OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

THE FILM INDUSTRY IN THE RUSSIAN FEDERATION

November 2012

A REPORT FOR THE
EUROPEAN AUDIOVISUAL OBSERVATORY

BY NEVAFILM

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(2012 Edition)

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НЕВАФИЛЬМ
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The Film Industry in the Russian Federation

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Table of contents

INTRODUCTION

We are pleased to present this latest edition of *The Film Industry in the Russian Federation*, prepared by Nevafilm Research at the request of the European Audiovisual Observatory.

This is the third edition of the report, with previous editions released in 2009 and 2010. This edition includes a description of the institutional framework within which the Russian film industry operates, as well as an overview of the major sectors of the industry (film production, film production services, exhibition, distribution, DVD distribution, and video-on-demand). This edition of the report also includes a new chapter on international cooperation involving Russian filmmakers.

Russian film market researchers frequently encounter difficulties in obtaining official data on the operation of the various elements of the film market, which indicates that, overall, the industry's processes are still developing. The most open sector of the industry is the film distribution business, as Russian distributors have been providing data on box office returns to several industry publications since the 1990s; however, there are some issues even here. The introduction of a unified system for the collection of cinema ticket sales data (CAIS) is therefore an extremely pressing issue.

It is even more difficult to obtain accurate statistics on the home video and video-on-demand sectors, due to the fact that these markets are completely closed.

Because of the existence of state support in Russia, some information on film production is available for analysis. It should be noted that the majority of Russian producers do respond to requests to provide data on the films they have produced and their budgets, which suggests a welcome appetite among industry players for more systematic knowledge of their sector.

Nevafilm

Nevafilm was founded in 1992 and has a wide range of experience in the film industry. The group has modern sound and dubbing studios in Moscow and St. Petersburg (***Nevafilm Studios***); is a Russian market leader in cinema design, film and digital cinema equipment supply and installation (***Nevafilm Cinemas***); became Russia's first digital cinema laboratory for digital mastering and comprehensive DCP creation (***Nevafilm Digital***); distributes alternative content for digital screens (***Nevafilm Emotion***); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003; and is a regular partner of international research organizations providing data on the development of the Russian cinema market (***Nevafilm Research***).

The European Audiovisual Observatory

Set up in December 1992, the European Audiovisual Observatory's mission is to gather and distribute information on the audiovisual industry in Europe. The Observatory is a European public service body comprised of 36 member states and the European Community, represented by the European Commission. It operates within the legal framework of the Council of Europe and works alongside a number of partner and professional organizations from within the industry and with a network of correspondents. In addition to contributions to conferences, other major activities are the publication of a Yearbook, newsletters and reports, the compilation and management of databases and the provision of information through the Observatory's Internet site (http://www.obs.coe.int).

EXECUTIVE SUMMARY

Overview of the Russian film industry

- All sections of the film industry exist in Russia today: from film production undertaken by Russian producers using Russian film studios and service companies, to a modernising exhibition sector, to an extensive film distribution market. The latter includes theatrical distribution, which is swiftly transitioning to digital technologies, and the home video market, whose physical sector is declining, and whose video-on-demand sector is growing, despite high levels of Internet video piracy.

- From 2010 to 2012, approximately 600 films were produced in Russia annually, of which 20% were feature films, 10% were animation (both full length and short) and the remainder were documentaries.

- Russia has 24 full-service film studios, 11 state-owned and 11 privately owned, and two public–private studios, as well as approximately 30 major companies which offer services related to film production. A major trend in the film production services market has been studio mergers and reorganizations in both the public and private sectors.

- The Russian film industry is concentrated in Moscow and St Petersburg, but there is an important secondary centre in Yekaterinburg, Urals district.

- In 2011, Russia hosted approximately 40 national and international film festivals, of which two have been accredited by the International Federation of Film Producers Associations (FIAPF): the Moscow International Film Festival and the Message to the Man International Film Festival (St Petersburg).

State support to film in Russia

- The state plays a vital role in supporting the Russian film industry, with the key state organisations being the Ministry of Culture of the Russian Federation and the Federal Foundation for Social and Economic Support of National Cinematography (the "Cinema Fund").

- In 2012, the federal budget allocated RUB 5.9 billion (EUR 148.6m) to supporting the Russian film industry, with 66% going to the Cinema Fund, which is recognised as Russia's representative in international bilateral organisations such as the German-Russian Co-Development Fund and the joint film academies with France and Italy.

- From 2013, the Cinema Fund will focus on commercial projects (providing non-repayable subsidies and repayable investments in film production) and assist producers in obtaining credit and attracting private investments, while the Ministry of Culture will focus on sociocultural projects, some of which received the support of the Cinema Fund in 2010–2011.

- In June 2012, the Cinema Fund identified 10 industry leaders eligible to receive production funding during the following year: Art Pictures Studio, Central Partnership, CTB, Direktsiya Kino Studio Trite, Direktsiya Kino, Tabbak, Real Dakota, Koktebel Film Company, Non-Stop Production and Rock Films. These companies have been selected on the basis of cinema and TV viewing numbers, professional acclaim (eg festival awards), length of time the company has been active and the number of films released.

- The state has prioritised films that examine the pressing issues facing Russia: military, patriotic and historical subjects, films for children and adolescents, vivid genre productions popular with audiences and debuts by talented creative artists.

- The Government has decreed that in return for state investment in full-length feature films, a portion of revenues should be returned to the Cinema Fund. Mechanisms to achieve are in the process of being established.

- As a result of budget increases, the proportion of total Russian film investment provided by the state has grown. In 2010, state financing accounted for 19% of the budgets of all films shot in Russia*;* for H1 2012, this figure was 44%. State support for full-length feature films is growing at similar rates: during the period in question, the amount of budget funds as a proportion of total investment increased from 18% to 43%.

- The state also supports the distribution of films, to a maximum of 70% of the costs. This covers duplication, subtitling, advertising and other promotional expenses.

Film education

- A negative influence on the development of film production in Russia is the shortage of qualified personnel: the country has just two schools of higher education specializing in film (Russian State University of Cinematography, Moscow (VGIK) and St Petersburg State University of Film and Television), while non-specialized universities offer courses primarily for directors, producers, designers, and camera operators.

- The shortage of scriptwriters is being addressed only by short-term educational programmes. Geographically, Russian film education is located mostly in Moscow and St. Petersburg, which poses an obstacle to the creation of new, modern film studios in the Russian regions, as these projects experience a deficit of specialists.

Film distribution

- Russian distribution is dominated by US films, which take around 70% of the box office. The Russian share by number of releases has fallen from 24% in 2009 to 18–19% in 2011–2012, while the Russian share of the box-office has declined from 26% in 2008 to 17–18% in 2011–2012. Nevertheless, until 2012 it has been usual for two or three Russian films to be in the top 10 each year.

- Among European countries, France had the greatest number of Russian releases in 2007–2012, followed by Great Britain, Germany, Spain, and Italy, with British films earning the most at the Russian box office.

- The distribution market is dominated by the US majors, sometimes working in partnership with local distributors, with the main independent distributors being Central Partnership, Karoprokat, Paradise, Nashe Kino and Volga.

Film exhibition

- Nearly two thirds of Russia's 3000 modern screens are now digital, which has benefited independent film distributors as well as the majors. Russian cinemas have broadened their programmes: prior to 2012, about 350 films per year were shown; in 2012 there were more than 450, as well as a growing number of 'alternative content' releases.

- Partly as a result of the wider choice, the screen life of theatrical releases decreased from 57 days in 2010 to 34 in 2012.

- Russia is implementing a live on-line box office revenue reporting system: the federal consolidated automated information system (CAIS). The larger cinema chains have implemented the system and the deadline for all cinemas is 1 January 2015.

- In recent years the exhibition sector has grown rapidly with the upgrading of old cinemas and building of new multiplexes in shopping centres. On 1 July 2012, Russia had 994 'modern' cinemas and 2,894 'modern' screens. It is expected that there will be 40 IMAX theatres by the end of 2013. Almost 60% of 'modern' screens are digital, with most of these being 3D-capable.

- Ownership of the exhibition sector is fragmented, with more than 560 companies active. However a process of consolidation is under way. The leading operators are Cinema Park, Karo Film, Kinomax, Kronverk Cinema and Formula Kino, Luxor and the major regional operators Premier Zal and Monitor.

Film on video

- For the past two years, the Russian video market has been in decline. The volume of video disc sales has decreased (*IHS Screen Digest* estimates that in 2011, sales were 10% down on the figures for 2010; in 2012 a further decline of 9% is expected), the number of active distributors has fallen (in particular, due to the departure of representatives of the majors from the market), video production factories have closed and the industry periodicals *Video Market Bulletin* and *Videomagazine* have ceased publication.

- Market players are increasingly concerned that the demise of the industry is imminent, due to the mass transfer to non-physical distribution. Nevertheless, in late 2011 70% of Russian TV households owned DVD players and Blu-ray players were beginning to be purchased.

Piracy

- Piracy has been, and is, a major problem for film distribution in Russia, with pirate DVDs being manufactured on a large scale, including at military installations, in the early 2000s. To compete with pirate copies it was necessary for film distributors to take anti-piracy measures, reduce their prices, shorten the theatrical window and encourage the sale of DVDs at hypermarkets such as Auchan, Metro, Real, Lenta and O'kei. It is estimated that pirate DVDs by 2011 accounted for 50% of the volume of DVD sales, down from 97% in 2002.

- Internet piracy is a major problem, leading to the development of a private commercial copyright protection industry, with leading players including Web Control, Web Sherrif, Russian Shield, Internet Copyright Management and the Association of DVD Publishers. Major companies have their own anti-piracy departments, aimed particularly at denying pirate internet access to their products during the first month after theatrical release.

- Consumers have shifted from downloads to streaming with the social networking site Vkontakte estimated to account for 90% of illegal viewing online. Some steps have been taken by ISPs, search engines, social media sites and official agencies to reduce the spread of pirated material, but the fight against piracy still depends largely on private efforts.

Film on video-on-demand

- The first phase in the establishment of the video-on-demand market in Russia took place from 2005–2010. In that period, there was a sharp increase in the number of users of these services. Phase 2 (2011–2012) was characterized by an increase in the number of services and the size of their catalogues, thanks to major investments in this sphere. The third phase, which may begin as early as 2013, will mark the entry of major international video-on-demand players into the Russian market (in December 2012, the iTunes Store and Google Play were officially launched).

- In mid-2012 there were around 60 VoD service providers in Russia, with the main modes of delivery being Internet and Cable. Broadband access averaged 50% across the country, with more than 70% accessing the Internet in Moscow and St Petersburg. The industry used a range of business models, with online advertising and pay-per-view being the top revenue methods.

- In 2011, 28.6 million households (52% of total households) had access to Pay TV services, with cable being the most common form of access (63%), followed by satellite (32%) and IPTV (5%).

Russian film internationally

- Despite Russia being a member of Eurimages and a signatory to the European Convention on Cinematographic Coproduction, international co-production activity is underdeveloped. At most 10 new films are co-produced each year, and fewer than half of these titles are officially produced under international co-production agreements. In 2012 there was an increase, thanks to the work of the French-Russian Film Academy and the German-Russian Co-Development Fund, both established in 2011. Russia has coproduction agreements with five foreign countries as well as with the member states of the CIS.

- In recent years, some Russian producers have invested in foreign film production, for example Alexander Rodnyansky, who has released several US projects.

- Russian films have a low presence in international markets and those films which do make it on screen have lower box-office earnings than they do in Russia. This is especially true of films intended for a wide audience, which often become blockbusters in Russia. The foreign audience receives art house films better, and these sometimes achieve greater success abroad than they do in Russia.

- The most successful Russian film internationally in 2006-2011 was *Mongol: The Rise of Genghis Khan*, which was one of only seven Russian films to achieve a US release over that period, and achieved an international box office of US$ 20 million.

New technologies and the Russian film viewer

- Technologically speaking, the Russian film industry is quickly making the switch to digital technologies in filming, theatrical distribution, and home video.

- New technological capabilities are changing the picture of film distribution, expanding Russian viewers' access to a growing number of films and a larger amount of alternative content. New forms of film consumption are dictating future changes in the ways in which providers interact with audiences. On this newly forming map of the Russian film market, the film viewer is increasingly becoming the main actor, upon which the future of the entire industry will depend.

ABOUT THE RUSSIAN FEDERATION

Russia is a federal parliamentary republic headed by a president with sweeping powers, who is elected for a period of six years.

The Russian Federation consists of 83 equal constituent entities, which make up eight Federal districts: Central, Volga, Northwestern, Southern, Far-Eastern, Siberian, Urals, and North Caucasus.

The capital of Russia is Moscow.

The territory of the Russian Federation stretches over nine time zones, with the centre located in the Moscow Time Zone (MSK/MSD), or UTC (Universal Time Coordinated) + 4:00. Russian residents do not change the clocks in the autumn.

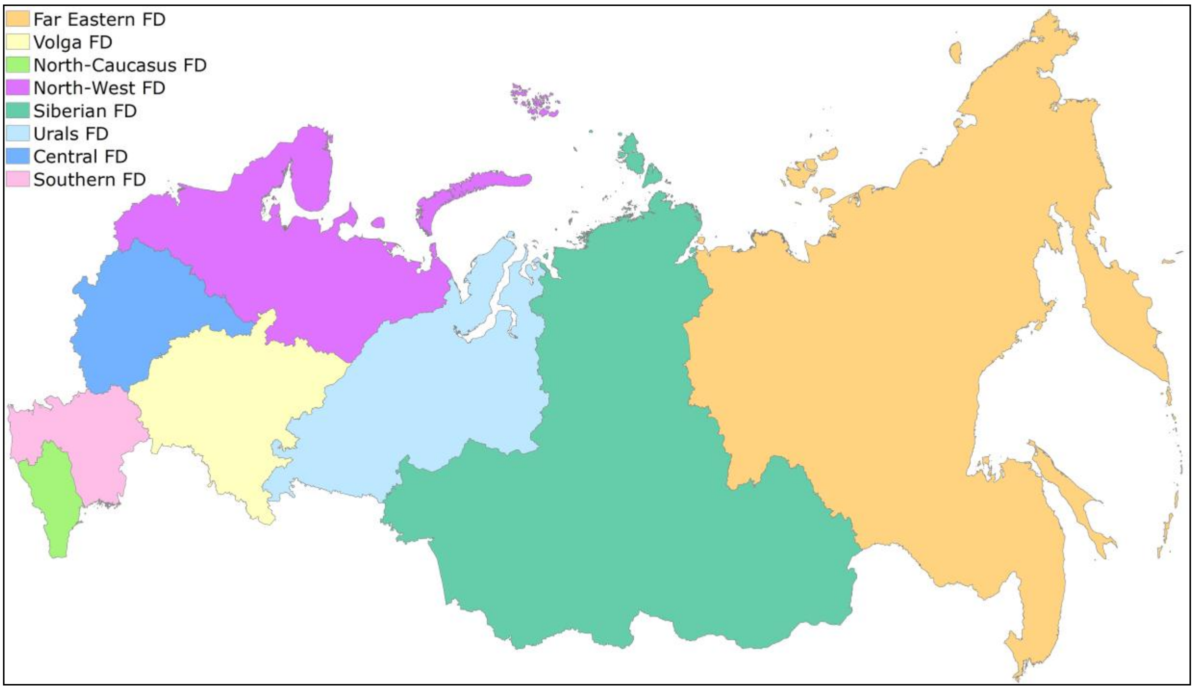


Figure 1. Federal Districts of Russia

The official national language is Russian; however, the peoples of Russia speak more than 100 different languages and dialects.

Based on data collected by the Federal State Statistics Service of the Russian Federation, as at 1 October 2012, the size of Russia's permanent population was 143.3 million people.

According to 2010 census data, the Russian population consists of more than 190 ethnicities. The majority of the population, 77.7%, is ethnically Russian.

In the economic sphere, public life in the Russian Federation went through three crisis periods:

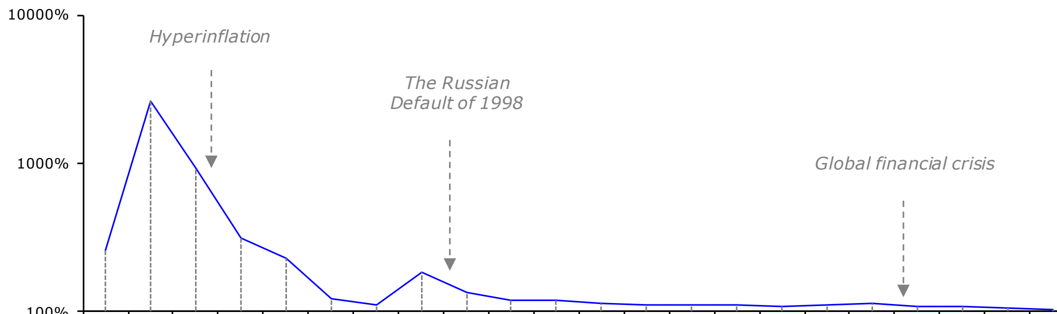
- The period of transition to the market economy in the early 1990s, when the country underwent price and international trade liberalization and privatization of state-owned companies. Effects of the reform proved to be extremely painful: price liberalization led to galloping inflation; increasing number of defaults; devaluation of salaries, incomes, and savings; growing unemployment, etc. Social effects included falling birthrates and increasing death rates; growing crime rates; a growing income and living standard disparity (Russia still doesn't have a strong middle class), etc.

- The default of 17 August 1998 (the Russian financial crisis) was triggered by the Asian financial crisis which had begun in July 1997. A drop in global consumer prices had the most dire effect on the countries which depend on resource exports, including Russia, with 80% of its exports consisting of oil, natural gas, metals, and timber. As a result of the crisis, Russia declared that it would default on state securities, the rouble fell sharply, and for a long period imported goods became inaccessible to Russia's population. It must also be noted that in 1998, Russia's national currency underwent redenomination (RUB 1=RUR 1,000).

- Effects of the global financial crisis impacted Russia's economy in late 2008, when the rouble underwent devaluation, and in 2009, when consumption and production fell, along with people's incomes. The impact of the crisis was felt most keenly in the construction industry. In 2010, the effects of this crisis were partially overcome.

The most dramatic reflection of these crises can be found in changes to the consumer price index and average annual national currency rates (in relation to the dollar and the euro).

Annual changes in consumer price index in Russia (1991–2012)



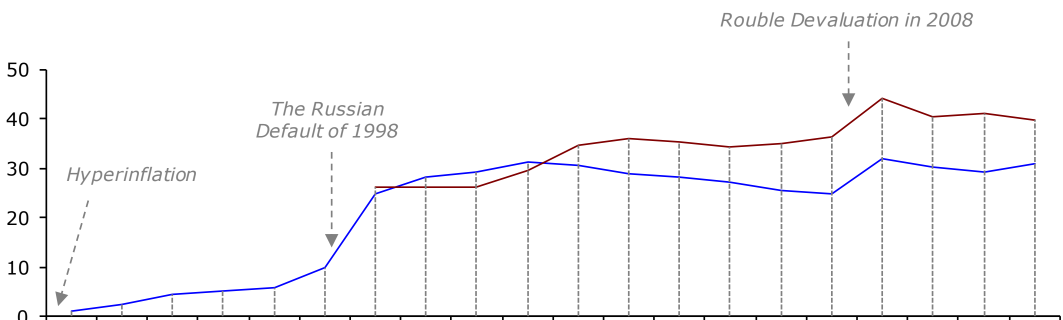
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
Consumer price index at end of period	2.60	26.09	9.40	3.15	2.31	1.22	1.11	1.84	1.37	1.20	1.19	1.15	1.12	1.12	1.11	1.09	1.12	1.13	1.08	1.09	1.06	1.04

Source: Federal State Statistics

Note: In Figure 2 the row labelled "Consumer price index at end of period" indicates the multiple by which the CPI increased in the year in question.

Figure 2. Annual changes in consumer price index in Russia (1991–2012)

Average annual USD and EUR exchange rates in Russia (1992-1H2012)



	1993 (thousands)	1994 (thousands)	1995 (thousands)	1996 (thousands)	1997 (thousands)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
USD/RUB exchange rate	0.94	2.23	4.56	5.22	5.79	9.79	24.65	28.13	29.18	31.36	30.67	28.81	28.31	27.14	25.55	24.81	31.77	30.04	29.1	30.8
EUR/RUB exchange rate							26.24	25.99	26.13	29.69	34.68	35.82	35.16	34.11	35.03	36.45	44.20	40.22	40.9	39.6

Source: Central Bank of Russia

Figure 3. Average annual USD and EUR exchange rates in Russia (1992–2012)

All these developments have had a significant impact on the national film industry, which has undergone liberalization and a series of reorganizations since the modern Russian state was formed. Currently, all sectors of the film industry exist in Russia: from film production undertaken by Russian producers using Russian film studios and service companies, to an extensive film sales market. The latter includes theatrical distribution, which is swiftly transitioning to digital technologies, and the home video market, whose physical medium sector is gradually declining, and whose video-on-demand sector is growing despite high levels of Internet video piracy.

Chapter 1
THE FILM INDUSTRY IN RUSSIA: INSTITUTIONAL FRAMEWORK

1.1 An overview of state policy governing the Russian film industry

1.1.1 System of state support for cinema

Transition to the market economy

The Russian Government's current policy towards the film industry began to take shape as the country went through the process of market reform. Comprehensive economic reform of the film industry, which established a system of self-sufficient industry players enjoying creative and economic independence, began in the last few years of the Soviet era.[1] The reorganization consisted of a gradual transition to new, progressive ways of organizing the film industry, and a stronger role for public organizations and creative collectives.

