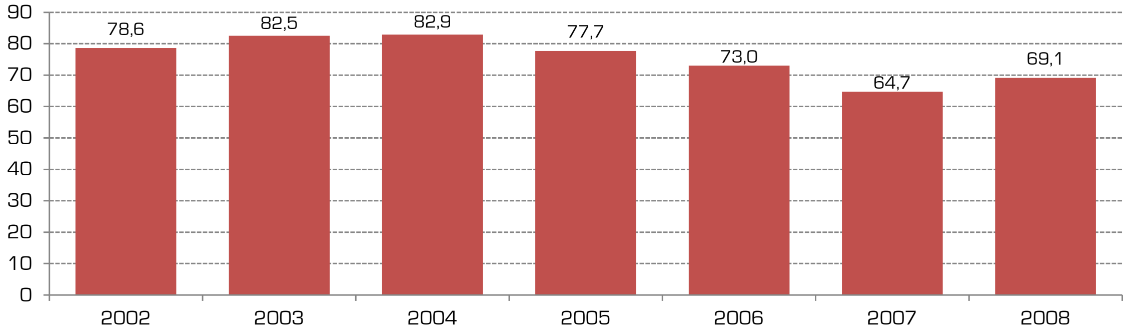
5 Other revenues in the consolidated income of the RAI group, apart from the Agreement with the PA, also include revenues from commercial activities (RAI Trade), those from the cinema and home video (RAI Cinema and 01 Distribution), radio advertising, RAISAT profits, rights payments to use archive material, refunds on the costs of producing programmes as well as other areas. The item relating to producing programmes (which in 2008 generated 56 million euros out of a total of 404) includes the provision of other different kinds of services supplied by the group leader to public entities, which has not be possible to quantify and conjecture from the balance sheets.

RAI licence fee revenue trends, 2002-2010 (millions of euros)



Source: IEM elaboration of RAI figures. 2010 revenue is an estimate.

Income from RAI Contracts (2002-2008)



Source: IEM elaboration of data from RAI, Ministry of Forein Affairs and the Prime Minister's Office.

signs with the Department of Information and Publishing within the Prime Minister's Office, more specifically for French, German, Ladin (spoken in the Dolomites) and Slovenian; the "RAI International" contract for overseas broadcasts; the Contract governing NATO'S Strategic Communications in Afghanistan; and services for RTV, the public broadcaster of the Republic of San Marino.

Currently, the Communications Department in the Ministry of Economic Development assigns nonrecoverable grants to local television broadcasters[6] on the basis of the stipulations contained in Law 448/98[7].

The resources are given to the broadcasters who provide information on the basis of annual classifications arranged on a regional footing by the CORECOM committees (Regional Communication Committees) using objective parameters governed by a specific regulation (Ministerial Decree from 5 November, 2004, N. 292).

Over the years, the grants have progressively increased in the various Financial Acts, assuming more

6 By December 31, 2008 there were 376 companies with share capital managing 421 local TV stations. In recent years, mergers and company bankruptcies have seen the local television sector diminish. In 2005 there were 469 commercial broadcasters. Added to this are the community broadcasters which, according to the most recent estimates (from 2005), were 115 (and once again there have been several closures over the years). Source: FRT – Federazione Radio Televisioni.

7 Law from 23 December, 1998, N. 448 (and subsequent modifications) relates to "Public funding measures for stabilisation and development". In particular, Article 45, paragraph 3 of the law (and successive modifications and integrations) requires that the Ministry fixes an annual budget to allocate.

and more importance for company's financial sustainability and contributing to a significant rise in employment, above all in the journalism profession.

However, the positive trend came to an halt in 2009, when there was a considerable cut in public contributions (-41%), dropping from just under 162 million euros the previous year (a maximum recorded thanks to a top up agreed in August 2010) to just over 95 million euros, a lower figure than that recorded in the 2010 Finance Act.

Funding for the year 2010 should be around 130 million euros, thanks to a replenishment of 50 million euros in the Financial Act, in addition to the 80 million euros allocated in the 2007 Finance Act.