The most important step in this transformation was the abolition of guaranteed state purchase of material produced, combined with relaxed ideological control and the film industry's new creative, organizational, and economic independence. Direct state participation in film production was limited to national or republic-wide works (live action, including films for children and adolescents, as well as animated and non-feature films, debuts, and undergraduate and graduate works).

These works were not allowed to account for more than 25% of all feature films produced. Their financing, much like the financing of other types of productions within state creative programmes, as well as the purchase of licences and distribution copies of foreign films, relied on funds from the state budget (including foreign currencies). The development of national creative film production programmes was the purview of the USSR State Committee for Cinematography (Goskino USSR) and the USSR Filmmakers Union, in cooperation with other public organizations. As a result, the film industry's involvement in the development and implementation of state film policy was enshrined in legislation.

The process required significant transformation of the organizational structure of film industry enterprises. It was decided that these enterprises would be new kinds of film and video production studios and film factories. These film and video production companies would operate in an atmosphere of creative competition, and have full creative and business independence. They would engage in film and video production independently or in cooperation with other studios and foreign partners, and, as a rule, utilize the technical production resources of film factories based on signed agreements. Film and video studios would have no permanent staff directly involved in film and video production: these individuals would be hired on the basis of temporary employment agreements for up to three years, or until a specific production was completed. Meanwhile, the film and video studios would earn revenue and determine the salaries of their team members, based primarily on the end results of their work.

Mosfilm Cinema Concern, founded by a decree of the Council of Ministers of the USSR, became the first film production enterprise of this kind.[2] The companies and organizations which made up the Cinema Concern were no longer part of Goskino USSR: instead, they became independent, self-sustaining entities

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[1] See Resolution No. 1003 of the Council of Ministers of the USSR, 'On Reorganization of Creative, Organizational, and Economic Activities in the Soviet Film Industry', dated 18 November 1989.

[2] See Resolution No. 1064 of the Council of Ministers of the USSR, 'On Forming the Mosfilm Cinema Concern', dated 19 October 1990.

within Mosfilm. Mosfilm later came to consist of the management board, nine independent film studios which had no permanent creative or production personnel, and a film factory which absorbed all technical production subdivisions (workshops, warehouses, transportation, maintenance, and other services). The concern and its components were offered a number of tax breaks, financial assistance, and credit aimed at supporting independent operations. Without a doubt, one of the most important innovations was the transfer to Mosfilm Cinema Concern of exclusive distribution, exhibition and export rights to state-owned film content produced in the past by Mosfilm Studios and the organizations that preceded it. This played a crucial role in preserving Mosfilm's position as the main technical production enterprise active in the domestic film production market, as the concern weathered the film production crisis by selling the rights to past productions.

In addition to radically reshaping the film production system, the 1989 reform made significant changes to film distribution and exhibition. Blanket film distribution rates based on a percentage of gross box office receipts were abolished, while state film exhibition companies which transitioned to the new business model were granted an exemption from taxes on film exhibition revenue, and were taxed on profit instead. Meanwhile, public organizations paid income tax on film exhibition profit. These changes were crucial, since the new film exhibition tax was not based on the financial performance of an organization's film exhibition activities, which were mostly unprofitable and were subsidized from local budgets. The abolition of the fixed distribution tax on the price of a cinema ticket stemmed from the fact that relationships between film and video licence owners and film exhibition organizations were now contractually based. Film exhibition companies (cinemas) could now take independent decisions in shaping their film programme.

Despite the fact that the fundamental nature of the reorganization of the film industry was aimed at marking the transition to a free enterprise model, this transition was marked by a deep systemic crisis in the industry. Film production proved to be the most vulnerable part of the system, as domestic content was displaced by foreign films. The very first film markets held in Russia, beginning in early 1989, showed signs of the strain placed on Russia's film industry by free trade. Soviet films could not compete with their foreign competitors in distribution prices or in their ability to meet viewer expectations. The final transition from the state-controlled business model to the market model of film distribution soon followed, revealing the complete inability of the film production industry to adapt to the new conditions. As a result, the industry collapsed.

The 1996 federal film law

In the early years of Russia's market reforms, film production survived primarily due to state financing. However, this financing was limited due to a chronic federal budget deficit, and was provided without a clearly defined strategy. A conceptual approach to defining the nature of cooperation between the state and the film industry was finally developed in 1995. It placed state support of the film industry among the top priorities of Russia's cultural policy, and relied on protectionist measures.[3] These provisions became the basis for the Federal Law 'On State Support for Cinema in the Russian Federation', dated 22 August 1996 (hereinafter referred to as Federal Law No. 126-FZ), which remains

[3]See Decree No. 785 of the President of the Russian Federation, 'On Protectionist Policies of the Russian Federation in the Sphere of Russian Cinema and Events Dedicated to the 100th Anniversary of Global and Russian Cinema', dated 15 April 1995.

to this day the main regulatory law governing the activities of executive agencies with regard to the film industry, as well as the protocol for cooperation between these agencies and film companies in providing state support for film production, distribution, and promotion; cinema events aimed at promoting Russian cinema; and other measures aimed at maintaining and developing the film industry.

Federal Law No. 126-FZ stated that cinema produced in the Russian Federation was an integral part of culture and art, and had to be protected and developed *with help from the state*.

State policy on cinema is based on the following principles:

- recognition of film as a branch of culture and art that requires the development of its creative, educational, production, technical, scientific, and information aspects as a prerequisite to its existence;
- responsibility of the state for sustaining and developing film;
- ensuring that the general public has access to film products;
- cooperation with foreign authorities and international organizations in their respective areas of activity according to the agreed protocols.

The law established the following system of state support for the film industry:

- partial state financing of the production, distribution, and exhibition of Russian films, including production of Russian films for children and young people, and debut films by Russian directors;
- preserving and developing cinematographic material and equipment;
- creating conditions for the distribution and exhibition of Russian films;
- implementing educational and scientific/technological programmes;
- holding film festivals and other events;
- showing Russian films at international film festivals and other international cultural events.

Current state priorities

In the last few years, state policy towards the film industry has been focused on resolving the strategic issues facing the industry, primarily:

- further improving state support for the production and distribution of Russian films, towards a clearer financing structure for film projects;
- restructuring the industry's infrastructure using public–private partnership mechanisms for film production and exhibition, and including the creation of a network of digital cinemas and multifunctional cultural centres in small and medium-sized cities (managed by private operators);
- creating a single, unified federal automated system of information on film exhibition, allowing operational data on cinema attendance and box office takings to be made official and public;
- involving regional and municipal authorities in reviving the film sector, attracting private and foreign investment, and using geographic, climatic, infrastructural, and personnel-related advantages to create a unified cinematographic space in the Russian Federation.

State financing of film

State financing of film from the federal budget falls into two principal groups of expenditure:

- The Federal Target Programme (FTP) Culture of Russia (2012–2018);[4]
- The Culture and Cinema Measures target expenditure item (non-policy expenditures), which distinguishes between independent types of expenditure: 'Other purchasing of products, works, and services for state needs' and 'Subsidies to legal entities (except state organizations) and individuals producing products, works, and services'.[5]

As a rule, state support for the production of Russian films cannot exceed 70% of the production budget and must follow a prescribed contract entered into with the producer. In certain exceptional cases, allowing for the artistic and cultural value of a film project, federal executive authorities for film may adopt a decision permitting state financing of up to 100% of a Russian film's estimated production cost.

State support of film production is provided only to Russian films.[6]

Evolution of state support to the Russian film industry in the decade 2002–2012

Over the last decade, priorities in the state regulation of film have been gradually modified, the principal reasons being the general trends of administrative reform in Russia and the intensive development of the film industry itself.

In 2002, revenue tax exemptions were abolished for organizations investing in film and duplication of Russian films, along with exemptions on the portion of revenue spent by film industry organizations to build cinema screens. This was in line with the general policy of reducing tax exemptions in order to combat money laundering. Simultaneously, to compensate for the financial resources thus withdrawn from the industry, direct state support for the production and distribution of Russian films increased (to RUB 1 billion in 2002).

The administrative reform that commenced in Russia in 2004 aimed to reduce state participation in the economy by the mid-2000s, but these trends have not brought about any noticeable changes in the film industry.

In 2002, in order to support the inflow of non-state financing into the film production industry, the Government of the Russian Federation handed over the rights to film content produced with state support to the Ministry of Culture of Russia, based on the share of state financing in the production budget, with an eye towards recouping the revenue earned by film industry companies.[7] However, this mechanism was never implemented in practice, and state support is still provided without any obligation to repay any part of the profits.

In addition, in 2002, the Government issued a decision to increase annual federal financing of domestic productions by a further RUB 500 million, setting the goal of financing up to 100 live action films, up to 65 animated films, and up to 330 non-feature films produced in Russia annually, as well as increasing the share of Russian productions screened in the country's cinemas to 25% by 2006.[8] This goal was reached: in 2006, 105 full-length features, 65 animated films, and 459 non-feature films were produced with financial support from the state.

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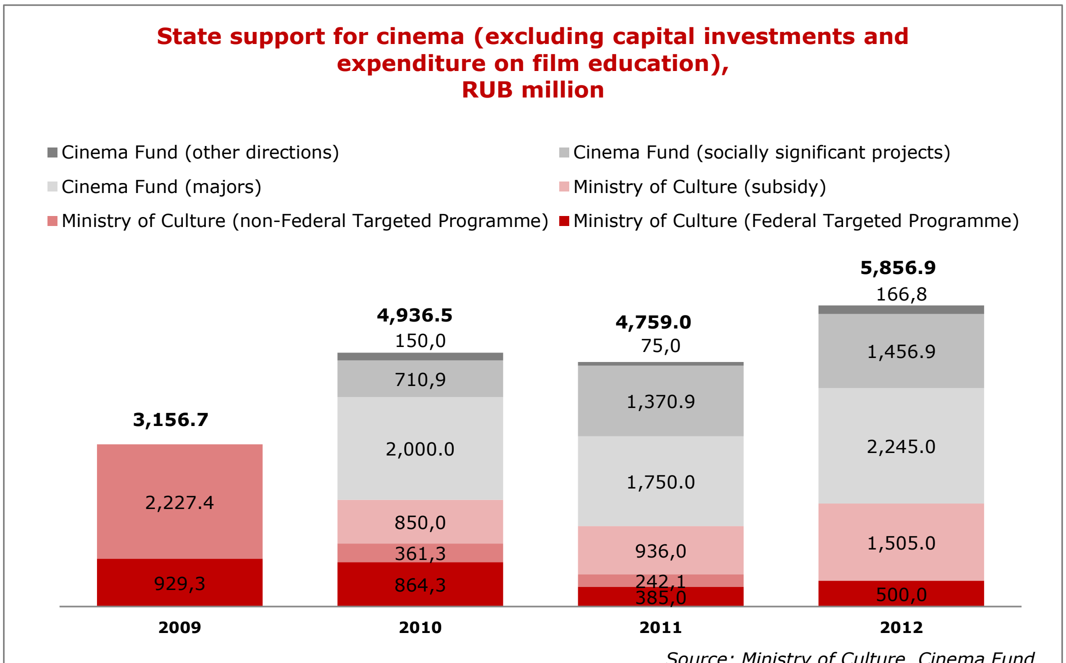
[4]Approved by Decree of the Government of the Russian Federation on 22 February 2012 (No. 209-r) – http://fcpkultura.ru/ (Russian only)
[5]See Addendum 9 to Federal Law No. 371-FZ, 'On the 2012 Federal Budget and the 2013–2014 Planning Period', dated 30 November 2011, code 054: Ministry of Culture of the Russian Federation.
[6]The criteria for Russian films are defined by Federal Law No. 126-FZ (The 1996 Federal Film Law and the definition of a 'Russian film').
[7]Decree No. 1299-r of the Government of the Russian Federation dated 18 September 2002.
[8]Decree No. 1299-r of the Government of the Russian Federation dated 18 September 2002.

After the rapid growth in state support during 2002–2003, the level of support stabilized during 2004–2007, with increases in line with inflation. However, the last few years have seen an increase in state support by a factor of more than 2.5.

Since 2010, two organizations have administered state support to the film industry: the Ministry of Culture of the Russian Federation and the Federal Foundation for Social and Economic Support of National Cinematography (the Cinema Fund).

The total volume of state funds allocated from the federal budget for supporting filmmaking in 2011 fell by 3.6% (to RUB 4.8 billion) for funds from the Ministry of Culture. Meanwhile, financing for the Cinema Fund remained at 2010 levels, and was subsequently increased by RUB 335 million through a Russian Government resolution in December 2011 for the funding of Russian animated films. The Cinema Fund was therefore responsible for 67% of state investment, and the Ministry of Culture for 33%. The 2012 federal budget allocates RUB 5.9 billion to supporting the Russian film industry, most of it (66%) going to the Cinema Fund.



Source: Ministry of Culture, Cinema Fund

Figure 4. State support for cinema

Based on figures provided by the Department of Cinematography of the Ministry of Culture, the number of films produced with the Ministry's support remained virtually the same in 2011: 640 films completed production. However, the number of completed feature-length live action films decreased by 15% (down to 51 films). That same year, the Cinema Fund financed 24 feature-length live-action films produced by Russian film industry leaders (in 2010, it financed 60 such films), as well as 23 feature-length films of social significance and 21 animated films. However, it is unclear how many of the films financed by the Cinema Fund in 2010–2011 have completed production. In any case, in 2011, the number of films with state-financed production in distribution decreased compared to the previous year.

Table 1. Film releases with state financial support

Type	2007	2008	2009	2010	2011	Difference (2010–2011)
With state support from the Ministry of Culture of the Russian Federation						
Feature films	78	101	78	60	51	-15.0%
full-length	66	89	66	54	39	-27.8%
News reels	12	12	12	6	12	100.0%
Documentary films	555	612	326	439	483	10.0%
full-length	62	56	50	51	35	-31.4%
short-length	493	556	276	388	448	15.5%
Animated films	137	160	151	136	106	-22.1%
full-length	1	3	5	1	2	100.0%
short-length	136	157	146	135	104	-23.0%
With state financing support via the Cinema Fund						
Feature-length live action films produced by the leading studios				60	24	-60.0%
Socially significant projects: full-length feature films				17	23	35.3%
Socially significant projects: animated films					21	-
Film production total	**770**	**873**	**555**	**712**	**708**	**-0.6%**

Source: Ministry of Culture

In 2011, the Ministry of Culture set aside RUB 1.5631 billion to finance production of Russian films. In 2010, this figure increased by 2% to RUB 1.592 billion. In 2011, the Ministry of Culture allocated RUB 738.7 million for financing 51 feature-length live action films: 10% less than in 2010, when it spent RUB 819.6 million on financing 60 films.Therefore, the Cinema Fund is still the leading source of state support of film production.

The federal budget also provides funds for state support of distribution and promotion of Russian films, and events aimed at promoting Russian cinema. As part of this programme, a number of professional cinema industry awards are handed out in Russia every year. Besides the Nika and Zolotoy Orel [Golden Eagle] national film awards and the Bely Slon [White Elephant] national film critics' and film press prize, there is also the annual national Lavrovaia Vetv [Laurel Branch] award for non-feature film and TV works, the Bely Kvadrat [White Square] cinematic and artistic prize of the Cinematographers Union of Russia, the Blockbuster film- and video-business professional prize for the best performing films in Russian distribution, and the Zolotoy Dvizhok [Golden Engine] prize for achievements in film advertising.

In 2011, RUB 32.9 million was spent on events promoting state-subsidized Russian films.

State support for distribution of Russian films across the Russian Federation is provided to film distribution companies to cover film duplication, subtitling, advertising, and other expenses related to film promotion in cinemas. As in the case of film production, state financing for the distribution of Russian films cannot exceed 70% of estimated distribution costs.

In 2011, the Ministry of Culture provided state support and promotion to 17 Russian live action films. The Ministry earmarked RUB 23.9 million for this financing: half the 2010 figure (RUB 52.8 million). In addition, 2011 saw the release of 15 features produced by Russia's leading film companies with support from the Cinema Fund (compared to six films in 2010), along with eight productions focused on socially significant issues (compared to one production the previous year).

Financing is also provided for state-backed promotion and information projects. In 2011, RUB 6.36 million from the federal budget was spent on producing and publishing themed film-related content. Content was published in the following magazines: *Kinoprocess*, *Kinovedcheskie Zapiski* [*Film Criticism*], *Iskusstvo Kino* [*Film Art*], *Kinomechanic*, *Action!/Manager. Kino* [*Film Manager*] (both published by Metropolitan E.R.A.), and *Seance*, and in the newspapers *Ekran i scena* [*Screen and Stage*] and *SK-Novosti* [*Filmmakers Union News*]. In 2012, the *Action!/Manager. Kino* project was closed due to withdrawal of state support.

State support for film festivals

State support of the film industry also focuses on organizing international and major domestic film festivals in the Russian Federation. In 2011, Russia hosted approximately 40 national and international film festivals and 30 national film events, including film awards ceremonies, professional forums and exhibitions, as well as film-focused local and regional events.

Two international film festivals held in Russia are accredited by the International Federation of Film Producers Associations (FIAPF): the Moscow International Film Festival and the Message to Man International Film Festival (St. Petersburg). The Moscow International Film Festival, Russia's main film festival and a category A event, is held at the end of June. Kinotavr, the largest domestic festival, also takes place in June. Held in Sochi since 1990, Kinotavr is considered Russia's leading film exhibition event, and a professional industry platform. Vyborg's Window to Europe Film Festival, an equally well-known and highly regarded festival of Russian cinema, is held every August. In contrast to the Kinotavr festival, it has a competition for non-feature films.

Separate note should be made of the festivals that are held to showcase films by students and debut films: the Dukh Ognya [Spirit of Fire] International Festival in Khanty-Mansiysk, the VGIK International Film Festival, the Svyataya Anna [Saint Anna] International Film Contest, and the St. Petersburg Nachalo [Beginning] Open Festival of Films by Students of Creative Universities and Film Schools. The 2morrow International New Wave Film Festival has been held since 2007. The focus of this event is to support and promote new trends in contemporary cinema.

All Russian festivals enjoy state support: in 2011, 37 Russian film festivals received support from the Ministry of Culture, and six received support from the Cinema Fund.

In 2012, the annual St. Petersburg International Film Forum merged four film festivals. In addition to the St. Petersburg International Film Festival held as part of the Film Forum, the event included the Student Film Festival Nachalo; the Message to Man International Film Festival of non-feature, animated, and documentary films; and the Viva Russian Cinema Nationwide Film Festival. At least 100,000 guests attended the 68 diverse films screened at the Film Forum. There are plans for an international category A film festival similar in size to the Moscow International Film Festival, to be held in St. Petersburg.

Russian producers and filmmakers can access state funding to participate in an international film festival in order to develop international film industry relationships. For example, in 2011, RUB 75 million of the Cinema Fund's budget was allocated to support film festivals in Russia, and to present Russian filmmakers at international film festivals and markets. Under this programme, in 2011 subsidies were provided to 17 organizations for the financing of 18 projects, including 13 production companies which received support for participation in international film events (the 68th Venice Film Festival, Berlin International Film Festival, the 2011 Montenegro Film Festival, and the Toronto International Film Festival).

A number of festivals in Russia showcase films from other countries. These include the Pacific Meridian International Film Festival for Asia-Pacific countries; the Baltic Debuts Film Festival for debutant film makers from the Baltic States and Northern Europe; the Golden Mimbar International Muslim Film Festival; the Kinoshock Open Film Festival for CIS countries, Latvia, Lithuania, and Estonia; and others. There are also topical and genre-specific festivals dedicated to environmental, detective, comedy, sports, and other types of film. Each year the country's central film archive (Gosfilmofond of Russia) holds the Beliye Stolby [White Pillars] festival of archive films.

It is also worth noting that in 2011, the Cinema Fund obtained the right to promote domestic films abroad, while the Ministry of Culture planned to promote Russian art-house cinema on the international market. In addition, 2011 saw the signing of an agreement to create the Russian-French Film Academy, as well as an agreement signed as part of the Moscow International Film Festival to create similar organizations to promote collaboration with Italy and Germany (the German-Russian Film Academy was launched at the 2012 Berlin International Film Festival).

Overall, the 2011 federal budget allocated RUB 96.5 million for holding film festivals; another RUB 127 million went to the Moscow International Film Festival; and RUB 92.6 million went towards financing events abroad and international events held in Russia.

Centralized importation of film stock

In addition, a series of measures are aimed at supporting a system of centralized purchase of imported film stock. The state bought 2,572,980 metres of imported colour positive stock as part of the 2006–2011 Culture of Russia programme. However, in 2012 the Ministry of Culture reduced this expenditure item considerably due to the film industry's full transition to digital technologies.

State priorities in 2012

In summary, the 2012 state programme for financing the film industry aims to increase the number of films produced by Russian film studios, expand and enrich the content of our cinema, and produce films which address the needs of a wide audience. The state defines the top priority of Russian cinema as the need for films which examine the pressing issues facing Russia; military, patriotic, and historical subjects; and films for children and adolescents; as well as vivid genre productions popular with audiences, and debuts by talented creative artists. The need to maintain and develop Russian film distribution, as well as to consolidate the position of Russian cinema in the domestic and global markets, remains a crucial one.

1.1.2 The activities of federal authorities in cinema

Federal executive agency and Ministry of Culture

In accordance with Federal Law No. 126-FZ, the Russian government entrusts the administration of state support of the film industry to a federal executive agency, which in turn works together with executive agencies in other parts of Russia. The Russian government approved the statute of the federal executive agency overseeing the film industry.