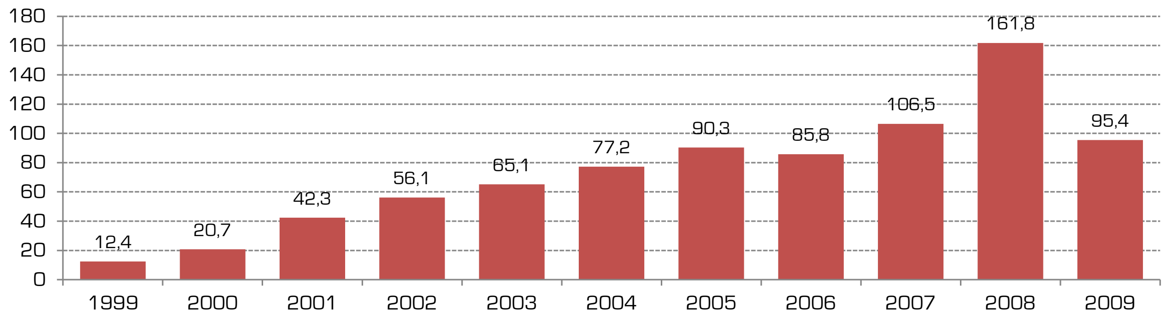
The rules for public funding given to local radio broadcasters are governed by regulations in a Ministerial Decree from 2002, as provided for by Law 448 from 2001.

Over the years the funding has seen considerable growth, going from 6.2 million euros in 2002 to ***21.8 million euros*** *in 2009.*

There was a particularly high upsurge in 2007, when the resources doubled compared with the previous year.

As well as contributions falling under Law 448 from 1998, local broadcasters also receive further public support on a national level thanks to the annual provisions from the Department of Information and

Contributions to local television under Law 448/98 (1999-2010)



Source: IEM elaboration of FRT data. Figures in millions of euros.

Publishing within the Prime Minister's Office, which are governed by complex regulations that have been modified and updated over the years.

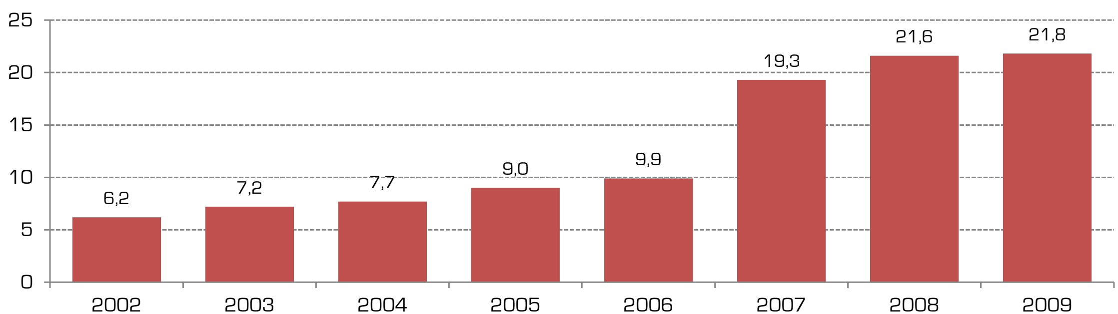
*The overall trend for contributions in the period examined here (2003-2007) shows considerable fluctuations. In five years, the resources have increased from 13 to **21.5 million euros**, a growth of 65%.*

In 2005, the overall level of contributions reached its apex, amounting to around 27.5 million euros.

To complete the overall picture, the Ministry of Communications, in agreement with the Ministry of Economy, issues an annual decree (by January 31) to determine and distribute contributions for the Regions and autonomous Provincial authorities to give to local broadcasters, under the rules in the Law from 22 February, 2000 N. 28, modified in Law 313/2003[8]. The Law provides for a refund given to local radio and TV broadcasters who agree to broadcast self-produced messages during election or referendum campaigns free of charge and it allows for the division of the