In Resolution No. 590 dated 20 July 2011, the government approved the Statute of the Ministry of Culture of the Russian Federation, which was tasked with developing and implementing state policy for film, as well as the legal and regulatory framework.

Department of Cinematography and Modernization Programmes

The Ministry of Culture created the Department of Cinematography and Modernization Programmes, which consists of five divisions.[9] In its capacity as an executive authority, the Ministry of Culture supports the production and distribution of Russian films in the Russian Federation and organizes various events, such as film festivals within Russia, oversees promotion, representation of the Russian film industry during international film festivals and film fairs (including participation of Russian films in the main international film festivals, organization of stands and pavilions for Russian films during film fairs, etc.), international fairs and forums of co-productions within Russia, special conferences, and roundtables. From the perspective of the state support of film production, the authority of the Ministry of Culture extends to the support of projects that go beyond economic goals and focus on the more important issues related to public policy. These projects address the needs of the young audience, support the industry's creative professionals, develop Russia's cinema culture, and increase the country's intellectual potential.

In addition, the Ministry of Culture[10]:

- issues distribution certificates for film products released for distribution across Russia (including film, DVD, and video distribution, and TV broadcasting in every format)[11];
- issues 'Russian film' certificates[12];
- runs the Central State Registry of Cinema and Video Films[13];
- executes the functions of state customer in budgeted target programmes, including support for the production and distribution of Russian films.

The Ministry of Culture works in cooperation with the Ministry of Economic Development and the Ministry of Finance in developing and implementing new initiatives, such as state target programmes, designing new film industry financing mechanisms, reorganizing and privatizing film organizations overseen by the Ministry of Culture, and preparing drafts of new legislation aimed at improving the efficiency of state regulation.

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[9] Order No. 892 of the Ministry of Culture of the Russian Federation dated 16 August 2012, 'On Approving the Statute of the Department of Cinematography and Modernization Programmes'.

[10] As per the Regulations on the Ministry of Culture of the Russian Federation, approved by Decree No. 590 of the Government of the Russian Federation of 20 July 2011 (included in Government Resolutions No. 859 dated 24 October 2011, No. 43 dated 28 January 2012, No. 349 dated 19 April 2012, and No. 930 dated 17 September 2012) and the Statute of the Department of Cinematography and Modernization Programmes of the Ministry of Culture of the Russian Federation.

[11] Obtaining a distribution certificate is mandatory for film products issued for distribution within Russia, as per Order No. 60 of the Ministry of Culture of Russia, dated 27 September 2004.

[12] Regulations on Russian films, approved by Order No. 60 of the Ministry of Culture of Russia, dated 27 September 2004.

[13] The film is entered into the State Registry upon receiving its distribution certificate.

The Ministry of Culture currently controls 15 film studios and a number of industrial, academic, educational, design, and project development organizations within the film industry. The Ministry of Culture also oversees Roskino (formerly Sovexportfilm), the international company which handles the promotion of Russian productions in foreign markets and the advancement of Russian cinema abroad. State policies with respect to these organizations are implemented by the Ministry of Culture and the Federal Agency for State Property Management (Rosimushchestvo), which reports to the Ministry of Economic Development. The Agency structure includes a separate Directorate of Non-Production Organizations and Foreign Property that supervises cinema organizations.

The Russian Cinema Fund

In January 1995, the government created the Russian Cinema Fund on the initiative of the State Committee for Cinematography of the Russian Federation (Goskino Russia), as part of preparations for the 100th anniversary of global and Russian cinema. [14]

In December 2009 Decree No. 1215 of the Russian Government, 'On the Federal Fund for Social and Economic Support of Russian Cinema', approved a new revised version of the Fund's constitution, significantly expanding its mandate.

The principal objectives of the Fund are:

- to support social and economic programmes in the field of Russian cinema;
- to provide financial support to organizations which produce, distribute, exhibit, and promote Russian films;
- to attract Russian and foreign investment in the production, distribution, and exhibition of Russian films;
- to accumulate financial resources for the development of Russian cinema, including the production, distribution, exhibition, and promotion of Russian films, and non-profit film events;
- to support film experts, specialists, and entrepreneurs who work in the film industry.

The Fund's mission is primarily to support Russian cinema, to consolidate the infrastructure for production of mainstream films, to improve their quality and hence competitiveness, and to promote Russian films within the Russian Federation and abroad. The Fund achieves this by supporting the production and promotion of high-quality domestic films for mass audiences. While the Ministry of Culture gives subsidies to film organizations based on an evaluation of submitted film projects, the Cinema Fund initially selected a number of film production companies it deemed to be leaders of the Russian film industry, and gave each company equal funding for the production of feature-length live action films. Next, the Cinema Fund extended its support to socially significant projects, which included feature-length animated films (total budget – RUB 250 million).

Method for determining which companies are eligible for state support

In March 2010, the Russian Cinema Fund's Board of Trustees announced eight leading film production organizations eligible to receive federal support for their projects: Central Partnership, CTB Film Company, Studio Trite, Direktsiya Kino (a subsidiary of Channel One), Bazelevs, Art Pictures, Rekun, and Igor Tolstunov Production Company (PROFIT). The list of industry leaders was determined on the basis of a number of criteria, which included the popularity of

[14] Decree No. 44 of the Government of the Russian Federation of 16 January 1995.

the organization's projects, international festival awards, box office earnings, and television ratings.

In the early days of the programme, the method of selecting film industry leaders caused a great deal of passionate debate among film industry insiders: this category had no legislative definition, and the criteria used to determine industry leaders appeared subjective. Eventually, the Federal Antimonopoly Service of Russia ruled that the industry leader selection process violated antimonopoly legislation. In 2010, in order to overcome this hurdle, the Russian government established criteria for determining 'Russian film production leaders'.[15] These include:

- audience analysis of titles released by the cinema organization, determined by cinema attendance and television ratings;
- professional evaluation of titles released by the cinema organization, determined by film festival awards and industry honours received by the organization;
- length of time the cinema organization has been active in the market and the number of titles it has released, as well as their distribution.

By early 2011, the industry leader selection process was formalized and approved by a separate Cinema Fund Decree. The methodology for compiling a rating system for Russian film industry organizations was fine-tuned after consultations with the film industry. This rating system was developed taking into account proposals from film industry insiders, petitions from the Chairman of the Television and Film Producers Association, President of the Producers Guild of Russia, and the Ministry of Culture. As a result, the time period for which maximum cinema attendance and television ratings figures were compiled was shortened from ten to five years, while the 2011 evaluation focused on organizations which served directly as film producers, rather than on film companies which doubled as production houses, as it had in 2010.

By applying this new methodology, the list of industry leaders eligible to receive Cinema Fund financing was cut from eight to seven: Rekun Cinema, which had lost Valeriy Todorovskiy, the creator of its most popular films (*Hipsters*, *Kandagar*, *Okhota na Piranyu [Piranha]*, and *Strana glukhikh [Country of the Deaf]*, fell to the tenth spot on the list. In addition, instead of Bazelevs, Timur Bekmambetov's projects were now financed by Tabbak. As a result, organizations currently recognized as leaders eligible for Cinema Fund financing are: Central Partnership, CTB, Studio Trite, Direktsiya Kino, Tabbak, Art Pictures Studio, and Igor Tolstunov Production Company.

In 2012, the process of selecting Russian film industry leaders was further defined and approved by Cinema Fund Decree No. 9 dated 28 April 2012.[16] In part, the Decree establishes that the cinema admissions used in compiling the Russian film industry leader rating must be drawn from the period 1 January 2007 to 31 December 2011. Films are ranked in order based on attendance figures. First place is awarded 100 points; second place receives 90 points; and so forth, in ten-point increments. Each year's rating is based on the ten releases with the highest attendance. Figures are drawn from the Alliance of Independent Film Distribution Companies (ANKO), publications like *Film Business Today Magazine* and *Booker's Bulletin*, Rentrak, and the Central Data Processing Centre of the Ministry of Culture.

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[15] pt. 7 of the 2011 Rules for Extending Federal Subsidies to Support the Cinema, approved by Resolution No. 1212 of the Government of Russia dated 31 December 2010

[16] http://www.fond-kino.ru/files/norm/prikaz-09-2012.pdf (Russian only)

Television ratings figures are also drawn from the same time period. Films broadcast on television during the current year, and which were previously distributed in Russian cinemas, are ranked in order based on television ratings. First place receives 50 points; second place receives 45 points; and so forth, in five-point increments. Each year’s rating is based on the ten releases with the highest television ratings. Figures are drawn from TNS Russia.

The professional evaluation of films released by the cinema organization category consists of two independent indicators: film festival awards and professional honours. The evaluation period for each of these indicators is the same as for the other categories. In the film festival awards category, organizations are awarded 100 points for receiving the top festival award, and 60 points for Best Director, Best Screenplay, Best Cinematography, Best Actor, or Best Actress awards. Points are also awarded for inclusion in the In Competition programme of the Cannes Festival, Berlin Film Festival, and Venice Film Festival (30 points); for the top prize at the Moscow International Film Festival (50 points); and for inclusion in Moscow Film Festival’s In Competition programme (30 points). In the professional honours category, Russian Oscar nominees receive 80 points, and Russian winners of the Oscar for Best Foreign Language Film receive 100 points; while nominees for Russia’s Golden Eagle and Nika awards receive 30 points, and winners receive 50 points. Figures are drawn from official festival and award websites.

The category covering years in the market, number of releases, and circulation is divided into three indicators: years in the market, total number of releases and their circulation, and number and circulation of releases which received points in the other categories (cinema admissions, television ratings, and professional evaluation, including film festival awards and professional honours).

The first of these indicators is calculated for the period beginning with state registration of the legal entity, with no defined end-time. Figures are drawn from the Unified State Register of Legal Entities. Organizations are awarded points based on the number of years they have been active in the market: 50 points for over ten years, 40 points for five to ten years, and 30 points for less than five years. The second indicator is calculated for the period from 1 January 2002 to 31 December 2011. Organizations receive 50 points for producing over ten titles, 40 points for producing six to ten titles, and 30 points for producing five films or fewer. The rating takes into account only those films which have more than two distribution copies in circulation. Figures are drawn from *Film Business Today Magazine*, *Booker's Bulletin*, and Rentrak. The Decree sets out no specific time period for this indicator, but it obviously must coincide with the period established for the attendance and television ratings criteria, as well as the film festival and professional honours criteria. It also uses the same sources for the figures employed in the rating. If a cinema organization has produced fewer than three films which have received points in the audience (attendance + television ratings) and professional assessment (festival awards + professional honours) categories, it cannot be considered a Russian film industry leader.

In June 2012, the Russian Cinema Fund's Board of Trustees defined the specific parameters of its budget and announced the new list of Russian film industry leaders. Previous major Russian studios Art Pictures, Direktsiya Kino, CTB, Studio Trite, Tabbak and Central Partnership continue to receive state financing. PROFIT gave way to Real Dakota, and the group was joined by three new leaders known primarily for their festival success: Koktebel Film Company, Non-Stop Production, and Rock Films. Together, these organizations will receive a total of RUB 2.24 billion out of the Fund's 2012 budget of RUB 3.8 billion.[17]

Repayment (recoupment) terms

It must be noted that when the Cinema Fund was re-established in 2009, it was stipulated that as an additional source of film industry financing, companies receiving support would give the Fund a share of the proceeds from theatrical distribution and other uses of the films produced with the Fund's support. This decision was issued at a meeting of the Government Council on the Development of the Russian Film Industry on 3 November 2009, and was later enshrined in the Charter of the Fund.[18]

This was a new attempt to introduce a financial repayment mechanism for the film industry. This initiative dates back to the Culture of Russia Federal Target Programme (2001–2005),[19] but had never been implemented due to a lack of necessary legislative mechanisms.

Considering that Government Resolutions No. 1216, dated 31 December 2009, No. 1212, dated 31 December 2010, and No. 149, dated 22 February 2012[20], state that the Cinema Fund sets its own conditions for providing financial support, the Fund approved the following revenue shares from theatrical distribution and other uses of films produced with the Fund's support which are to be repaid to the Fund by Russian film industry leaders (in proportion to the Fund's share in the film's budget):[21]

- up to 25% for subsidized comedies, animated features, and international co-productions,
- 5% for other projects,
- and at least 50% in cases of subsidized distribution.

Specific repayment amounts are defined in individual agreements at the discretion of the Cinema Fund's Board of Trustees. Agreements with cinema organizations receiving support establish the following procedure for determining the repayment amount: first, the Fund's share in the project is determined by dividing the subsidy amount by the film's total production and distribution budget. The resulting share is multiplied by the amount of revenue the company receives from theatrical distribution and other uses of subsidized films. Theatrical release revenue is defined as the difference between gross box office receipts, the cinema's share of the revenue, and the share taken by the distribution company (distributor). This number is then added to the revenue from the sale of DVD distribution rights; broadcast, satellite, and cable rights; Internet rights; and so on. The baseline repayment amount is determined by multiplying total revenue received by the cinema organization from distribution and other uses of the film by the Cinema Fund's share in the budget. This baseline is then used to

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[17] Order No. 32 'On Approval of the 2012 List of Russian Film Industry Leaders', dated 9 June 2012.

[18] pt. 15-zh of the Charter of the Federal Fund for Social and Economic Support of National Cinematography, approved by Resolution No. 1215 of the Government of Russia, dated 31 December 2009.

[19] See Section I of the Russian Cinematography sub-programme within the Culture of Russia Federal Target Programme (2001–2005), approved by Resolution No. 955 of the Government of Russia dated 14 December 2000

[20] The above Resolution does not mention the Cinema Fund specifically, since in accordance with the Budgetary Code of the Russian Federation, functions the Government had previously entrusted to the Cinema Fund directly had to be carried out by an organization which had won an open tender. The open tender was finally awarded to the Cinema Fund.

[21] pt. 22 of 2012 Procedure and Conditions for Awarding Financial Support and (or) Compensation of Expenses Related to Production, Distribution, Exhibition, and Promotion of Russian Live Action and Animated Features Produced by Russian Film Industry Leaders (approved by Cinema Fund Decree No. 33, dated 9 June 2012) http://www.fond-kino.ru/files/norm/prikaz-33-2012.pdf (Russian only)

determine repayment according to the percentage required for the film’s type, subject matter, and financing channel. Specific repayment conditions (such as a particular relationship with the distribution company) are defined in each individual agreement based on an analysis by the Cinema Fund’s Financial and Production Department.

It should be noted that the decisions issued by the Government Council on the Development of the Russian Film Industry on 1 February and 21 November 2011 charged a number of federal executive agencies with developing a mechanism to require cinema organizations which have received distribution licenses in the Russian Federation to pay part of their revenue from theatrical distribution and other uses of their films to the Cinema Fund. However, implementation of these decisions has encountered significant difficulties. In accordance with the Tax Code of the Russian Federation, the taxes and dues defined in this Code are the only fees that can be collected from individuals and legal entities. The Tax Code of the Russian Federation states that non-tax-related budget contributions can be collected only from those individuals or legal entities which use state property. A number of mandatory dues collected from legal entities in connection with copyright are defined in Part Four of the Civil Code of the Russian Federation. None of these legislative acts provide a legal basis for implementing Cinema Fund repayments. It follows that implementation of this Government Council decision will depend on the creation of a new tax category, which seems quite problematic considering the current taxation system unification strategy.

Other provisions

In addition, the Government of Russia banned double-financing of projects: in other words, film industry leaders cannot receive Cinema Fund financing from the federal budget for projects which already receive, or have received, state support from the Ministry of Culture.[22] At the same time, in 2011 the Cinema Fund was given the green light to provide financing and (or) reimbursement of expenses related to the production, distribution, exhibition, and promotion of feature-length animated films produced by leading Russian film producers, and of films focused on socially significant subjects, as well as expenses involved in presenting Russian films at film festivals and film markets. Finally, the Ministry of Culture’s subsidy agreements with film companies, as well as with the Cinema Fund, now include a requirement for evaluating how effectively the subsidies are being used.

Subjects of social significance

The Cinema Fund also provides support for projects dealing with subjects of social significance. This function of the Cinema Fund was approved by Resolution No. 1212 of the Government of Russia, dated 31 December 2010. The procedure for providing financial support to socially significant projects is defined in Cinema Fund Decree No. 8, dated 28 April 2012[23]

In the summer of 2012, the Cinema Fund formed an expert council of leading Russian filmmakers and producers, which will focus on selecting socially significant projects eligible to receive state support. The unique feature of this agency is that it evaluates projects short-listed by the Fund’s screenplay group

[22]pt. 10 of the 2011 Rules for Extending Federal Subsidies to Support the Cinema, approved by Resolution No. 1212 of the Government of Russia dated 31 December 2010
[23] http://www.fond-kino.ru/files/norm/prikaz-08-2012.pdf (Russian only).

based not only on their artistic merit, but also based on projected distribution success.[24]

Table 2. Division of authority between the Ministry of Culture and the Cinema Fund

	Ministry of Culture	Cinema Fund
Methods of financing	- Procurement of government contracts under the Culture of Russia (2006–2011) Federal Target Programme - Procurement of government contracts that are funded by portions of the federal budget earmarked for 'Events Supporting and Promoting the Advancement of Cinematography' (not a Federal Target Programme) - Subsidies for cinema organizations	- Subsidies for cinema organizations producing and distributing Russian films
Goal of financing	- Production and distribution of: films for children and young people; debut, independent, experimental, and artistic films; newsreels; documentaries, educational films, and animated films (subsidies) - Support for the promotion of domestic cinema, including promotion at international festivals and film markets (Federal Target Programme) - Purchase of imported films - Research and experimental studies in the field of cinema	- Reimbursement of expenses related to the production, distribution, exhibition, and promotion of full-length feature and animated Russian films from leading Russian film producers - Reimbursement of expenses related to the production, distribution, exhibition, and promotion of full-length feature and animated Russian films on socially significant topics - Reimbursement of expenses related to showing Russian films at international film festivals and markets

Sources: Ministry of Culture, Cinema Fund

Optimization of Cinema Fund operations in 2013

On 22 November 2012, a meeting was held to discuss the optimization of state support for Russian film, and the division of functions between the Federal Foundation for Social and Economic Support of National Cinematography (Cinema Fund) and the Ministry of Culture.

Optimization of state support for Russian film will begin in 2013. The new rules will be developed in December, and leading companies will be allowed to complete work on all projects started under the previous scheme.

The Cinema Fund will become an economic agent of the Ministry of Culture, which will supervise the allocation of subsidies by the Fund. In order to avoid duplication between the two state support organizations, their areas of responsibility will be more precisely delineated.

The Ministry will remain responsible for supporting film production, distribution, and exhibition of films aimed at children and young people, debut

[24] 'Evaluation of Socially Significant Projects Gains New Levels', Larisa Yusipova, *Izvestia*, 7 August 2012

films, and independent, experimental, short, and animated films. It will take decisions regarding support for, and production of, films that are in line with the government's strategic goals, and will offer support and promotional assistance for films at international film festivals and film markets. In 2013, the Ministry will receive RUB 2.3 billion to distribute in the form of state grants.

The Cinema Fund will support feature film, documentary, and animated film projects with potential for commercial success. Next year, the Cinema Fund's budget will come to RUB 3 billion. Approximately two thirds of these funds will continue to be distributed on non-repayable terms through their financing of the production of films by the majors and commercial projects by other film organizations, and subsidies of credit interest rates if a producer receives approval for a loan to fund film production. The remaining funds will be distributed with the expectation that they will be repaid in one of the three following forms (selected by the producer):

- Repayment in full of the funds received.
- Payment of a share of distribution returns proportionate to the Cinema Fund's share of support in the project.
- 50–100% of the financing of the film's distribution (film printing, advertising, film promotion, etc.). Companies will be permitted to repay money to private investors before repaying the Cinema Fund.[25]

Executive office

Overall management of the implementation of state policy in the sphere of cinema is the purview of the Russian government. The Government Executive Office includes a Department which drafts papers to be tabled at government meetings or discussed at meetings conducted by the Prime Minister and his deputies, and oversees progress on government commissions and requests submitted by organizations and individuals to the Prime Minister and his deputies.

Council on the Development of the Russian Film Industry

In December 2008, a Government Council on the Development of the Russian Film Industry was established.[26] The Council is intended to become a permanent consulting body to generate proposals on the implementation of state cinema policy. Its principal objectives are to review and draft proposals on the following:

- improving the effectiveness of state support for the production, distribution, and exhibition of Russian films and in managing federal property in the film sector;
- providing support to the promotion and distribution of Russian films abroad;
- promoting education, research, and innovation in film;
- developing protective measures with respect to the Russian film industry.

According to the Council's statute, the Prime Minister of the Russian Federation serves as Chair of the Council. This further stresses the importance placed on film by the country's top executive body. The Government Council reviews strategic issues in the development of the film industry and promotes the prompt adoption of concordant decisions across the various agencies involved.

[25] 'Cinema Budget Divided between Fund and Ministry of Culture', *RIA Novosti*, 03 December 2012

[26] Regulation No. 1006 on the Governmental Council, approved by the Decision of the Government of the Russian Federation and dated 24 December 2008.

State Film Fund

The State Film Fund of the Russian Federation (Gosfilmofond of Russia) is overseen by state authorities. The Fund receives and archives original materials relating to feature and animated Russian films and regulation copies of foreign films that are released for distribution across Russia. The Russian State Documentary Film and Photo Archive, overseen by the Federal Archive Agency (Rosarchive) within the Ministry of Culture, performs the same functions in regard to non-feature films.

Legislative committees and commissions on the arts

Committees and commissions on the arts also function as part of the Federal Assembly of the Russian Federation (the State Duma Committee on Culture, the Federation Council Committee on Science, Education, Culture, and Information Policy) and the Civic Chamber of the Russian Federation (the Commission on Artistic Culture Development and Cultural and Historical Heritage Protection). Regional and municipal administrations have specific units (ministries, directorates, and departments) responsible for developing and implementing cultural policies. However, not all regions have separate structures charged with implementing state policies on film. After Committees on Cinematography were disbanded in the former Soviet Republics, they were replaced by specialized 'film and video associations' (FVA), which combine the functions of the former film distribution and cinema management administrations in their respective reporting areas. The majority of Russian regions still have these FVAs, although they no longer enjoy any measure of influence in the implementation of state policies on film. They use the means allotted to them in regional budgets to purchase prints of nationally produced films and distribute them among the cinemas that still report to them. As a rule, they remain an important provider of the films used in municipal cinemas, most of which do not have modern film projection or cinema equipment, and which function as second and third-tier screens. However, fewer and fewer of these cinemas remain in operation.

1.1.3 Activities of regional and local authorities in film

Given the federal state structure of Russia, regional and municipal authorities operate within the scope of their powers as specified by federal legislation, [27]and also in accordance with regulatory acts adopted at regional and local levels.

Clause 2, Article 26.3 Chapter IV.1 of Federal Law No. 184-FZ [28] of the Russian Federation, 'General Principles for Delineating Authority between the Federal State Authorities and the State Authorities of Russian Federation Constituent Entities', gives an exhaustive list of the powers that regional authorities have over areas that are jointly managed, which such authorities execute on their own using regional funds. In specific cases, and following the procedures prescribed by federal laws, such powers may also be additionally financed through the federal budget and federal off-budget funds, including pursuant to target programmes.

In accordance with the clauses of Article 26.3 of Federal Law No. 184-FZ, the powers of the constituent entities of the Russian Federation over jointly managed aspects of film include the following:

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[27]Federal Law of 2003, No. 131-FZ 'On General Principles of Organization of Local Authorities in the Russian Federation'.

[28]Federal Law of 6 October 1999, No. 184-FZ 'On General Principles of Organization of the Legislative (Representative) and Executive Bodies of State Authority in the Constituent Entities of the Russian Federation'.

- providing secondary vocational education (not including education obtained in federal training institutions, a list of which is approved by the Russian Federation Government);
- establishing and supporting cultural institutions (including those relating to film, but not including federal state institutions of culture and art, a list of which is approved by the Russian Federation Government);
- organizing and implementing inter-municipal investment projects (including those in film);
- international cooperation (including in film), in accordance with Russian Federation legislation.

This rule clearly defines the scope within which regional authorities are free to adopt decisions acceptable for a specific area, and to bear financial responsibility for their actions.

Scope for local initiative

The second type of authority is formulated in a more abstract way, and refers in its content to the existing network of cinematographic institutions in the care of subordinate authorities of the Russian Federation. The description of that authority does not specify particular types of institutions of culture and the arts that may be under the care of regional authorities. Therefore regional and local authorities retain some freedom in defining the types of cinematographic institutions that may remain part of their responsibility and be financed from the regional budget. The emergence of non-state organizations that offer the same range of services as those funded from the state budget will render the implementation of the authority in question meaningless. This is the case for cinemas, some of which still remain state or municipal bodies financed from the budget. At the same time, there is in Russia today no legally adopted and valid definition of a specialized cinema that would receive budget support according to the programme that it offers. There is a lack of established guidelines for state and municipal cinemas to follow in planning their programmes. The situation may change with the adoption of definitions of 'state' and 'municipal' tasks that will make it possible to introduce requirements with respect to programming.

Securing authority in terms of the organization of inter-municipal investment projects and participating in their implementation enables the Russian regions to stimulate the development of the film market in their territories. Such inter-municipal investment projects in film may include: cinema construction, including multi-screen cinemas, aimed at servicing not only the residents of local settlements or urban districts, but also those of the nearby municipal regions; and the construction of film studios, the operation of which will promote the growth of the regional economy and employment.

International co-operation in film encompasses holding international film festivals, special events, and exhibitions involving foreign film organizations; encouraging the participation of regional film studios in joint film projects together with foreign companies; and so on.

Location support for foreign film crews

Regions may also seek to attract international film crews to operate in the region, and specialized regional organizations (film commissions) may be established to assist in the development of film production within a given territory. The idea for Russian film commissions was born a few years ago. In 2009, a number of different companies came up with projects of this kind. For example, the Cultural Foundation of Interregional Cinematography launched a website that includes a location library spanning many Russian cities. The company also considered providing comprehensive services to film crews working in the country's regions. However, the Foundation has yet to sign any major projects.[29]The Ministry of Culture n provided support to RFilms to develop an Internet database of Russian film production locations and release a number of analysis and reference materials focused on film production and the development of the country's production infrastructure.[30, 31]The company continued to develop the project further under the patronage of the Cinema Fund: today, RFilms releases such publications as *Co-Production Guide* and *Russia. Location Guide*, distributing them at international film festivals in order to attract filmmakers to Russia.[32]

The first regional film commission, opened in St. Petersburg, serves as an example of a non-profit, private–public partnership between St. Petersburg State University for Cinema and Television and St. Petersburg-based film companies with years of experience working with international and Russian film crews (Globus Film, Corona Films, KS Management Company, Igor Shadhan Workshop, and AST). The Commission functions with the support of the municipal administration.[33]The Ministry of Culture of Perm Territory recently announced its intent to create its own cinema commission. It will be launched in 2013, and will focus on bringing Russian and international producers to Perm and developing a long-term strategy for the development of the region's film industry.[34]However, this structure is yet to be fully developed in Russia as a whole.

Powers of municipal authorities in relation to the film industry

The provisions of Federal Law No. 131-FZ dated 6 October 2003 specify the list of powers that fall under the exclusive charge of municipal authorities. In terms of the film industry, these include creating an environment for leisure provision and ensuring that local residents receive the services of cultural organizations. Thus, policies for the provision of services by cinema organizations (film projection being the first among them) can be implemented at the level of a local settlement or urban district. In an ideal scenario, defining the conditions for the organization of film exhibition would be in the exclusive care of municipal authorities. However, organizing cinema exhibition in the Russian Federation is in fact presently a joint responsibility of the federal and regional authorities, with financing from regional budgets, as well as from the federal budget where this is not in contradiction with Russian Federation legislation. This situation has arisen due to the lack of funds at a municipal level. Nonetheless, subordinate authorities of the Russian Federation are responsible for supporting cinema organizations in their regions; this includes fixed cinema theatres and mobile cinema exhibition.

Moscow is the most active region in executing its legal authority film. For example, in 2012, the capital's administration decided to reconceptualize more than 60 municipally owned cinemas (Moscow Prefecture Joint Directorate for the Management of Cinema Chain Properties and Moscow Cinema organization). The Administration opened up 15 sites to outside investors (under concession agreements) to carry out remodelling, reconstruction, and redevelopment, conditional on maintaining the film exhibition functions of these sites. Other cinemas are scheduled to remain in their present condition, leasing 30% of their

[29] See http://www.rusfilmcom.com/en/index.php?clear_cache=Y
[30] See http://www.filminrussia.com/search.html (Russian only)
[31] See http://www.rfilms.org/
[32] See http://international.fond-kino.ru/files/news/Russia.%20Location%20guide.pdf
[33] See http://film-commission.ru/
[34] See http://kinometro.ru/blog/2012/07/perm-kinokomissiya/ (Russian only)

space to food companies.[35] This strategy is being developed by the city's Departments of Culture and Property, along with Moscomarchitecture. In the autumn of 2012, Moscow's Department of Culture issued a decision to unify Moscow children's cinemas into a single cinema chain under the name 'Moscow Youth Cinema Arts Centre'.[36]

Since 2004, many regions in Russia have taken a page from the capital's policy and begun implementing their own film industry strategies to support film distribution. Regional governments have especially stepped up their activities in connection with the transition to digital exhibition technologies: more and more municipal cinemas, especially those in small cities, are receiving financing to purchase digital film projectors and servers. For example, in July 2010, the administration of Krasnodar Territory approved a long-term 2011–2015 territorial target programme called 'Development of Cinema Exhibition Infrastructure in Krasnodar Territory'. As part of this programme, the administration plans to provide RUB 205 million for the purchase of cinema equipment and seating in order to modernize cinemas which belong to municipal cultural organizations, as well as for the purchase of digital film exhibition equipment for the Kuban Kino chain of municipal cinemas.[37] As of September 2012, this chain already boasts 15 digital cinemas in cities with populations of between 11,000 and 57,000.

1.1.4 Review of the regulatory acts governing cinematographic activity

The 1996 Federal Film Law and the definition of a 'Russian film'

The principal legislative act regulating interaction between players in the film industry is Federal Law No 126-FZ of 22 August 1996, 'On State Support for Cinema in the Russian Federation'. In the main, its provisions are devoted to various aspects of state regulation of film, and they define the basic terms used in Russian regulatory documents as applicable to film. One of the key elements of Federal Law No. 126-FZ is the definition of the 'Russian film' category. State support for film production in the Russian Federation is provided only for films that have received 'Russian film' status. 'Russian film' status also gives films a VAT exemption. In December 2009, Federal Law No. 126-FZ was amended, which expanded the possibilities in Russia for joint film production with countries that do not have international agreements with the Russian Federation and are not members of the European Convention on Cinematographic Co-Production.

Thus, from 1 May 2010, in accordance with the amendments to Russian Federation Federal Law No 126-FZ, a film is recognized as Russian if:

1. the film producer is a citizen of the Russian Federation or a legal entity duly registered within the Russian Federation;
2. the majority of the film's authors are citizens of the Russian Federation;
3. no more than 30% of the film's cast and crew (assistant directors, director of photography, camera operators, sound engineers, production designers, costume designers, editors, and principal cast) are non-Russian citizens;
4. the film is produced in Russian or one of the other languages of the Russian Federation, except for cases when using a foreign language is an inalienable part of the artistic design;
5. at least 50% of the total estimated volume of work in production, printing, distribution, and exhibition is done by film organizations that are duly registered within the Russian Federation;

[35] 'Moscow Administration Addresses Fate of City Cinemas'. *RBK Daily*, 4 March 2012
[36] 'Unified Chain of Children's Cinemas to Be Created in Moscow'. *RIA Novosti*, 30 August 2012
[37] See http://kultura.kubangov.ru/www/kultura.nsf/91ec8d66fd21aa2fc32570bf004b76c4/afcc472cb7a55da9c325781800235870!OpenDocument (Russian only)

6. foreign investment in the film's production does not exceed 50% of the film's estimated budget.

Films may also be considered Russian if they are produced in accordance with international agreements with the Russian Federation in collaboration with film producers who are foreign citizens, stateless persons, or foreign legal entities.

Film rights

The main legislation which governs the legal aspects of authorship, production, and use of audiovisual materials (films) is Part Four of the Civil Code of the Russian Federation, which replaced Law No. 5351-1 of the Russian Federation, 'On Copyright and Related Rights', dated 9 July 1993.

Legally recognized authors of films as works of audiovisual art are[38]:

- the director;
- the scriptwriter;
- the composer of any music (either with or without vocals) composed specifically for the given audiovisual work.

Within the scope of Russian legislation, audiovisual art work includes films and also all works expressed with means similar to filming (TV and video films and other similar works), irrespective of the technology used for their initial or ensuing recording.

Tax concessions and exemptions

The Tax Code of the Russian Federation provides for certain VAT exemptions [39] (18% of the price of the works/services) for cinema services, works (services) in film production executed (rendered) by film organizations, and rights of use (including distribution and exhibition) of film products that have received certified 'Russian film' status.

Cinemas are also not required to pay VAT on ticket sales [40](for screenings of films with or without 'Russian film' status).

In addition, for cultural institutions (a term that includes cinemas, cultural and community centres, clubs, and other organizations offering paid cinema screenings), a land tax break has been introduced, which is charged to the local budget and equals about 1.5% of the cadastral value of the plot of land on which the establishment stands.

Importers of blank audiovisual media into the Russian Federation must also pay a customs duty of 10% of the customs value of film and other materials (including magnetic tapes and digital formats).[41] Russian film distributors noted than this requirement was a burden on art house films. These films often play in limited release (up to 20 copies), and customs duties made up a significant part of their film release expenses and impacted heavily on profits. Today, this issue has lost some of its urgency due to the proliferation of digital film exhibition and digital data communications: film copies are increasingly distributed in Russia using satellite or Internet delivery. At the same time, Russia has a tax break in

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[38]Item 2, Article 1263, Part 4 of the Russian Federation Civil Code.
[39] Sub-Articles 20 and 2 of Item 2, Article 149, Part 2 of the Russian Federation Tax Code, approved by Federal Law No. 117-FZ, dated 5 August 2000.
[40]Paragraph 20, Article 149, Section 21 of the Tax Code of the Russian Federation.
[41]'A Universal Customs Tariff for the Republics of Belarus, Kazakhstan, and the Russian Federation, approved by Rulings of the Eurasian Economic Community's Customs Union Committee (the Customs Union's governing body) No. 18, dated 27 November 2009, and No. 130, dated 27 November 2009, specifically for Group 37 of the Customs Code.

the form of duty-free import of films slated for exhibition at film festivals and other cultural events.[42]

In 2011, the Customs Union Commission lowered the duty on the import of digital projectors from 15% to zero. This measure has been approved for a period of five years. Now, cinema chains can save EUR 10,000–15,000 on each new digital screen. This is a much-needed measure, considering the Government's requirement to double the number of screens serving the country. It must be noted that so far, this is the only government measure aimed at helping the Russian film exhibition industry's transition to digital format.

Copyright fees

In October 2010, a Resolution of the Government of Russia based on Part Four of the Civil Code of the Russian Federation established a copyright fee paid by manufacturers and importers of audio and video equipment and digital media (CD, DVD, BD, flash drives, etc.). Currently, this fee stands at 1% of the cost of equipment and materials, and is collected by the Russian Union of Right-Holders (RUR), accredited by the Government of Russia.[43] The RUR can spend up to 15% of collected funds on its own needs. This compensatory fee is used to combat audiovisual piracy. In early 2012, the Government proposed differentiating the copyright fee; however, a final decision regarding this issue has yet to be made due to difficulties in calculating damages incurred by authors through private duplication.

Paragraph 3, Article 1263, Part IV of the Civil Code gives composers whose music is used in films the right to receive royalties for the public screening or broadcast (terrestrial or non-terrestrial) of these audiovisual works. The minimum compensation for the use of music, with or without lyrics, during commercial film, television, or video screenings in theatres, on television, in video clubs, or in other public places, is 3% of revenue; for free screenings, it is 0.5% of revenue[44]. Cinemas pay this compensation to an accredited organization (currently, the Russian Authors' Society[45]). The minimum royalty amounts are set by the Russian government[46]. However, this regulation is a subject of contention. As a result of sustained, intensive work aimed at reconciling the exhibition and production communities, the Association of Television and Film Producers and the Producers' Guild threw their support behind a composers' fee initiative proposed by Kinoalliance. This marked the first consolidated position of all segments of Russia's film industry on one of the most pressing issues facing cinema today, thereby creating the conditions for further cooperation. Ongoing work in this area has already yielded a decrease in the base rate from 1.5% to 1.2% and implementation of special rates for cinema chains (1%), as well as for new or renovated cinemas (0.5%). Kinoalliance continues to fight for a further rate decrease to 0.3%.

Legal basis for federal budget subsidies

In accordance with Federal Law No. 308-FZ, 'On Amending the Federal Law 'On Placing Orders for Delivery of Goods, Work Completed, and Services

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[42]In accordance with Paragraph 5, Article 150, Section 21 of the Tax Code of the Russian Federation, import of all film content by specialized governmental organizations as part of international non-commercial exchanges is exempt from customs duties.
[43]Russian Federation Resolution No. 829 'On Compensation for the Free Reproduction of Audio and Audiovisual Works for Personal Use', dated 14 October 2010 will come into force.
[44]Decree No. 218 of the Government of the Russian Federation, 'On Minimum Royalty Rates for Certain Types of Literature and Art Use', dated 21 March 1994.
[45] http://rao.ru/index.php/en/
[46]Paragraph 4, Article 1286, Part IV of the Civil Code.

Rendered for State and Municipal Needs' and Other Legislative Acts of the Russian Federation', dated 30 December 2008, state financing of the film industry can be provided by the federal executive agency responsible for cinema through the provision of federal budget subsidies in cases, defined in law for the corresponding year and individual reporting period, as well as in regulatory legislation issued by the Russian government.

CAIS box office information system

In accordance with amendments to Federal Law No. 126-FZ, since 1 May 2010 Russia has had a federal consolidated automated information system (CAIS) which contains film exhibition data, offering users summaries of attendance figures and gross box office receipts for individual films on the basis of ticket sales. The legislation states that the federal executive agency responsible for cinema (the Ministry of Culture) acts as owner of the system's databases on behalf of the Russian Federation, supporting its implementation and operation. It also states that the Russian government determines CAIS operating procedures and the conditions under which its information can be provided.

In the drafting stages of the CAIS resolution, the government met with significant discontent from cinema operators over the manner in which they would provide data to the system operator. The main subjects of contention were the frequency with which data would have to be submitted and the ability to hire third parties to handle this process. Large cinema chains equipped with local ticket sales data systems demanded that the information should be submitted online using automated box office systems in order to prevent cinema administrators from falsifying data. Meanwhile, independent cinema operators, faced with purchasing and installing the hardware and software required for data submission, argued that the requirement for real-time data transmission would inevitably bankrupt them. In accordance with Resolution No. 837 of the Government of Russia, dated 18 October 2010, cinema operators were required to provide the system with information on each ticket sold at least once an hour. In addition, film exhibition organizations located in cities with populations under 100,000 and in rural communities were given a deadline: they were required to make the transition to online data submission by 1 January 2015.

For a long period of time, however, the majority of independent cinema operators simply ignored the requirement to submit information to the CAIS, since the legislation did not provide for any specific administrative accountability on the part of violators, and did not define a proper authorized body with the necessary powers in this area. To remedy this, on 26 October 2012, fines for incorrect film screening information were approved. Under amendments to the Russian Federation Code of Administrative Offences and other legislative acts, cinema exhibitors are now liable for failing to comply with the operating requirements of the CAIS. Fines range from RUB 100,000 to 400,000 and from RUB 400,000 to RUB 800,000 for repeat offenders within the same year. At the same time, this legislation addresses the issue of replacing Kinobilet registered reporting forms with cash register receipts containing all information required by Federal Law No. 126-FZ, as well as assigning each ticket a unified federal serial number.

Protection of children

Another factor affecting the cinema exhibition market is Federal Law No. 139-FZ, 'On Amending the Federal Law 'On the Protection of Children from Information Harmful to their Health and Development' and Other Legislative Acts of the Russian Federation on Limiting Internet Access to Unlawful Information', dated 28 July 2012, which came into effect on 1 September 2012. This law states that all information products are subject to classification by age category depending on subject, genre, content, and visual style.[47] Some of the amendments drafted by the Safe Internet League introduce a blacklist of websites which contain unlawful information: child pornography, information which prompts children to commit suicide, drug propaganda, etc. Some film market players are worried that implementation of these filters will reduce Internet speeds and force respectable websites to close down.

Russian film quotas

Another draft federal law introduced in 2012 establishes a minimum quota for Russian films in each cinema's 12-hour or 24-hour programme. However, discussions on the strategy laid out in this draft law revealed that film industry insiders strongly disagreed with the very idea behind this approach. Currently, the feasibility of further work on this legislation is being discussed, and alternative measures are being considered to ensure that Russian cinema achieves sufficient representation on the domestic audiovisual market.

1.2 The system of professional film education in Russia

Universities

In Russia there are two active specialized schools devoted to film[48]: the Russian State University of Cinematography, Moscow (VGIK), and St. Petersburg State University of Film and Television. Statistical data from the main film universities reflect the state's growing role in training staff for the film industry last year: in the 2010–2011 academic year, 24.1% of students at the Russian State University of Cinematography and St. Petersburg State University of Film and Television were state funded (in 2009–2010, this figure was 21.6%). The Russian State University of Cinematography has a high number of students studying for free (61%), while St. Petersburg State University of Film and Television has a markedly lower number of such students (13%).

Table 3. Performance of Russian higher education establishments specializing in filmmaking for the 2010–2012 academic years (September to July)

Universities / Academic years / Indicators	Russian State University of Cinematography, Moscow (VGIK)		St. Petersburg State University of Film and Television, St. Petersburg	
	2010/11	2011/12	2010/11	2011/12
Number of graduates	267	-	1,066	-
Number of students	1,746	1,694	5,809	5,776
Number of international students	185	179	167	91
Number of state-funded students	1,069	1,097	749	755
Number of departments	7		7	

[47]Information products are defined as audiovisual content presented on any medium, as well as information delivered by way of entertainment events.