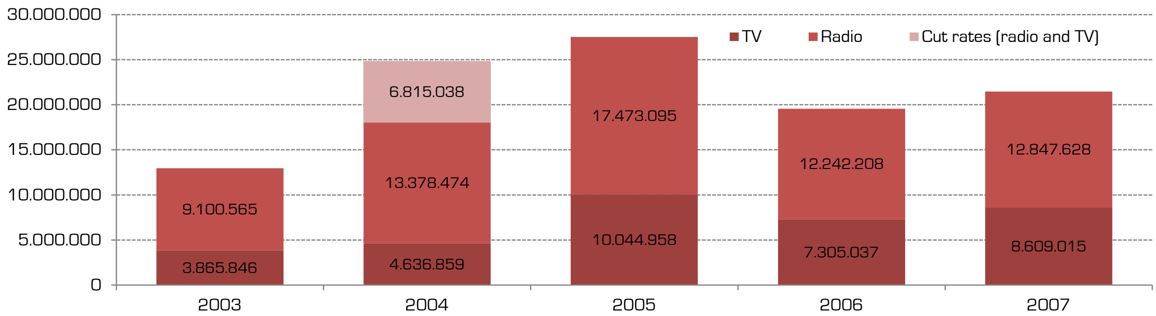
8 "Instructions for equal access to information channels during election campaigns and referenda and for political communication; Official Gazette of the Italian Republic N. 43 from 22 February, 2000". The Law introduces a series of rules, provisions and relative sanctions relating: to political communication on radio and television (locally and nationally); political messages in newspapers and magazines; opinion polls; and institutional communications. Article 4 regulates political communication on radio and television and self-produced messages for radio and television during election campaigns. Paragraph 5 outlines the refund procedures. The Law was modified and integrated with the Law from 6 November, 2003 N. 313.

Contributions to local radio under Law 448/01 (2002-2009)



Source: IEM elaborations of figures from the Communications Department at the Ministry of Economic Development. Figures in millions of euros.

Contributions to local broadcasters under Laws 223/1990 and 250/1990 (2003-2007)



Source: IEM elaboration of figures from the Department of Information and Publishing - Prime Minister's Office. Figures in euros.

sum paid between the Regions and the autonomous provincial authorities of Trento and Bolzano in proportion to the number of citizens registered on the electoral roll of each Region and autonomous Province. At least one-third of the overall annual allocation is reserved for radio broadcasters.

The amount of refunds allocated has seen a net decrease in the period from 2000 to 2007. While the first three years saw overall refunds amounting to a stable figure of over 10 million euros, starting from 2003 there was a clear drop, with figures for recent years reaching around ***3.3 million euros****, namely a third of the resources compared with 2000.*

2.3 Publishing

Contributions to publishing are handled by the Department of Information and Publishing within the Prime Minister's Office, with various kinds of interventions in the budget.

2010 saw an intensification of proposals and corrections to the regulations governing support for publishing– something which had already been seen in the previous legislature– intersecting with the cuts to public spending in the economic manoeuvre. It will only be possible to analyse the final result and real impact on businesses and the market once this reorganisation is complete. These measures include the suspension (and the successive partial re-integration with a one-off payment) of funding for subsidised postal rates and the reorganisation of the criteria for access to direct contributions (including the calculation of copies distributed instead of copies printed). But above all, with the Decree Law N. 112 of 25 June, 2008 (Art. 44) there is a change from the subjective right to a maximum limit of the budget resources allocated, leaving aside publishers' needs and moving to dividing up the available resources on a pro-rata basis. The subjective right has been abolished and re-introduced more than once, and was finally extended until 2009. Then Article 44 also provided for a deregulation of the whole area, which had not yet passed into law by August 2010.

In order to have a wider view, the provisional accounts from the Prime Minister's Office offer an itemised list of the spending contributions, though the data for **direct contributions** is less detailed (bundled together under the budget line 466 "contributions to newspaper and magazine publishing companies").

Between 2003 and 2007, the sums of money substantiated under this budget line have grown from 186 to 214 million euros (with a peak of 247 million in 2006). For 2008 the figures stood at 140 million, before dropping to 50 million in 2009 and rising again to ***170 million for 2010****.*

However, the largest area of spending relates to ***subsidised postal tariffs****: in 2003 the overall figure amounted to 346 million (273 million under budget line 471 and 73 million under the budget line 472. In 2007 the figure was 243.7 million. In 2010 the initial allocation was just over* ***50 million, successively bolstered by a further 30 million for specific non-profit publishers****.*

2.4 Cinema and live entertainment

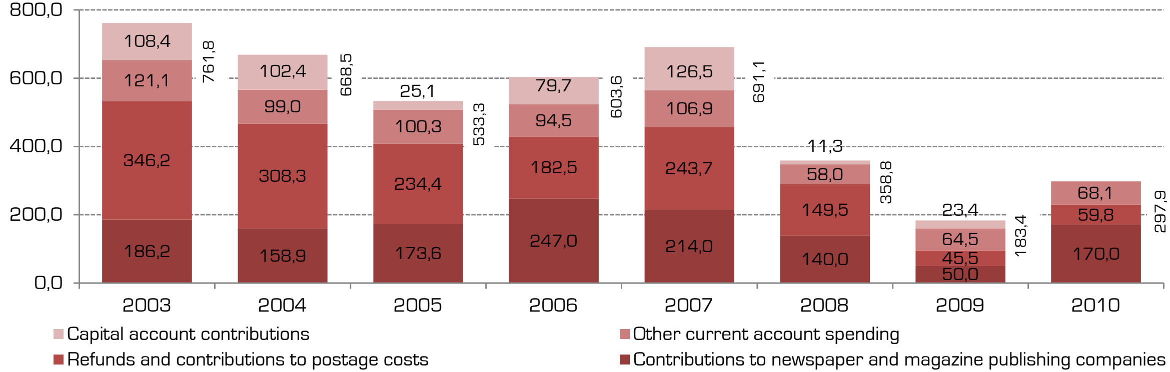
The General Entertainment Fund (FUS) remains the main public funding mechanism for the sector today[9]. The 1985 Law that introduced the Fund marked a relevant innovation, both for the intention to rationalise the many different kinds of state support that had been operating until then, and for the desire to launch a new dynamic in the public action characterised by a more efficient, medium/long-term planning for the resources given to entertainment[10].

In reality, this innovative approach, which the legislators drew up with the aim of leading to a strategy of distributing resources based on a dynamic analysis of the market conditions and the changing needs of

9 As we will see in the detailed analysis, the Fund finances the following areas: Opera-symphonic Foundations and other musical activities; theatre; dance; circuses and travelling shows; and cinema.

10 Law N. 163 from 1985: "New regulations for interventions supporting entertainment".

Budget lines in the provisional accounts from the Dept. of Info and Publishing within Prime Minister's Office, 2004-2010



Note: figures in millions of euros. Source: IEM elaboration on the provisional accounts from the Prime Minister's Office.

the various sectors, was soon replaced by a fossilisation of the so-called "rates of allotment".

Today, the General Entertainment Fund/FUS no longer represents the only source of State support, as over the years conspicuous levels of additional State resources were given to the sector, in the form of extraordinary payments that were added to the ordinary funding. This refers to the progressive appearance, starting from 2003-2004, of finances "not coming from the Entertainment Fund" ("Non-FUS"), namely income from the mid-week lottery, pre-tax charitable donations, funds handled by ARCUS and other special provisions.

What's more, public intervention is not merely restricted to "direct contributions" from the various state entities, it also intervenes indirectly through tax credits and tax relief or donations from legal persons. In this area, the most innovative scheme, widely welcomed by people in the industry, was the introduction of the "tax credit" and the "tax shelter" for cinema companies and also open to external businesses not-related to the film industry[11]. The

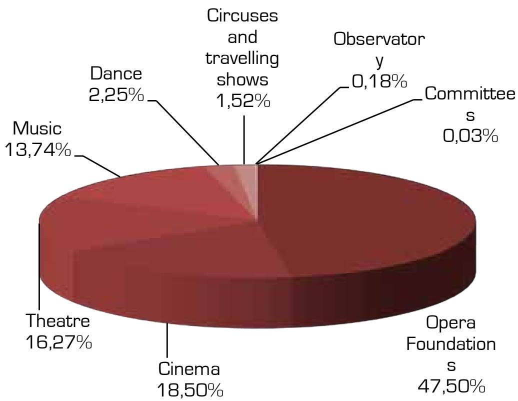
11 At the time of writing these provisions were waiting to be formally extended for the three-year period 2011-2013 and there are also discussions of extending the system to companies working in the field of live entertainment.

regulation dates from 2008, but the necessary laws to activate the system into action came into force in 2009-2010.