Universities / Academic years / Indicators	Russian State University of Cinematography, Moscow (VGIK)		St. Petersburg State University of Film and Television, St. Petersburg	
	2010/11	**2011/12**	**2010/11**	**2011/12**
Number of academic qualifications	11		32/24[49]	
Number of postgraduate students	66	77	92	93
Number of postgraduate degrees awarded	12	-	22	-
Paid courses (including preparatory courses)	11		23	

Source: university data

At the same time, many general universities have departments that teach students about filmmaking professions (usually these result in more generalist professionals; they are prepared to work not only in film but also in television, theatre, etc.). The Humanities Institute of TV & Radio Broadcasting named after M.A. Litovchin and the Moscow Institute of Television and Radio Ostankino (they grant degrees in eight and seven specialist subjects, respectively), as well as St. Petersburg State University, Moscow State University of Culture and Arts, and Kazan State University of Culture and Arts (each of which grants degrees in four specialist areas) are the leaders among non-filmmaking universities.

Directing turned out to be the most common area of study at general universities in 2011 (it is most often combined with a teaching qualification, including at professional filmmaking universities and St. Petersburg State University of Film and Television). In addition, universities actively prepare producers (and managers in the area of culture), performers, and camera operators.[50] The least common area of study was writing (screenwriting); screenwriters are prepared only at one non-specialized university (at the Institute of Modern Arts in Moscow).

[49] 32 in accordance with the GOS VPO (State Educational Standards for Higher Professional Education); 24 in accordance with the FGOS (Federal State Educational Standards).
[50] Note that the Artist of Theatre and Cinema qualification is awarded only at those universities where in addition to this there are other filmmaking courses.

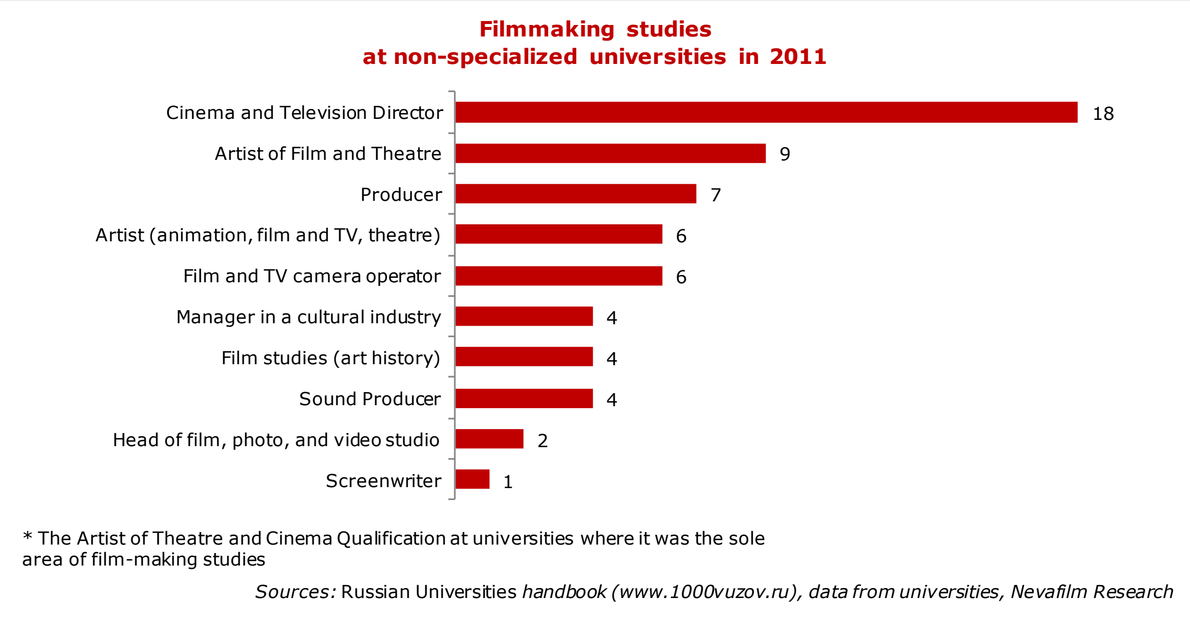

Figure 5. Filmmaking studies at non-specialized universities

The number of graduates in the field of cinema from non-specialized universities ranges from three to more than 100 people for each university per year, but it is impossible to make a judgment about the total number of trained professionals in 2011, since not all universities, especially for-profit ones, have agreed to provide data on the number of graduates or the number of state-funded and non-state-funded places for their departments. Nonetheless, information that has been obtained during the course of research shows that there is a nine-to-one ratio between paid and tuition-free places, which means that the number of state-funded students studying cinema-related subjects at general universities is nine times lower than those paying for their studies (at St. Petersburg State University of Film and Television, this ratio is one-to-eight).

At the same time, private for-profit universities experience several problems related to the provision of services for long-term education: as a rule, the majority of students do not complete their studies, and the cohort may shrink from 15 people during the first year to between one and five in the final year. However, universities are trying to meet their obligations to train students in particular professions, even at a loss, which cannot but affect the profitability of the business as a whole. In addition, students often have to pay for the production of their thesis projects, though the best students at some universities (as well as at film schools, as described below) may receive state grants to shoot their graduation film.

Educational programmes, film schools, and courses

The range of educational programmes in the field of cinema outside of Russian universities is extremely varied: it includes two-year college programmes, as well as seminars and workshops conducted by professionals, and express programmes held as part of student film festivals, as well as various laboratories, workshops, and pitch sessions.

In total there were about 30 such educational programmes in Russia in 2011; and all together they offered students more than 100 training courses in ten to 15 areas of study. The vast majority of them are paid and offer long-term study (from six months to two years). The number of graduates from each film school ranged from ten to 100 people in 2011.

The Moscow Film School, the Professional Courses at the Russian State University of Cinematography, the Professional School of Artistic Practices and Museum Technologies, and Cinemotion Film School offer by far the largest number of courses and qualifications. Moscow Film School, Lestnitsa Film School, and Artkino Film School produced the most graduates (90–115) in 2011.

As at universities, film schools, and other educational programmes, the most common area of study is directing (it is included in 29 educational programmes), and drama is the second most popular (it is the least popular at universities), included in 22 programmes. The next most popular areas of study by a significant margin are producing, editing, and camera operation.

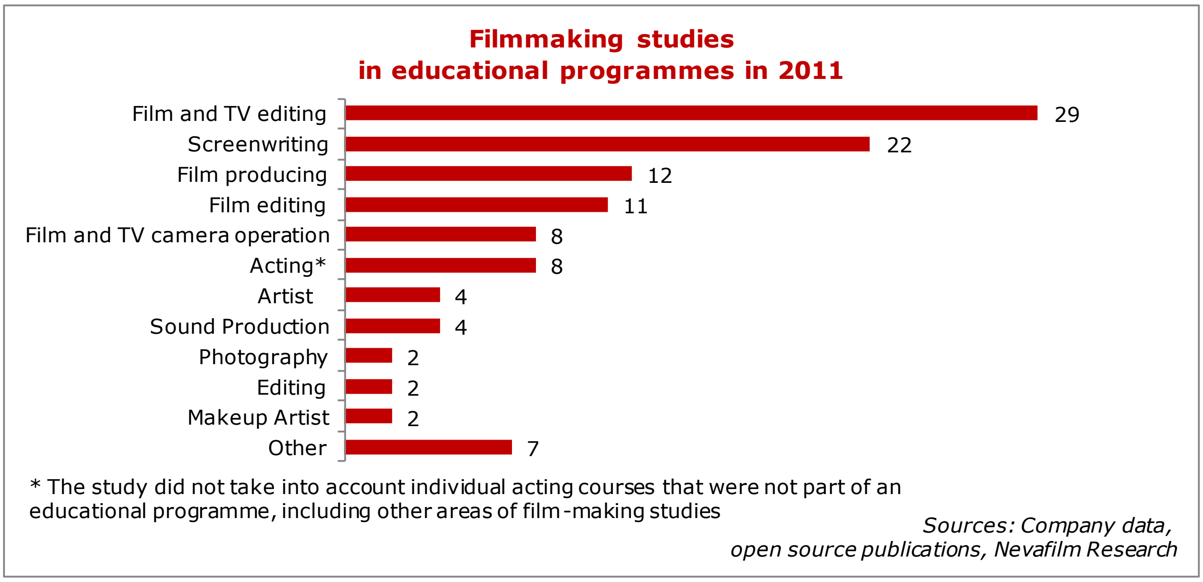

Figure 6. Filmmaking studies included in educational programmes outside universities in 2011

Often film schools are organized under the auspices of major production studios (Sverdlovsk Film Studio, Mosfilm, Ostankino Telecentre, St. Petersburg Documentary Film Studio); they prepare technical and creative staff for themselves. But various short-term courses, workshops, and laboratories are receiving ever-wider exposure as part of cinema events (festivals, viewings, film markets, and forums), and their goal is to increase the skills of existing specialists in the field and educate newcomers, students, and first-time film-makers.

As for the geographical spread of Russian film education, naturally, most of the universities and other educational programmes are located in Moscow, followed by St. Petersburg and Yekaterinburg, which also have powerful film production facilities. At the same time, in the south, where periodically there are plans to build a ‘Russian Hollywood’, there is no serious educational base for film professionals: only Krasnodar State University of Culture and Arts is training directors and operators in the region, and educational programmes in Sochi are held only as part of the Kinotavr festival.

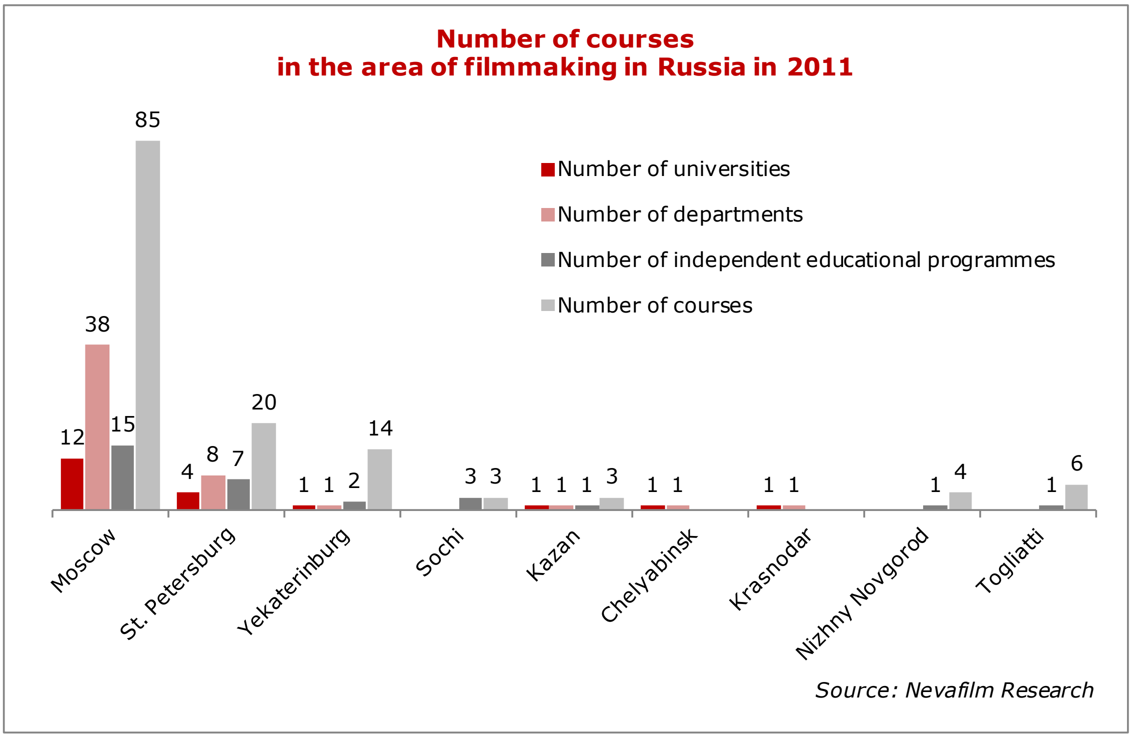

Figure 7. Number of courses in the area of filmmaking in Russia in 2011

Thus, analysis of the situation in Russian film education suggests that in addition to specialized schools film industry workers are also trained by general universities, although these are often more generalist professionals, the number of graduates is small and most of them are trained on a for-profit basis. Directing is the most common qualification both among college students and those enrolled in film schools and courses; at the same time, it is primarily short- and long-term educational programmes, and not universities, which are preparing screenwriters. Given that those involved in the film industry assert that there is an acute shortage of quality ideas and scripts on the market, measures to increase the number of institutions offering programmes for students in screenwriting seem appropriate. In addition, potential investors who are seeking to develop the film production infrastructure in the country should pay close attention to the presence of an educational base for the film industry in areas of prospective investment, since the lack of qualified professionals can seriously hamper the work of future film studios.

1.3 Activities of state-owned cinematographic organizations

State film studios

State film studios are commercial organizations (federal state unitary enterprises and joint stock companies) under the jurisdiction of the Ministry of Culture. Therefore, currently, direct state support is provided only in certain exceptional cases. In 2010, for instance, Lenfilm was provided with a subsidy of RUB 60 million for emergency building repairs. In 2011, Soyuzmultfilm was provided with a subsidy of RUB 6 million for the same purpose.

Many independent production companies and firms that have received state support for their projects utilize the production capacities of state film studios, thus increasing their gross revenue and profits. It should also be recognized that state support is an important factor for many film studios, one that determines their economic situation, as it provides them with funds, regardless of the result of the finished product. However, it is not true to state that, indirectly, state support of subordinate film studios is provided by the Ministry of Culture through funding from the federal budget for the production of Russian films. The selection of film projects that are proposed by producers is made based on their artistic quality and socio-cultural significance. This process is conducted by an independent council of experts and competition committees. In terms of the selection of projects, film studios that are part of the state sector do not have an advantage over film studios that are not.

Currently 14 film studios are entirely in state ownership; in addition, the Ministry of Culture runs four film studios in the form of federal state unitary enterprises. More than half of the state film studios (eight) are situated in the Central and North-West Federal Districts: in Moscow and St. Petersburg.

Table 4. State-owned Russian film studios

Rank	Title	Total number of services
1	Mosfilm Cinema Concern (Moscow)	15
2	Gorky Central Film Studio of Youth and Children's Films (Moscow)	14
3	Centre of National Film (Moscow) and Lennauchfilm (St. Petersburg)	14
4	Lenfilm Studio (St. Petersburg)	12
5	Sverdlovsk Film Studio and Strana (Yekaterinburg)	11
6	St. Petersburg Documentary Film Studio (St. Petersburg)	10
7	West Siberian Film Studio (Novosibirsk)	n/a
8	Far East Newsreel Studio (Khabarovsk)	n/a
9	North Caucasus Newsreel Studio (Vladikavkaz)	n/a
10	Soyuzmultfilm Studio	
11	Russian Central Film and Video Studio for Newsreels, Documentaries, and Educational Films (Moscow)	n/a
12	Kazan Film Studio (Kazan)	n/a
13	Nizhne-Volzhskaya Newsreel Studio (Saratov)	n/a
14	Rostov Film Studio (Rostov-on-Don)	n/a

Sources: Company data, open source publications, Nevafilm Research

The majority of state-run film studios (with the exception of the Mosfilm Cinema Concern) have ageing equipment. They require modernization and an up-to-date approach to business processes. In general, the majority of state film studios that are not located in Moscow and St. Petersburg are involved to varying degrees with production oftheir own documentary films. They have very poor production facilities and do not provide services to third parties, and, in some cases, they do not even have a website allowing researchers to assess their production capacity.

The following points about state-owned film studios are worth highlighting:

- in most cases, the stages of these studios are situated in city centres, making them attractive to investors who develop projects in residential and commercial real estate, but undermining their economic interest in developing film production capacity, as this is generally less profitable;
- Decree No. 389 of the President of the Russian Federation dated 4 April 2001, 'On Reorganization of the Federal State Film Studios', and Article 16 of Federal Law №126-FZ stipulate that a mandatory prerequisite for privatizing film industry organizations involves retaining their film industry profile as their principal type of activity;
- provisions of the same Presidential Decree No. 389 charge the Russian Government with retaining film production as the principal type of activity of federal state film studios while reorganizing them into open joint stock

companies, and also during future management of state involvement in these companies;

- The Russian Government ruled that when privatizing federal state film studios, the Ministry of Property is charged with ensuring compliance with the requirements of Russian Federation legislation while retaining film production as their principal type of activity.[51]

Public–private partnerships

One of the principal tasks of the state has become retaining the profile of activities of film studios as the principal prerequisite for their further development, and also using public–private partnership schemes (PPP) that enable investment and credit funds to be raised. To date no Russian state studios have yet brought in any private investors as co-owners. At the same time, as part of the reorganization programme for cinema-related institutions under state supervision in 2009, in the interests of increasing the effectiveness of state property management and the development of these organizations' potential, a programme was conducted to develop a restructuring plan for cinema industry organizations using PPP mechanisms (excluding the sale and reprofiling of the activity of these cinema-related organizations). According to this plan, five base film studios (Mosfilm, Lenfilm, Gorky Film Studio, Sverdlovsk Film Studio, and the National Film Centre) would be selected, and the remaining studios would be merged with them. Should a strategic investor be interested in a studio, the board could look into the possibility of a PPP arrangement, but with the condition that the state would maintain a stake of not less than 25% plus one share. So, for instance, in the case of Lenfilm, the Ministry of Culture was investigating RWS (Russian World Studios) as a potential private investor (RWS is a subsidiary of Sistema). A concept has been developed for the creation of Lenfilm Consolidated Film Studio on the basis of a merger of Lenfilm and RWS. However, due to its negative reputation, this plan was withdrawn a few days before it was due to be discussed at a public hearing.[52] In August 2012, the question of the fate of Lenfilm was discussed in a public hearing with the participation of the Ministry of Culture, at which the Public Council and the film studio's Board of Directors were presented with two concepts for the evolution of Lenfilm. Subsequently, the Public Council supported the Board of Directors' Lenfilm open joint stock company concept. Given the agreement among the two groups of the studio, the Ministry of Culture has suggested preparing the appropriate materials and submitting a proposal to the federal government in October 2012.

Development of state facilities

There are, however, cases in which a state-run studio, in collaboration with outside companies, can develop modern post-production services. At the Gorky Film Studio, for example, a new post-production complex from United Multimedia Projects (UMP) is in operation, and the Sverdlovsk Film Studio works together with Strana Production Company.

The current need for the state to become involved in the promotion of film studios is explained by the insufficient development of filmmaking infrastructure and lack of competitiveness of Russia in attracting foreign film crews to work on their soil.

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[51] Item 3 of the Decree by the Government of the Russian Federation of 18 September 2002 (No 1299-r).

[52] http://kinobizon.ru/ (Russian only)

Consolidation of film archives

The state plans to restructure cinema organizations under its control in order to improve the efficiency of their operations and to manage federal assets. Thus, measures were carried out in 2010 to reorganize subordinates of the Film Fund of the Ministry of Culture that were operating in the ineffective procedural and institutional state unitary enterprise format[53]. As a result, the entire film archive was merged in two stages with the Film Library of the Soyuzmultfilm Film Studio Unitary Enterprise, which was renamed in 2008 as the Consolidated State Film Collection Unitary Enterprise. The collection includes practically all of the film libraries currently in existence, including the libraries of Lenfilm, Tsentrnauchfilm, Gorky Central Film Studio of Youth and Children's Films, Sverdlovsk Film Studio, and the Diafilms studio. More than 7,000 films have been added to the collection. However, due to an ill-conceived mechanism for rights to the film collection, conflict began to arise between the Consolidated State Film Collection and the film studios. As a result of this, in June 2011 the federal overnment gave instructions to liquidate the Consolidated State Film Collection and return the rights to pictures produced in the Soviet period to Soyuzmultfilm, and to transfer the rights to all other films to the State Film Fund of Russia. To that end, the Ministry of Culture, under the auspices of current legislation, has decided to convert the Consolidated Film Collection to a federal governmental agency, and to merge the latter with the State Film Fund of Russia. The corresponding Order of the Russian Federation was signed on 20 March 2012. After completion of the reorganization, functions that were carried out by the Consolidated Film Collection (in part, the preservation and promotion of films from previous years) are now under the jurisdiction of the State Film Fund.

Research and development

Other film industry organizations that are under state control include Moskinap, which previously manufactured camera and projection equipment; the Moscow Design Bureau for Film Instrumentation (designing stereo cams, special equipment for underwater filming, etc.); Kinotekhnika (film equipment hire and film procurement); Giprokino (cinema design); and the Institute of Film and Photography Research (NIKFI).

All of these organizations are undergoing colossal economic difficulties due to the lack of demand, outdated production equipment, an acute personnel shortage, and an almost complete lack of young professionals, as well as the very small budgets allocated to research and development. A significant share of the income of these organizations goes towards leasing premises.

At the beginning of the 2000s, an attempt was undertaken to unify all research and production, development, and service organizations that are administered by the Ministry of Culture in one united body called Russian Distribution, created by Order No. 390 of the President of the Russian Federation on 4 April 2001. However, due to unresolved organizational issues, this attempt was unsuccessful. In 2009, the Government Council on the Development of the Russian Film Industry decided to create, from a number of subordinate organizations of the Ministry of Culture, the Cultural Research and Education Centre of St. Petersburg State University for Film and Television, but this has yet to come to fruition.

At the same time, considering the high technological content of film compared with other branches of culture and art, the role of domestic film technological education should be increased in order to support the requirements

[53]Decrees No. 721-r 23 June 2008 and No. 1717-r dated 21 October 2008 by Rosimushchestvo.

of the film industry. Today, Russia is losing its competitive edge among leading world developers of film equipment and technology. However, in the not so distant past, the achievements of Russian scientists and engineers in this area achieved worldwide recognition. In 1991, for instance, the American Academy of Motion Picture Arts and Sciences awarded an Oscar for Technical Achievement for the creation of stereoscopic film technology. This is what the 3D format, which is currently very popular worldwide, is based on. There have been significant achievements in holographic film. This shows that domestic film technology research and development has a rich tradition, and that there is scope for its revival.