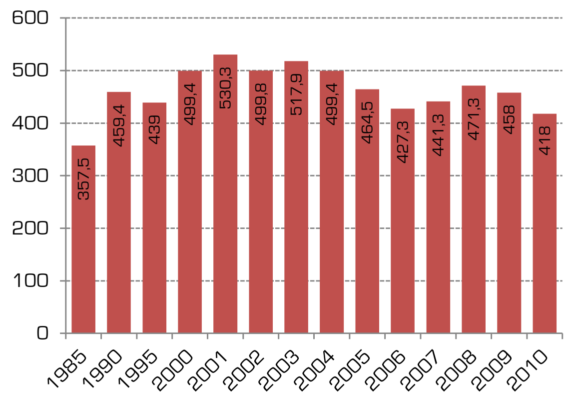
Financing trends (including eventual supplementary funds) have vacillated over the entire duration of the General Entertainment Fund (from 1985 to 2010). The progressive increase of funding recorded in the second half of the 1990s was followed by major cuts, starting from 2003 onwards. There was a brief period of growth in the two-year period 2007-2008 (with resources exceeding 470 million euros in 2008), which was brusquely cut short in the following two years.

*The **General Entertainment Fund's resources** hit their lowest point in 2010, with financing amounting to **418 million euros**. In 2011, if no additional funds are allocated, the fund should be drastically cut to around **258 million euros**, because of recent austerity budget measures taken to contain public spending.*

Share of FUS 2010



Evolution of FUS, 1985-2010



Source: IEM elaboration on Ministry of Culture figures

Opera and music

In the period covering 1998-2008, overall financing given to opera-symphonic Foundations, together with "other musical activities", has been fairly constant. After funding for opera houses took a backwards step in 2006, the last two-year period has been marked by a new phase of growth, with public funding exceeding 260 million euros in 2008. Other musical activities receive an average of 60 million euros, with very few fluctuations during the time frame in question here.

Theatre

Turning to theatrical activities, and we can see there have been three cycles in the decade under examination: the first phase of progressive growth culminated in 2003, when State contributions passed the 100 million euro mark, and was followed by declining support until 2006, the year when an albeit contained upturn was recorded, which saw contributions standing at just under 85 million euros in 2008.

Cinema

The cinema sector is atypical compared with the other areas supported by the General Entertainment Fund. The relevant administrative body (Italian Film Board) substantiates different kinds of payments, with different objectives and also different procedures for funding and coverage, considering the fact that a large proportion of these resources are used for the production Fund[12]. Spending peaked in 2003, with over 250 million euros of funding actually handed out. As a result of the Urbani Reform[13], the level of grants started to drop from 2005 onwards, to then stabilise in 2008 at around 125 million euros. An analysis separating out the different areas of cinema confirms that production[14] is the area that absorbs the majority of funding (roughly 60% of finance allocated in 2008). However, during the timescale in examination, this budget line saw a net drop starting from 2003, with the figure for 2008 amounting to just under 74 million euros, destined to drop even further in successive years. The same trend has been seen in the contributions for distribution in Italy and abroad, while support for the technical professions (post-production workshops, sound studios) has been progressively cut, as have financial contributions for modernising cinemas[15]. The situation

12 In the cinema, as opposed to other sectors, a large part of the contributions, those allocated for production, are allocated in the form of repayable loans.

13 This refers to Legislative Decree N. 28 from 22 January, 2004, which, among other things, introduced more rigid mechanisms for procedures allocating funding for production, limiting the public contribution to 50% of a film's overall budget (80% for first and second films).

14 This sector is then sub-divided into: feature films of cultural interest, Italian productions, first and second films, short films, screenplay development, contributions based on box office takings and prizes for quality.

15 In the last few years this form of support has almost dried up completely and has been basically substituted by tax subsidies that are linked to the digital conversion of cinemas.

is more stable in regards to funding for promotion (awards for art-house cinemas, publishing, preservation and restoration, promotion abroad, associations and special projects) and for nationally important entities, namely Cinecittà Luce, Biennale Cinema and the Centro Sperimentale di Cinematografia-National Film School[16].

*The Italian cinema market has benefited from additional injection of financial resources (estimated at **80/100 million euros**) as a result of the laws on the tax credit and tax shelter coming into force, thus also giving Italy its own tax breaks to support the film industry.*

In the two years the system has been operational (June 2008 – June 2010) industry professionals have claimed tax credits for 114 films, applying for benefits of around 48 million euros, of which 10 million euros were claimed by foreign producers. In 2009 alone, the tax breaks attracted seven important foreign productions to Italy[17].