Chapter 2
FILM INDUSTRY: AN OVERVIEW

Russia's contemporary film industry began to take shape as the country went through the 1989 market reform. This process is based on reform of state support for film production and film exhibition conducted in conjunction with the country's entry into the global copyright and audiovisual cooperation system.

In 1995, Russia joined the Berne Convention for the Protection of Literary and Artistic Works. At the same time, new Russian film industry support legislation came into force, regulating interaction between the film industry and the government. To this day, its fundamental principles define channels for state support for domestic film production and distribution in Russia and abroad. Still, the series of reforms which began back in the Soviet era (1989, 1995, 2002, 2010, 2011) continue in 2012: currently, the government is addressing the question of increasing the rate of return on the funds invested in film production by the Cinema Fund, which has, for the last two years, played the key role in providing state support to the film industry.

On the global film market, the Russian Federation currently enjoys membership in the European Audiovisual Observatory, the European Convention on Cinematographic Co-Production, as well as Eurimages: the Council of Europe's fund for the production and distribution support of film and audiovisual co-productions. Russia has signed international co-production agreements with six countries, in addition to the countries of the CIS.

Film Production

In 2010–2012, Russia produced approximately 600 films per year. Approximately 10% of these were short or feature-length animated films, and another 20% were full-length feature films, but the lion's share were documentaries, mainly made using state support (more than 90% of documentaries are made with state financing). Approximately 60–70% of animated films and about half of feature films are made with state support.

A comparison of data on the budgets of films in distribution and their box office returns indicates that conditions do not favour Russian film producers. Notwithstanding the successes of certain production companies, the majority of Russian films are not released for distribution. Thus, the fate of Russian film production largely depends on the state support provided to the industry.

With the development of state financing institutions (including the Cinema Fund), state funding's share of total investment in film production is increasing in Russia: in 2010, this was 19% of the budgets of *all films shot in Russia;* in H1 2012, it came to 44%. State support for *full-length feature films* is growing at similar rates; in the period in question, the share increased from 18% to 43%. In 2012, the average budget for one full-length feature film in Russia was estimated at RUB 95 million; the average amount allotted to a single project by the Cinema Fund and the Ministry of Culture reached RUB 61 million.

At the same time, a good many feature films in Russia are made with production companies' own money and private investment, including with the help of financial institutions like investment funds. For example, the feature-length film *Kikoriki* was made by Riki Media with the participation of the Troika Dialog 3D fund. The most successful production companies, with films which made back their production costs in distribution in 2010–2012, were Enjoy Movies, Glav-kino, Kvartal-95 with the GorAd production centre, Bazelevs (TABBAK), Monumental Pictures, Direktsiya Kino, CTB, Melnitsa Animation Studio, and the Centre of National Film.

Recently, certain Russian producers have entered the international market. Some have done so through selling their stock to foreign companies (like WeiT Media, which sold a controlling share to Endemol, one of the world leaders in television entertainment programme producers), while others have done so through purchases (like Alexander Rodnyansky, who acquired German producer and distributor A Company and began to invest in the production of films in the US). At the same time, Hollywood majors which had begun film production in Russia before the 2008–2009 crisis (such as 20th Century Fox and Walt Disney) have stopped that activity in recent years.

Despite Russia's membership in international organizations, the country's co-production industry is underdeveloped: at most 10 new films are co-produced each year, while less than half of these titles are officially produced as part of international co-production agreements. At the same time, 2012 has seen an increase in this number: more films were co-produced in the first half of the year than in the full 12 months of the previous years, thanks to the work of newly established French-Russian Film Academy and the German-Russian Co-Development Fund. At the same time, the Russian government has increased funding for co-productions, which is a crucial factor in the life of Russia's film industry as Russian films routinely fail to break even in distribution.

The most fruitful production studios in the past three years have been the Centre of National Film, the St. Petersburg Documentary Film Studio, and Lennauchfilm. These three companies released the most films, but on the whole, these were documentaries made with state support. The largest private investments in film projects were made by production companies such as Golden Eagle, CTB, and Central Partnership. In all, as at H1 2012, the Russian distribution market had more than 460 active film distributors.

Film Production Infrastructure

Russia has 24 full service (or nearly full service) film studios, including 11 state-owned and 11 privately owned studios, and 2 public-private partnerships, as well as approximately 30 major companies which offer services related to film production.

Currently, Russia has more than 100 film production sound stages. Some of these are part of state-owned studios, and mostly employ outdated equipment. In effect, the number of modern film production stages in the country stands at around 70.

In 2008–2009, the market saw a boom in new film studio construction investments across the country's regions. Investors in this industry planned for a return on investment on these projects not only via the profit generated from renting out film studio space and selling some of the premises, but also from selling large commercial developments and residential real estate that were to be built in the immediate vicinity of these film studios. But these plans were impacted by the financial and economic crisis: currently, only three projects remain active, including plans to modernize the state-owned Lenfilm Studio. These projects could increase Russia's film production infrastructure by approximately 40 new production stages.

Film industry insiders speculate that demand exists for a single modern film studio in the south of the country. It should provide extensive opportunities for location shooting and for staging marine shoots. There may also be a need for a new modern film studio in central Russia. At the same time, in the south, where periodically there are plans to build a 'Russian Hollywood', there is no serious educational base for professionals in the field of cinema: only Krasnodar State University of Culture and Arts is preparing directors and operators in the region, and educational programmes in Sochi are held only as part of the Kinotavr festival.

In 2011–2012, the market has witnessed studio mergers and reorganizations, in both the public and private sectors. There are cases in which a state-run studio, in collaboration with outside companies, can develop modern post-production services: at the Gorky Film Studio, for example, a new post-production complex from United Multimedia Projects (UMP) went into operation, while Sverdlovsk Film Studio began collaborating with Strana Production Group. In 2011, state-owned studios Centre of National Film and Lennauchfilm joined forces, while the private owner of My Studio production pavilions became a partner in Cinelab, a post-production service company. In 2012, Sistema was forced to turn down the chance to merge with Lenfilm; its company, RWS, then closed down its studio in Moscow. The company also abandoned plans to build the second stage of its studio in St. Petersburg due to insufficient demand.

Russia's largest film studios in terms of services provided are Mosfilm, Gorky Film Studio and United Multimpedia Projects (UMP), the joint Cinelab and My Studio venture, the Centre of National Film and Lennauchfilm, Lenfilm Studio, the Sverdlovsk Film Studio and Strana venture, and Amedia: a St. Petersburg documentary film studio. The top-ten list of leaders in terms of production stage space also includes Russian World Studios, the Novella Group (TV-Film Creative Association), Kinofabrika No. 2, and Magic Film.

In addition to studios, there are film service companies operating on the market which do not have their own sound stages. The largest among them are concentrated in Moscow and St. Petersburg. Recently, due to the switch to digital technology in film, the significance of digital mastering and circulation studios and companies providing those services has been on the rise. Currently, the country has approximately 15 such companies. Services for the rental of filming and lighting equipment are also fairly widespread (14 companies). At the same time, there is a severe shortage of film print production services, which are provided by just one independent service company (Salamander); there is also a film printing laboratory at Mosfilm, and two which work in conjunction with United Multimedia Projects (UMP) and My Studio (Cinelab). Moreover, the market is experiencing a dynamic transition to digital film exhibition. As such, film print laboratories are becoming less important, and the role of digital mastering and distribution studios is growing more prominent: in 2011, there were already five among the independent service companies and five among the film studios (or the service companies associated with them).

Domestic prices for equipment and services on offer by film studios and service companies are approximately the same throughout Russia. Any significant differences are to do with the equipment's material and technical condition. At the same time, the low price of one item at a given company is usually compensated for by the high prices of another.

Service companies leading in terms of the range of offered services are Mentor Cinema, 29 February, Vek Studio, Salamander, Art Vecher Film, and Rumedia. With the exception of Salamander, they specialize both in production and post-production services.

Major problems facing Russia's film production service companies include the ageing film production base of state-run studios, as well as the gradual transition to digital technologies, which threatens the existence of large film studio complexes with high numbers of sound stages. These are generally used for production of TV content, as well as for large-scale films, of which there are relatively few.

Cinema Infrastructure

The main role in Russia's film exhibition market is played by 'modern cinemas', meaning cinemas which run regular commercial film screenings using 35mm film or digital projection, and have multi-channel sound systems and comfortable auditoriums. Film tickets and concession sales remain principal sources of revenue for the owners of these facilities. As at 1 July 2012, Russia is serviced by 994 modern cinemas (with a total of 2,894 screens). In addition, Russia has approximately 10 drive-in cinemas, which are prevented by the country's climate from spreading further. Moreover, there are already more than 25 IMAX screens in the country, and this number will rise to 40 by the end of 2013.

In the early 2000s, the market saw rapid growth through active restoration of Russia's exhibition infrastructure, which had suffered setbacks during the reconstruction years and during the country's transition to a market economy. Until late 2003, this process was driven by renovation of old Soviet-era cinema buildings. Later, it continued by means of opening cinema screens within new shopping centres throughout the country. As a result, currently 59% of Russia's screens are located inside shopping centres. The growth rate of modern film exhibition has decelerated due to gradual market saturation, and the transition to digital technologies.

The transition to digital technology in Russia began in 2006, and that market has already reached maturity today. Almost 60% of modern Russian screens – 1,647 screens (in 772 cinemas) – are equipped with digital projectors, 1,590 of which have 3D capabilities. The growth in the number of screens not equipped with 3D projectors did not begin until 2011. Originally, all new digital screens had 3D film exhibition equipment. Currently, cinema owners shy away from mass installation of these systems: 57 of the new screens opened in H1 2012 did not have 3D equipment. At the same time, in the first half of 2012, existing cinemas in towns and small cities (with populations of fewer than 100,000) have become the most active players in digitizing their cinemas. This often occurs through the support of municipal authorities. However, as a rule, cinemas transition to digital technologies using their own resources, since VPF deals with distributors are not mandatory in Russia: only a handful of major cinema chains have been able to sign these deals, and information about them, with the exception of Cinema Park, has not been made public.

We believe that in the next few years, the growth in demand for modern cinemas and screens may slow significantly due to the proliferation of the Internet and the development of video-on-demand services in Russia, which, along with the decline in traditional film distribution, will impact average-performing cinemas, forcing them to close. This makes it essential for Russian cinemas to make the switch to digital as soon as possible.

The Russian exhibition sector is very fragmented, with more than 560 players, 15% of which are chains. Takeover of independent cinemas by operators of larger chains, either through direct purchase or through the signing of programming agreements, as well as the major cinema chains' policy of liquidating smaller cinemas and unprofitable outlets, are not the only processes seen in Russia in the last two years. In some cases, the country has witnessed the sale of entire major cinema chains. This is evidenced by recent deals in which market leaders Cinema Park and KinoStar (2011), Kronverk Cinema, Formula Kino, and Karo Film (2012) changed hands.

Leading positions among Russia's cinema chains are still held by Cinema Park, Karo Film, Kinomax (including franchises), Kronverk Cinema, Luxor, and Formula Kino, as well as major regional operators Premier Zal and Monitor, which, in addition to managing their own sites, unite a number of independent cinemas on the basis of programme planning agreements.

Film Distribution

Russia's current distribution infrastructure began to take shape in the late 1980s and early 1990s. By 1991, the market saw the appearance of companies representing the Hollywood majors (East-West for MGM, United Artists, Paramount, Universal; Sovexportfilm–Kinoton for 20th Century Fox). However, pirate video was spreading through the country at an incredible rate, and in May 1991 the Motion Picture Association of America (MPAA) responded by announcing an embargo on the exhibition of films by Hollywood majors in Russia. The consequences of that decision turned out to be catastrophic for legal film distribution in Russia. Not only American, but also European films stopped coming to Russia. Pirate exhibition of 35mm prints of extremely low quality began and video piracy thrived. The embargo was lifted only in 1993, thanks to the efforts of legitimate Russian film distributors. However, by that time the system of film exhibition was already disintegrating, and cinemas started to be converted en masse into retail malls. By 1997, the level of cinema attendance in the country had dropped to an all-time low – 0.25 visits per person per year.

Russian film distribution started to recover in the mid-1990s with the rehabilitation of the country's film exhibition infrastructure. We can identify several main phases in the development of this market in Russia:

<u>Phase I (1996–2002).</u> This phase was characterized by a monopoly in the exhibition of films by modernized theatres. Each screen complex fitted out with multi-channel sound and comfortable seats enjoyed enormous popularity with a public ready to pay any price for a ticket, while distributors fought each other tooth and nail for the chance to show their films in modern cinemas.

It was during this phase that the Russian exhibitor-distributor business model took shape. In this model, gross box office receipts are split 50/50 between the players. This model continues in Russia to this day. Important components of the modern system of film distribution, such as regular film markets traditionally held every quarter, also emerged during this phase. Cinema programme rollover was set for Thursdays.

<u>Phase II (2003–2007).</u> 2003 saw the end of the screen reconstruction era. Competition strengthened among exhibitors, resulting in lower ticket prices; the shortfall in screen numbers reduced, while the authority and role of the distributor significantly increased: cinemas started competing for better box office attractions and more advantageous screening conditions.

The second phase also saw the growth of major regional and national cinema chains. The lucrative film exhibition business started attracting non-specialized market players – shopping centre developers who started opening cinemas on their premises and under their own management. Gradually, the local markets of Russia's two largest cities, Moscow and St. Petersburg, approached saturation, demonstrated by the closure of modern cinemas that had fallen victim to competition. The large chains started to consider expansion into the regions, and by 2007 most major regional centres with a population in excess of one million residents had multi-screen cinemas operated by nationwide cinema chains.

The year 2004 is also considered to be a milestone for Russian film distribution. The release of the feature film Nochnoy Dozor [Night Watch] which took place on 27 June, heralded two new trends in the market:

1) It was from this point onwards that national films began to stake a serious claim to leadership in Russian distribution; for the first time since the fall of the USSR, a Russian film topped box office ratings across the CIS.

2) This increase in the popularity of Russian blockbusters and cinema admissions in general was stimulated by backing from a national TV channel; in addition to continuously showing film trailers, it supported the film in the longer term by running news features on its progress in the cinemas, topical programmes on its production, interviews with actors and producers, talk-shows and so on.

Phase III (2008–2011). The third phase of film market development in Russia was characterized by the domination of large market players over smaller scale independent ones. The ability of larger players to exert pressure through their strong film repertoire (blockbusters) or large network of cinemas allowed them to disregard the opinions of their less influential counterparts. Releases from the major studios and widely advertised Russian blockbusters enjoyed heightened demand from cinemas, which were ready to make any concessions to the distributor. Independent distributors often had a very hard time placing their films in cinemas. They often had to give in to exhibitors' demands over the number of screenings and exhibition periods, and sometimes even over their share of box office receipts. This situation adversely affected smaller exhibition and distribution companies, preventing them from earning the income they might have earned had the parties been on an equal footing, and inhibited their development and the expansion of a network of independent players. Transition to digital film exhibition technologies put an end to this state of affairs. 2010 proved a critical year for domestic distribution companies, forcing all players – from the majors to independent art house distributors – to adapt to the new realities and begin releasing films in the digital format. And by the end of 2011, more than half of the country's screens were digital.

Phase IV (2012–…). The modern phase of market development is the result of the transition to digital technologies, film distributors' desire to increase availability of their films. In the world of this new technology, the majors are not the only ones able to increase the number of screens playing their releases: many independent film distributors are able to release digital versions of titles that would have never seen the light of day on film. This allowed Russian cinemas to widen their programming choices, adding, among others, alternative content releases: 10 in 2009, 50 in 2010, and 24 in the first half of 2012 (although this did lead to a decrease in the screen life of theatrical releases, from 57 days in 2010 to 34 days in 2012).

Television advertising and large-scale support extended to releases by television networks no longer play a crucial role in promoting films in distribution, as they decreased both in size and effectiveness: in H1 2012, none of the films promoted by broadcast networks was able to reach the top ten.

Meanwhile, the 35mm film distribution era's 'limited release' phenomenon, when films with a circulation of fewer than 20 copies spent long periods of time travelling the country, has given way to wider arthouse releases that play in many cinemas throughout Russia (shown by approximately 60% of cinemas in large cities), although with a limited number of shows in each cinema. In addition, in the summer of 2012, five Russian cinemas joined the Eurimages/Europa Cinemas network, which will allow them to add European titles produced with the fund's support to their schedules.

Therefore, it can be concluded that the film distribution market has begun to move in the direction of consumer domination (as opposed to blockbuster domination during phase three, distributor domination during phase two, and cinema domination during phase one). For the film distribution industry to be able to compete with other (individual) film consumption methods, this 'customization' of film distribution in Russia must continue to grow.

Every year, approximately 350 films are shown at Russian cinemas. In 2012, nearly 90% of films in Russian distribution were released in digital format or in both 35mm and digital formats, while 43% of films were exclusively digital releases. Alternative methods of delivering digital prints of films from the film lab to cinemas via Internet and satellite, without the use of physical media, are increasingly being used. By September 2012, these methods helped distributors and digital labs save approximately 2,500 hard disks.

Box office receipts in Russian theatrical distribution, after the crisis of 2008–2009 and rouble devaluation, resumed their growth in 2010, although at a lower pace, and primarily due to an increase in ticket prices (driven by the increasing number of 3D releases and digital 3D screens). In 2011, they reached RUB 34.0 billion, and ticket prices exceeded RUB 200 several years ago. Cinema attendance in Russia is also growing; however, as is the case with box office returns and ticket prices, that growth rate is slowing. In 2011, 159.8 million visits were made to cinemas in Russia.

The Russian market is dominated by US releases. With regard to Russian-made films, in recent years their share of all releases has fallen from 24% in 2009 to 18–19% in 2011–2012; their share of box office returns has declined from 26% in 2008 to 17–18% in 2011–2012.

As regards the distribution of specifically European films in Russia in 2007–2012, the leader in the number of releases over the period in question is France, followed by the UK, Germany, Spain, and Italy. The UK is the box office leader among European films in Russian distribution (5.9% between 2007 and 1 July 2012);

In all, as at H1 2012, the Russian distribution market has about 30 active film distributors. Based on the results for H1 2012, the market leaders are Walt Disney Studios, Sony Pictures Releasing, Central Partnership (which represents Paramount Studios), Karo Premier (Warner Bros.), 20th Century Fox CIS, and UPI (Universal), while the leaders in the distribution of independent films are Central Partnership, Karoprokat, Paradise/Nashe Kino, and Volga.

The home video market

The main feature of development of the Russian home video market is the constant battle between licensed and pirated video products. The roots of this battle lie in the Soviet era. In the early 1990s, the market sprung out of video theatres and videotape rentals. The 1998 default became a turning point for DVD sales, as the increasing costs of film licensing and videotape prices prompted a wave of bankruptcies in the industry. It wasn't until 2002 that the virtually extinct videotape market was replaced by discs; however, these discs were pirated copies containing several films. Unlicensed production was dealt a blow in 2004–2006 when the majors lowered their prices and reduced the amount of time before films were released on video. The first Blu-ray discs were introduced to the Russian market in 2007. They were expected to compensate for decreasing DVD sales caused by the prevalence of broadband Internet access (and corresponding Internet piracy) and by the 2008–2009 global financial crisis.

However, for the past two years the Russian video market has been gradually declining. The main signs of this decline include not only a reduction in the volume of video disc sales (IHS Screen Digest estimates that in 2011, 79 million discs were sold wholesale and 63 million discs were sold retail – a 10% drop from 2010 figures, and in 2012 the numbers are expected to decline by another 9%, to 55 million discs sold retail), but also a fall in the number of active distributors (in part, the departure of representatives of the majors from the market), closure of video media production factories, and the fact that industry periodicals *Video Market Bulletin* and *Videomagazine* have closed. Industry insiders have expressed their concerns about the rapid decline in the functioning of the industry as a whole, due to the transition to non-physical distribution.

At the same time, despite a decline in the DVD industry, the Blu-ray market continues to grow: the number of Blu-ray players in Russia is on the rise. IHS Screen Digest estimates that by late 2011, 70% of Russian households with televisions had DVD players, but fewer than 4% have BD players, while a much higher number of households with high definition televisions – nearly 12% – were equipped with Blu-ray disc players. Thus, consumers who are accustomed to high-quality picture and sound are more likely to use the Blu-ray format for video viewing. In 2012, Russian consumers are expected to buy approximately 2.5 million high definition discs.

The first half of 2012 saw the release of 1,202 DVD titles and 356 Blu-ray titles. These figures are similar to the figures for H1 2011, and exceed those of previous years affected by the financial crisis. Thus, despite a decrease in sales, Russia's home video market remains afloat.

Based on the figures for H1 2012, 223 Russian titles were released on DVD (19% of the total number of video releases), and 28 were released on BD (8% of the total number of releases – almost as many as in 2011). In Q2 2012, just two Russian films were released on BD.

Among foreign releases, North American titles predominate, but the share of European countries is also significant. The market share of other countries, including the Asia region (not including co-production) is decreasing.

A difference can be seen between types of films released in different formats: the domestic licensed DVD retail market is dominated by catalogue titles, while the Blu-ray market is characterised by new releases. The overall structure of the Russian licensed home video market is heavily feature-film oriented.

By mid-2012, the Russian licensed video market had approximately 20 players, and is dominated by representatives of the Hollywood majors: 20th Century Fox CIS, Walt Disney Company CIS (which had announced a reduction in video sales departments in the summer of 2011), VideoService (which has been representing Sony Pictures since 1997, and had also represented Walt Disney Pictures between 2002 and 2008), Noviy Disk (which has represented Paramount on the Russian market since 2012), and CP Digital (which has represented Warner releases since 2011). It should be noted that in the summer of 2011, Universal Pictures Rus left the Russian market. The rights to distribute the company's video content on the Russian video market were transferred to 20th Century Fox CIS as part of a three-year agreement.

Video-on-demand market

The Russian video-on-demand market began in 2005 with pay-TV networks providing a service that allowed users to pay for viewing a film that was then transmitted to them. With the development of duplex communication channels, increasingly interactive services began to be more widespread, and PPV services began to be replaced by more and more classic VoD services. At the same time, there was a movement on the market from the paid access business model to the ad-based business model, when viewing became free of charge. The first phase of development of this market segment in Russia ended in 2010, which saw a sharp increase in potential video-on-demand consumers, thanks to development of the pay TV infrastructure and broadband internet access.

Phase 2 (2011–2012) is characterized by an increase in the number of services, as well as the size of their catalogues, thanks to large-scale investment. The third phase, which may begin as early as 2013, will mark the entry of major international video-on-demand players (such as Sony and Microsoft, iTunes, or Hulu) into the Russian market.

According to the Public Opinion Foundation, by mid-2012 the monthly Internet audience in Russia had reached 59.4 million users (51%), with 45.1 million (39%) average daily users. At the same time, when it comes to pay TV operators offering video-on-demand delivery technologies, J'son & Partners Consulting estimates that by early 2012, 28.6 million, or 52%, of the country's households were connected to cable, satellite, and IP television, which is comparable to the number of residents with broadband access.

By mid-2012, the VoD market had already grown to include approximately 56 operators using a number of different technologies to deliver services. Most of these companies were Internet service providers (48%) and cable television providers (IPTV – 21%); companies incorporating AppStore services (and those of other application stores for smartphones and tablet devices) have been the market's fastest-growing segment.

The video-on-demand market leader among pay TV networks is Tricolor-TV, which reached 11 million subscribers in August 2012, and which offers pay-per-view services under the name Kinozaly (Film Screens). MTS Cable Television remains in second place. The third place is occupied by Rostelecom. In 2012, the company concluded a merger of its subdivisions in various federal districts; VoD services are offered to IPTV subscribers.

According to data by LiveInternet, market leaders include ivi.ru (offering a paid-access catalogue under the name ivi+, in addition to its free film content), tvigle.ru, and megogo.ru (both of which use the advertising-based model).

In conclusion, the Russian film industry is a unique amalgam of film production largely financed by state funds and a mostly private film distribution market on which foreign-made films prevail. Mechanisms for the return of public funds invested in full-length feature films have not yet been created. However, in the selection of the leading production companies financed by the Cinema Fund, both an evaluation of the films they have made amongst professional filmmakers and commercial success in the cinema and on television is considered.

Technologically speaking, the film industry is quickly making the switch to digital technologies in filming (which is forcing a change in forms of state support, including a cessation in the centralized purchase of film by the Ministry of Culture), theatrical exhibition (more than half of screens already have digital projectors, and more than 90% of films are released in digital format), and home video (in which there is a sharp decline in the market for physical media and development of VoD services on the Internet).

New technology is changing the market, expanding access by Russian audiences to a growing number of films and alternative content, and new forms of film consumption are changing the relationship with audiences (beginning with customization of VoD services and cinema specialization, and ending with changes in genres and formats of films that are imported and made: from blockbusters released with widespread advertising support to specialized films for small groups of consumers). On this newly forming map of the Russian film market, the film audience is increasingly important, upon which the future of the entire industry will depend.

Chapter 3
DESCRIPTION AND ANALYSIS OF THE VARIOUS BRANCHES OF THE RUSSIAN FILM INDUSTRY

3.1 Film production in Russia: producers and production companies

3.1.1 Industry structure

Methodological aspects

In order to analyse the state of film production in the Russian Federation, a list of films which completed production in 2010, 2011, and H1 2012 was used. The list was created on the basis of data obtained from production companies and film studios, from the databases of the publication *Booker's Bulletin*, from the Ministry of Culture, and from open sources (Kinopoisk.ru and Kino-teatr.rf). The final list excluded short films, as it is extremely difficult to gather information on these films due to the closed nature of the market: data exist only for films produced at higher education institutions, as well as those which were entered in various film festivals.

For this same reason, information on the budgets and amounts of state support provided cannot be obtained for all projects. Estimate were made using average arithmetic values for films of the same category where details of either the budget or state funding were available. In 2010, the budgets were unknown for 10% of films, while the ones for which state support amounts were not provided came to 3%. In 2011, the share of projects with unknown investment levels was significantly higher: the figure was 76% for film budgets and 60% for state support. In H1 2012, the budgets for 28% of the films produced were unknown, and state support was unknown for 2% of the films. It is therefore impossible to estimate the total amount of investments in film production, especially for 2011. However, we can compare the share of private and state investments in film production.

The specific methodology used to determine the number of films should also be noted. When calculating the number of animated and documentary films, short, multi-episode projects were counted by number of titles, whereas Ministry of Culture documents include calculations based on the number of episodes. When ranking Russian film producers involved in co-productions, the budgets, state funding, and box office returns were listed in full for each producer.

General state of the market

Analysis of film production in the Russian Federation (for feature films, documentaries, and animated films), established that approximately 600 films are produced per year on average. In 2010, 577 films completed production, including 76 full-length and short animated films, 133 full-length feature films, and 368 full-length and short documentaries. In 2011, the total number of films which completed production was 597: 103 feature films, 58 full-length and short animated films, and 436 documentaries. Therefore, in 2011 there was a small amount of growth in Russian film production compared with 2010, when the economy was still feeling the effect of the previous crisis years. However, it is not possible to confirm this developing growth trend for film production, as we have not yet seen total figures for 2012, and we can only operate on interim indicators. According to the data available in June 2012, in H1 2012, Russian producers made just 126 films (20 full-length and short animated films, 44 full-length feature films, and 62 full-length and short documentaries).The predominance of documentary production in Russia is clear. This could be due to the fact that these films are made largely using public funds, while feature films are mostly made using producers' own capital.

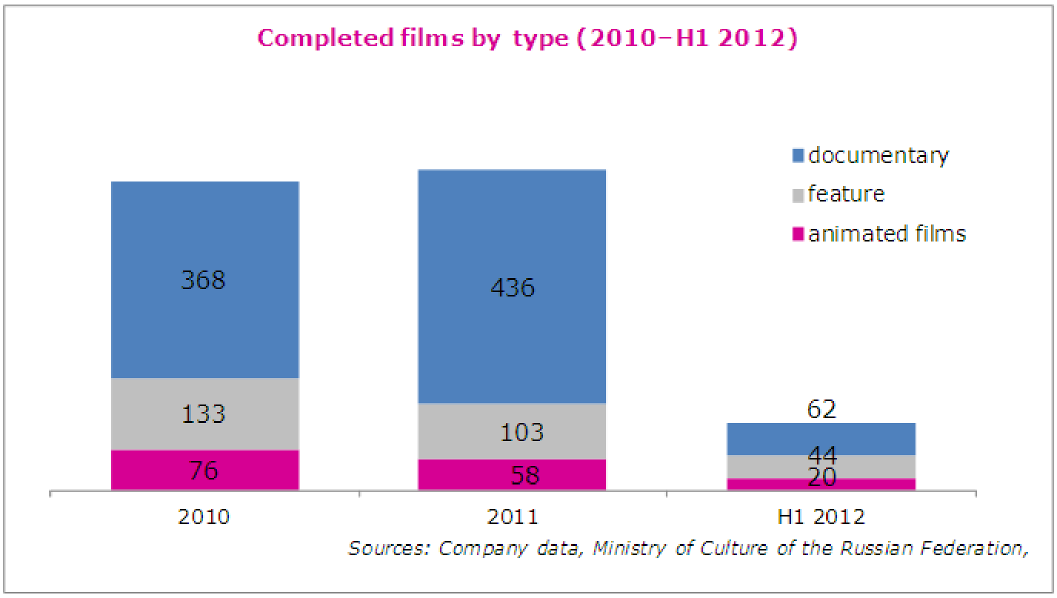

Figure 8. Completed films by type (2010–H1 2012)

Comparison of data on the budgets (production costs, not including promotion expenditure) of films in distribution and their box office returns indicates that conditions do not favour Russian film producers (however, this is not a problem specific to Russia, which applies to all independent film producers worldwide). Just 11 of the 58 feature films in 2010 earned more than their production budget in theatrical distribution. The most successful Russian films in distribution in 2010 were *How Not to Rescue a Princess* (Melnitsa Animation Studio and CTB), *Kandahar* (Rekun Cinema), *What Men Talk About* (Kvartet-I and Kvadrat-Film), and *Six Degrees of Celebration [Yolki]* (Bazelevs, TABBAK).

In 2011, the list of Russian production companies whose films had the best theatrical results was the same: the four best-performing Russian pictures were *Yolki-2* (Bazelevs), *Ivan Tsarevich and the Grey Wolf* (Melnitsa Animation Studio and CTB), and *What Men Still Talk About* (Organic Films and Kvartet-I). The best results were achieved by *Vysotsky: Thank You for Living*, a co-production of Direktsiya Kino and Monumental Pictures. However, overall, of the 53 Russian films on wide theatrical release in 2011, just 15 were able to collect box office returns that exceeded their production budget.

In the first half of 2012, the majority of Russian films, as before, did not make money in theatrical distribution: of the 14 films in theatrical distribution, just four were able to cover their budgets with their box office returns: *Mamy* and *Nyanki* (Enjoy Movies), *8 pervykh svidaniy [8 First Dates]* (a co-production of Kvartal-95 and GorAd), and *Samoubiytsy [Suicides]* (Strizh i ko Media and Studio Ortodoks).

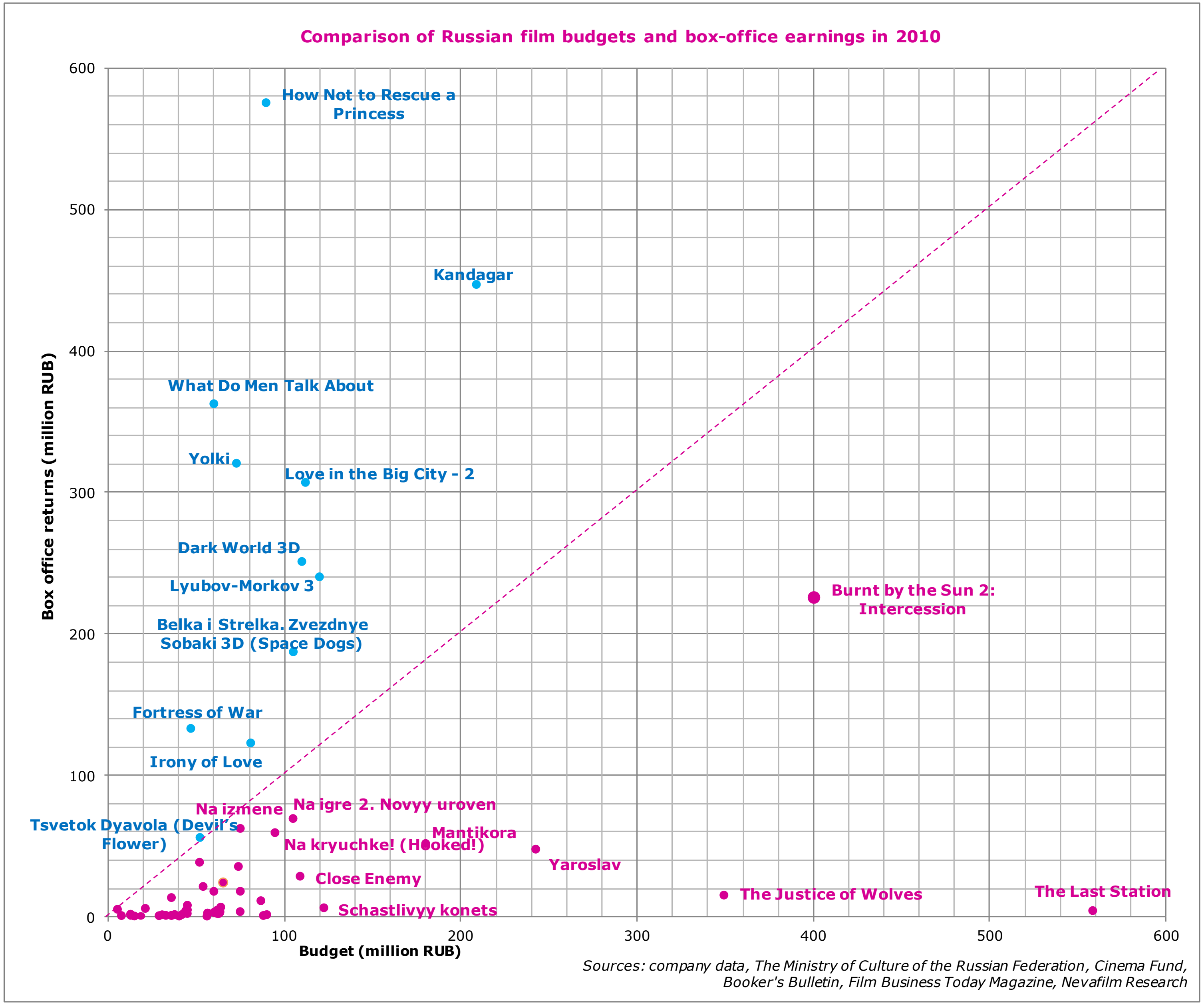

Figure 9. Comparison of Russian film budgets and box office earnings in 2010

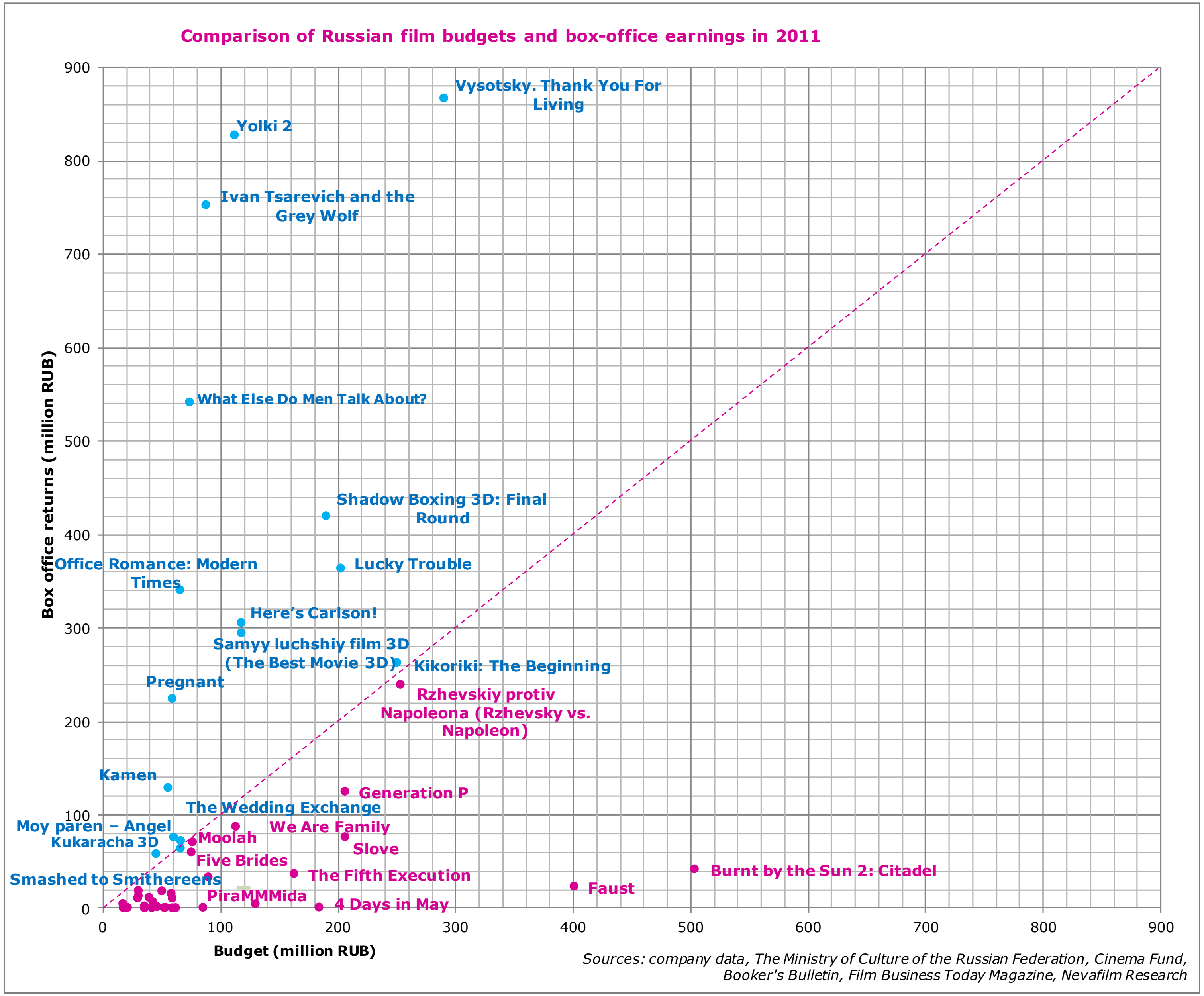

Figure 10. Comparison of Russian film budgets and box office earnings in 2011

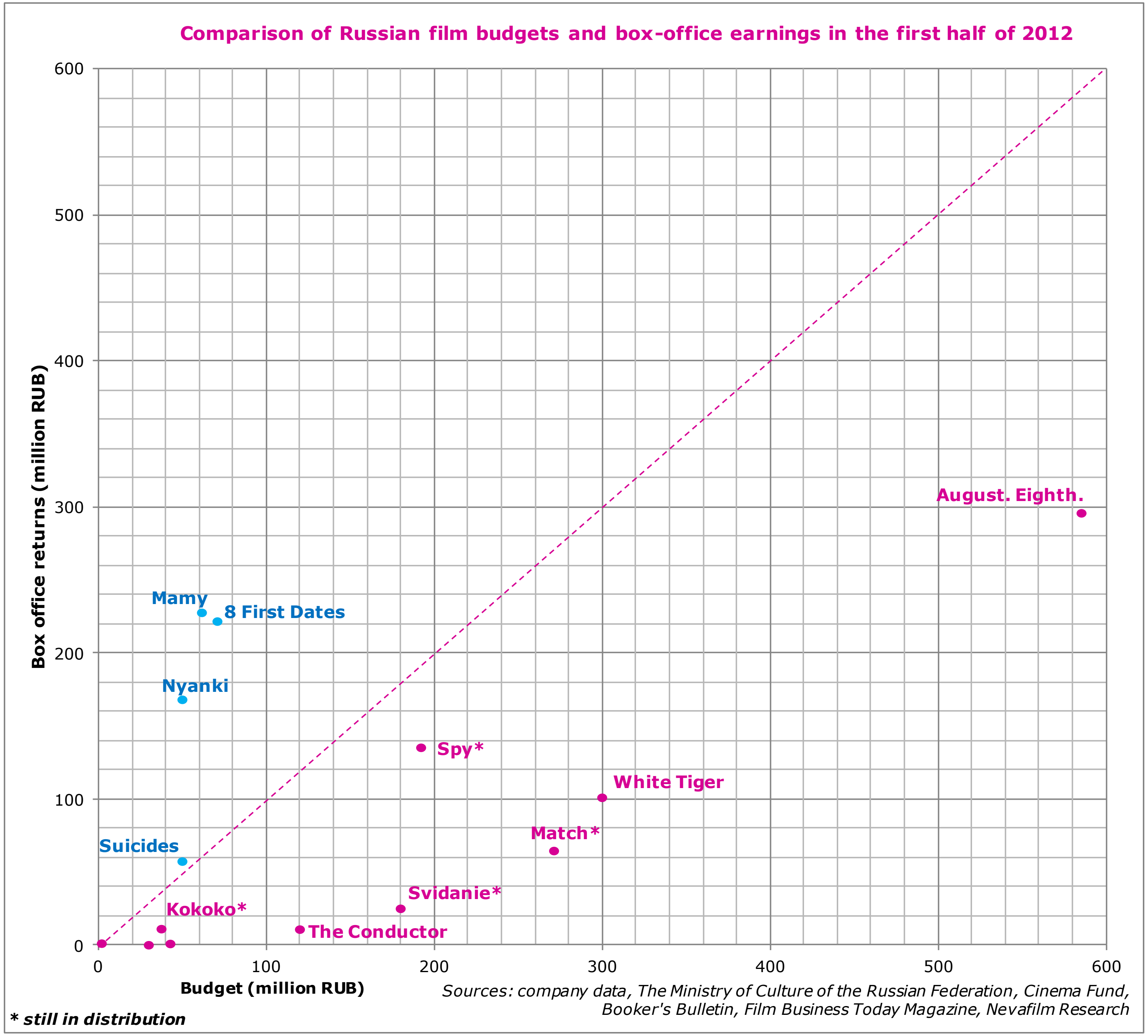

Figure 11. Comparison of Russian film budgets and box office earnings in the first half of 2012

The most successful Russian production companies according to 2010 theatrical distribution results were, respectively, CTB, Melnitsa Animation Studio, and the Centre of National Film.[54]

Table 5. Top ten Russian film production companies by box office in 2010

Company	Number of films in distribution	Total box office returns (million RUB)
CTB	4	591.58
Melnitsa	1	575.07
Centre of National Film	4	552.53
Rekun Cinema	1	446.58
Interfest	2	362.40
Kvadrat Film	1	362.25
Bazelevs	1	320.17
Leopolis	2	307.30
Central Partnership	2	256.68
Shaman Pictures	1	250.73

Sources: company data, Film Business Today Magazine, Booker's Bulletin, Nevafilm Research

In 2011, the leading Russian production companies in terms of theatrical distribution were Bazelevs, Monumental Pictures, and Direktsiya Kino.