The cinema and audiovisual industry also benefits from public support at a regional level, thanks to the process of administrative devolution that has been introduced in Italy between the second half of the 1990s and the early years of the new millennium.

The sum of regional resources available for the audiovisual industry was first calculated by the Fondazione Ente dello Spettacolo[18] (Foundation promoting cinema culture in Italy). In 2009 resources available in regional Film Funds amounted to 15 million euros, a figure is more than tripled compared to the 4.9 million euros in 2007.

These funds have almost entirely compensated for the drop in the General Entertainment Fund's resources for production (though without taking into account non-Fund related financing). For the most part this resources are allocated by the Film Commissions, though some of this money (6.4 million, over 40%) is handled directly by the Regional authorities.

A more recent analysis of regional resources invested across the whole industry (development, production and distribution) has been carried out by ANICA (National Association of Cinema, Audiovisual and Multimedia industries), as part of a research project promoted by the Italian Film Board at the Ministry of Culture[19]. On the basis of the first published estimates, the total amount of money made available from 2003 to 2010 amounts or 116 million euros. In four years (2006-2009) resources destined for the

16 Moreover, these entities are also among the biggest beneficiaries of non-FUS financing (the lottery), receiving resources that amount to an average of around 32.5 million euros a year for the period under consideration.

17 By September 2010, the Ministry had already allocated 21 million euros with 70 applications being granted.

18 Fondazione Ente dello Spettacolo, Il mercato e l'industria del cinema in Italia. Rapporto 2009.

19 ANICA research Project, "Charting regional measures to support cinema". The material was first presented at the Venice Film Festival on 8 September, 2010 under the title: "Evolution of regional funds for the cinema and audiovisual industry: constraints and opportunities".

audiovisual industry have increased almost fivefold.

*In 2009 the budget was around **30 million euros** (also including resources from the "Sensi Contemporanei"[20] Framework Programme Agreement for the South), with 40% of this earmarked for the cinema.*

Starting from 2004 the entertainment industry started to benefit from "non-Entertainment Fund" State resources to supplement the normal funding, thanks to the creation of the company ARCUS (wholly-owned by the state) as well as regulations that earmark a proportion of income from the Lottery to be given to culture and cultural activities. The levels of these funds fluctuate considerably, reflecting the fragmented nature of the interventions in place.

*In 2008, non-FUS resources topped **32 million euros**, which was almost 10% of the overall amount allocated through ordinary and supplementary provisions for the entertainment sector that year (471 million euros)[21].*

20 The Sensi Contemporanei project "Developing the audiovisual industry in Mezzogiorno" was launched in 2005 by the Department for Development and Economic Cohesion and by the Italian Film Board at the Ministry of Culture as an innovative policy tool to experiment with different forms of audiovisual expression with the aim of promoting the territory. Projects benefited from National and regional Undeveloped Area Funding and were carried out through Framework Programme Agreements between the State and the Regions. The regional authorities involved so far are Sicily, Puglia and Basilicata.

21 Of the 32.2 million euros allocated, 20 million were given to 14 Operatic-symphonic Foundations (with each receiving differing amounts).

2.5 Telecommunications

At the moment, there are various kinds of incentives for developing the telecommunications infrastructure, aimed at overcome the digital divide, both from the point of view of the spread of the network – through fiber optic, copper and wireless technology – and from the point of view of computer literacy, through policies stimulating the spread of e-government services within local administrations.

Policies sustaining the telecommunications sector are delineated into different forms and levels of intervention: the simplification of procedures for creating networks and electronic communication infrastructures; the institution of the Inter-ministerial Committee for the Deployment of Broadband; the Broadband Observatory; and Infratel. From the financial point of view, actions include the creation (either direct or through public calls for tender for regional co-funding) of infrastructures through Infratel, the signing of memoranda of understanding between the Ministry of Communications, Infratel and the largest TLC operators or other forms of regional funding and agreements between regional authorities and telecom operations.

There are two kinds of State interventions aimed at reducing the digital divide: the regulatory interventions to simplify procedures and the direction of local public policies and the provision of resources for the spread of new technology and the creation of infrastructures.

Turning to funding for infrastructure, and the first and most important intervention was the launch of the Broadband Programme (2003). As part of this, the Inter-ministerial Economic Planning Committee (CIPE in Italian), earmarked funding for the development of broadband in 8 regions in Southern Italy (Mezzogiorno). Out of the total earmarked sum of 900 million euros (set out in Resolution 83 of 2003), 150 million were assigned for broadband, respectively divided up into 5.22 million euros for the two year period 2003-2004 and 144.78 million for 2005.

It is extremely complicated to estimate the level of resources allocated to tackle the digital divide because: there are the many different kinds of funding mechanisms used to deploy coverage in the various territories; the allocation of resources is made more complex because they come from Central Administration, the Regional authorities and the European Union; and interventions vary greatly depending on specific regional and territorial issues. In the light of the difficulty in subdividing the resources invested in deploying broadband into those from central administration and those from regional administrations, and the problem of distinguishing these from other resources allocated, given or actually spent, for this research it has been decided to provide a quantification based on the study of calls for tender published by Infratel in the last five years.

*The overall allocated resources exceed **312 million euros** (excluding VAT), 197 of which have already been supplied or are in the process of being given to the winners of the various tenders so they can create the infrastructures in question.*

On the central administration level, over 228 million euros (excluding VAT) have been committed, almost 127 of which come from the 2005 Broadband Programme. Funding activities intensified between 2009 and 2010, with the allocation of 54.8 million for the Central North tender and 46.8 million for the National Fiber Optic tender.

The regional and European community resources committed amount to over 91 million euros (excluding VAT). Out of these, 15.3 million were allocated for the Southern region of Calabria and 10.8 for the Veneto region (ERDF and European Agricultural Fund for Rural Development-EAFRD National fibre optic tender); 11.5 million were awarded for work in the Marche region (Marche fibre optic tender, with a starting base of 16.6 million financed by the European Regional Development Fund (ERDF) Regional Operational Programme 2007-2013); 9.7 were spent in Lombardy (4.4 of regional resources and 5.3 from the EAFRD); 7.7 to Sardinia (EAFRD financing National fibre optic tender); 6.2 to Tuscany (ERDF funds for the National fibre optic tender); 5.2 to Piedmont (EAFRD

Funds for broadband infrastructures					
TENDERS		Infratel resources	Resources from ERDF-Regional Operational Programme, EAFRD or other regional funding	Total resources	Resources provided (value of contract award)
Mezzogiorno tender (Mar-2005)		126,970,000	0	126,970,000	120,729,890.37
Basilicata fibre optic tender (Jan-2009)		0	6,266,000	6,266,000	6,000,000*
Marche fibre optic (Apr-2009)		0	16,590,900	16,590,900	11,476,049.93
Purchase of rights to use infrastructure (Apr-2009)		n.d.**	n.d.**	14,000,000	n.d.
Central North tender (Mag-2009)	Lot 1	28,300,000	8,230,000	36,530,000	30,743,676,13
	Lot 2	26,575,000	8,450,000	35,025,000	28,696,894,20
National fibre optic tender (Mar-2010)	Lot 1	23,016,001	16,128,666	39,144,667	n.d.
	Lot 2	16,560,000	21,208,000	37,768,000	n.d.
	Lot 3	7,255,385	15,360,000	22,615,385	n.d.
Total***		228,676,386	92,233,566	312,294,567	197,646,510.63

Note: (*) the Infratel website does not publish the value of the contract awarded, but according to Valtellina spa, the overall value was six million euros; (**) the supplies relating to this question are funded from various sources including the State's Budget Act, Resolutions made by the Interministerial Economic Planning Committee and finance from the European Regional Development Fund (ERDF) Regional Operational Programme 2007-2013, so it is not possible to distinguish between State and regional resources; (***) amounts excluding VAT. Source: IEM from various.

financing National fibre optic tender); and 2.1 to Abruzzo (f EAFRD financing National fibre optic tender). Lazio, Emilia Romagna and Umbria have respectively allocated 5.1 million, 3.8 million and 3.3 million euros for their territories, made available under the Central North tender.

When looking at regional financing in particular, it should be noted that the resources are allocated through many different kinds of measures and are obviously much greater than the figures listed in this research: one just has to consider that in Lombardy alone, there are plans for three projects that require overall investments of 93 million euros.

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