Table 6. Top ten Russian film production companies by box office in 2011

Company	Number of films in distribution	Total box office returns (million RUB)
Bazelevs, TABBAK	3	1,319.88
Monumental Pictures	2	1,161.08
Direktsiya Kino	1	866.76
CTB	6	839.96
Melnitsa	1	752.51
Leopolis	3	613.24
Central Partnership	5	578.42
Organic Films	3	562.69
Kvartet-I, Strela, and Kvadrat Film	1	541.45
Enjoy Movies	2	529.56

Sources: company data, Film Business Today Magazine, Booker's Bulletin, Nevafilm Research

In the first half of 2012, the most successful Russian production companies in theatrical distribution were Enjoy Movies, Glav-kino, and Kvartal-95 with the GorAd production centre.

[54] Co-productions are also taken into consideration when measuring the results of films.

Table 7. Top five Russian film production companies by box office in H1 2012

Company	Number of films in distribution	Total box office returns (million RUB)
Enjoy Movies	2	396.00
Glav-kino	1	295.92
Studiya Kvartal-95, GorAd	1	221.79
Studio Trite, All-Russian State Television and Radio Broadcasting Company (VGTRK)	1	135.36
Mosfilm, Courier Studio	1	101.12

Sources: Film Business Today magazine, Booker's Bulletin, Nevafilm Research

Notwithstanding the success of certain production companies, the majority of Russian films do not make money in theatrical distribution. The situation is saved by the fact that many films are shot with financing from the Ministry of Culture and the Cinema Fund. Thus, the fate of Russian film production largely depends on the state support.

State support

Analysis of state support indicates that the financial involvement of the Ministry of Culture and the Cinema Fund in the production of Russian films is substantial. In 2010, the state provided financial support to 98% of documentary films, 93% of animated films, and 58% of feature films completed that year.[55] In 2011, the proportion of films receiving state support in each of these categories was 98%, 62%, and 45% respectively. During H1 2012, state support was provided to 84% of documentary films, 70% of animated films, and 41% of feature films completed during the period.

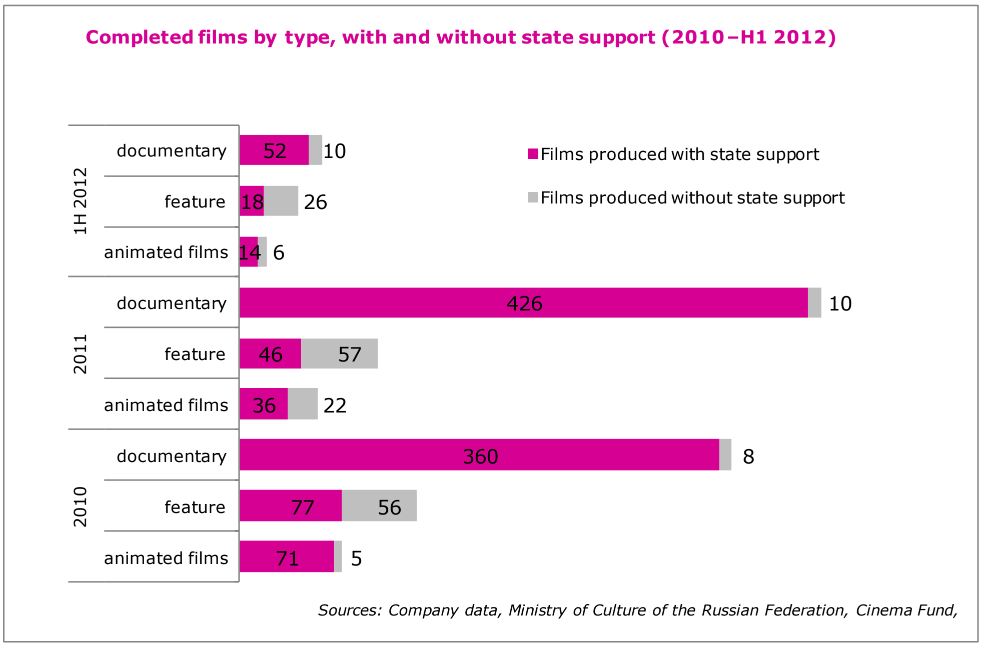

Figure 12. Completed films by type, with and without state support (2010–H1 2012)

[55] Data are presented for both short and feature-length documentary and animated films, but only for full-length feature films.

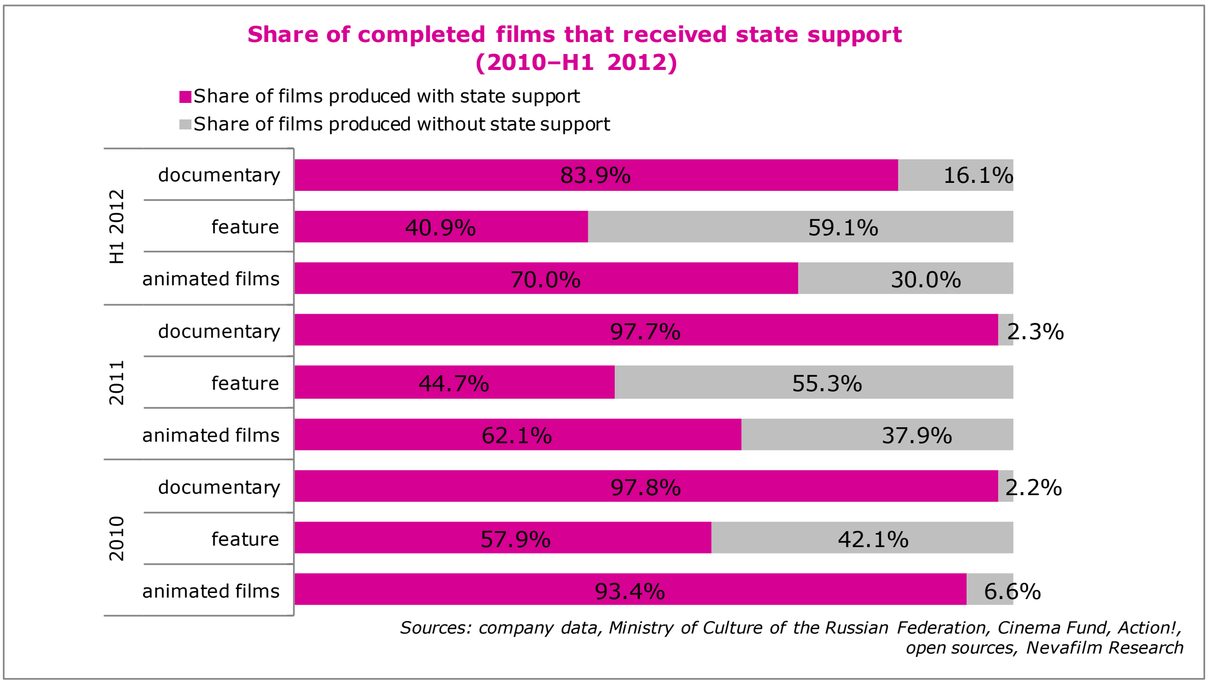

Figure 13. Share of completed films that received state support

The share of state investment as part of the total cost of the production of all Russian films is trending upwards. By the end of H1 2012, it had already reached 44%. This growth is due to the dynamic development of state institutions established to support Russian filmmaking, in particular the Cinema Fund. It was in 2012 that production concluded for the majority of films that were made with its support.

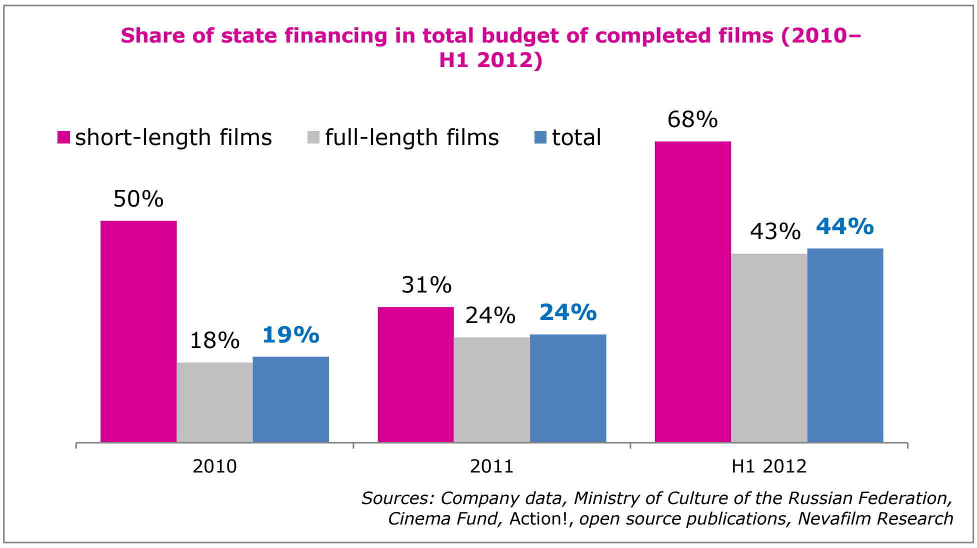

Figure 14. Share of state financing in total budget of completed films (2010–H1 2012)

According to Nevafilm Research's estimates, state support accounted for approximately 43% of total investment in full-length features (compared with 18% in 2010 and 24% in 2011). In total, over RUB 2.5 billion[56] was invested in 44 full-length feature films completed by mid-2012, of which RUB 1.1 billion

[56] The total of the known budgets for 27 films.

came from public funds.[57] The average budget for one full-length feature film in Russia may be estimated at RUB 95 million; the average amount allocated to a single project by the Cinema Fund and the Ministry of Culture is RUB 61 million (it should be noted here that the average budget of a feature film receiving state support was higher than the average on the market: RUB 120.7 million in H1 2012).

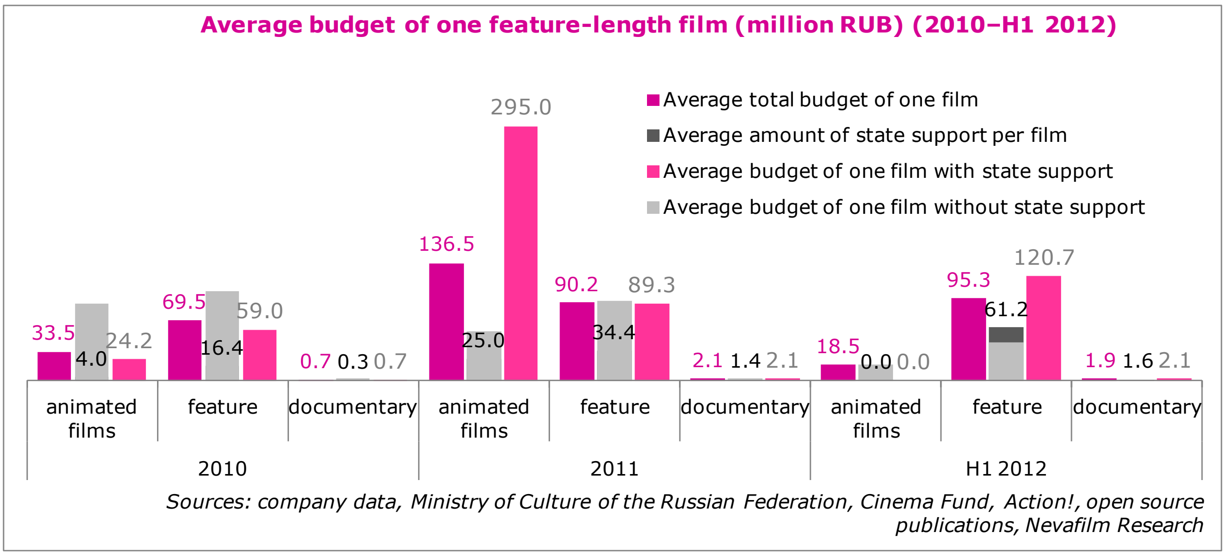

Figure 15. Average budget of one feature-length film (million RUB) (2010–H1 2012)

It is interesting to examine how the share of state support for production varies by both type and length of film. In order to calculate this, we took films which had received state support for their production, leaving aside films made using producers' own funds or money from private investors. The ratio of state support to the film's production budget was calculated for each film. Then the arithmetic mean share of state support was determined separately for each type of film under discussion: animated and documentary films (short and feature-length), and full-length feature films. In 2010, most state support for production was received by short documentaries and feature-length animated films: on average, 62% and 52% per film respectively. The average state share in the financing of full-length feature films amounted to less than 40% of their budgets.

Table 8. Comparison of budgets and amount of state support received for films completed in 2010 (arithmetic mean)[58]

	Short films	Full-length films
Animated films	51.7%	51.8%
Feature films	n/a	38.1%
Documentary films	62.0%	40.0%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

The relatively low levels of state support for Russian films in 2010 were caused by the residual influence of the financial crisis on the film industry in Russia and a reduction in state financing of film.

However by 2011, the share of state involvement in the production of Russian films of various types had increased significantly. Most support was again given to feature-length animated films and short documentaries: 93% and

[57] Due to the high level of uncertainty, the amount of investment in film production in 2011 cannot be determined.
[58] Only those films which received state support for their production are included.

70% of their budgets respectively. Each feature film received, on average, half of its financing from the state.

Table 9. Comparison of budgets and amount of state support received for films completed in 2011 (arithmetic mean)[59]

	Short films	Full-length films
Animated films	57.7%	92.6%
Feature films	n/a	51.7%
Documentary films	69.7%	67.5%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

In H1 2012, most state support (in relation to the total production budget of films in the relevant category) was received by both short and feature-length documentaries: 70% and 83% per film respectively. As before, state support for animated films remained high, making up 72% of the budgets of short films of that type.

Table 10. Comparison of budgets and amount of state support for films completed in H1 2012 (arithmetic mean)[60]

	Short films	Full-length films
Animated films	72.3%	0.0%
Feature films	n/a	52.8%
Documentary films	70.2%	78.9%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

At the same time, if *the entire amount invested in film production by type of film*[61] is taken into account, the share of public funds in the industry is lower, especially in feature-length film production: in 2010, state support came to just over 10% for animated films, 18% for feature films, and 37% for documentaries.

Table 11. Share of state support as a proportion of total investment in all films completed in 2010

	Short films	Full-length films
Animated films	51.2%	10.3%
Feature films	-	18.0%
Documentary films	46.7%	37.1%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

In 2011, state support declined for the production of animation (to 6% for feature-length films and 32% for short films), but rose for the production of full-length feature films and documentaries (to 24% and 65% respectively). The data for 2011 is insufficient to allow category-based evaluations of these changes.

Table 12. Share of state support as proportion of total investment in all films completed in 2011

	Short films	Full-length films
Animated films	32.1%	6.1%
Feature films	-	24.2%
Documentary films	26.7%	65.4%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

[59] Only those films which received state support for their production are included.
[60] Only those films which received state support for their production are included
[61] To calculate this indicator, for each type of film production, the total amount of state support is divided by the amount of investment.

In H1 2012, the share of state support came to 73% for short animated films (there were no feature-length animated films completed with state support during the period), 62% for short documentaries, and 55% for feature-length documentaries; in the production of full-length feature films, the share of state support reached a record high of 42.8%.

Table 13. Share of state support as proportion of total investment in all films completed in H1 2012

	Short films	Full-length films
Animated films	73.4%	0.0%
Feature films	-	42.8%
Documentary films	62.4%	54.5%

Sources: Ministry of Culture, Cinema Fund, company data, open sources, Nevafilm Research

Thus, notwithstanding the growing share of state financing and the creation of the Cinema Fund, a large number of films are funded by production companies and private investors. This is particularly the case for feature films and feature-length animated films, where the share of state support for production is lower than for other types of films.

3.1.2 Principal trends

In 2010, the Russian economy was still in crisis. Nevertheless, it is worth noting a number of changes in production company ownership. In March 2010, Timur Weinstein's young production company WeiT Media sold a controlling interest to Endemol, a world leader in TV entertainment programme production: according to the conditions of the deal, co-investment in projects and joint decision-making on strategic issues is expected. Moreover, WeiT Media obtained exclusive rights to use Endemol's library in Russia and the CIS; and in turn, Endemol became the overseas distributor for WeiT Media's Russian projects.

The merged company composed of Alexander Rodnyansky's AR Films and Sergey Melkumov's Non-Stop Production, which was created in the autumn of 2009 to produce television and feature-length films, announced its acquisition of 51% of the shares of distribution company Cinema without Frontiers on 1 March 2010.

Amongst the key events in the Russian film industry in 2011, two trends should be noted: the energization of the financial world, and the impact of international events on the Russian market.

In 2011, for the first time since the global economic crisis began, financial institutions started to show interest in the film production. Two news items were announced at the St. Petersburg International Economic Forum in June. Sistema, in conjunction with insurance company European Film Bonds, began to provide Russian producers with completion bond services. The first service of this type was launched by PIF Kinofond and Film Finance Rus in 2007, although their activities came to a halt in 2009 due to the crisis. BFG Media Production, a fixed term film production investment fund, met a similar fate. However, at the St. Petersburg International Economic Forum, Bazelevs and Troika Dialog presented a new film investment fund, Troika Dialog 3D; its first project was *Kikoriki*.

Another notable event in the financial arena was the intention of Sberbank and ING to provide Russian World Studios with RUB 1.2 billion in credit, secured against the rights to its video content library. This practice of issuing credit may radically change the situation in the Russian film industry, as it would facilitate the development of a system for financing film production based on loans to producers secured by their intellectual property.

An important event in 2011 was the entry of AR Films onto the international film market: the première of Billy Bob Thornton's film *Jayne Mansfield's Car*, co-produced by Alexander Rodnyansky, took place at the Berlin International Film Festival; the company's plans for the near future include the production of six more films in the US. AR Films also acquired German film production and distribution company A Company.

At the same time, in September, the management of Walt Disney Studios announced its decision to stop film production in the national languages of China, Russia, and the Middle East; the Russian branch of the studio is certain that the production of television films will continue, for the purpose of keeping the Russian federal Disney channel on air. Disney began broadcasting on the channel previously used by Semyorka at the beginning of 2012. Thus, *Kniga Masterov [The Book of Masters]*, which was shown in cinemas in 2009, turned out to be the studio's only film shot in Russian.

3.1.3 Players

Ranking of Russian film production companies by number of films

The most active film production companies[62] according to the results for 2010–H1 2012 were the Centre of National Film, the St. Petersburg Documentary Film Studio, and Lennauchfilm, which released the largest number of films. All of the abovementioned studios specialize in the production of documentary films with a large proportion of state support.

According to our data, the largest investments in projects were made by production companies such as Golden Eagle, CTB, and Central Partnership. However, it is not possible to create a detailed ranking of production companies by total budgets of completed projects due to the fact that not all companies have provided financial data.

Table 14. Top 50 Russian film production companies by number of completed production projects in 2010–H1 2012

	Production company (film studio)	2010	2011	H1 2012	Overall
1	Centre of National Film, Centre of National Film-Anima	26	22		48
2	St. Petersburg Documentary Film Studio	20	11	12	43
3	Lennauchfilm	9	11		20
4	SNEGA	10	3	6	19
5	Gorky Film Studio	2	5	11	18
6	Master-Film	5	6	7	18
7	Dalnevostochnaya Kinostudiya	5	4	7	16
8	CTB	6	7	3	16
9	Sverdlovsk Film Studio	11	3	2	16
10	Valday		9	5	14
11	Province Fund (Master-Film)	5	4	5	14
12	Risk Film and Video Studio	4	9		13
13	All-Russian State Institute of Cinematography (VGIK)	1	10	1	12
14	Paradjanof Film Studio	4	4	3	11
15	Animose Studio	6	4	1	11
16	Studiya Produserskogo Kino	5	6		11
17	Rock Films	3	5	1	9
18	Horosho Production	3	6		9

[62] In cases where films were co-produced, the number of films produced was calculated for each producer.

	Production company (film studio)	2010	2011	H1 2012	Overall
19	Master	4	5		9
20	Kazan Film Studio	5	4		9
21	CVART Video Studio	4	1	3	8
22	Central Partnership	2	5	1	8
23	Rezonans	3	5		8
24	Granat Film Studio	4	4		8
25	West-Siberian Film Studio	4	4		8
26	Sovinfilm	4	4		8
27	AS/DS Film Company	2	1	4	7
28	St. Petersburg State University of Film and Television		5	2	7
29	Paradise	2	5		7
30	Sirius	2	5		7
31	Rossfilm	3	4		7
32	A-Film	4	3		7
33	Lotos Vizhn	4	3		7
34	Russian Central Documentary and Educational Film and Video Studio	6	1		7
	ATK-Studio	2	2	2	6
36	Uralfilm	2	2	2	6
37	Interfest (Real-Dakota)	3	1	2	6
38	Orel Production Company	3	2	1	6
39	SM-Film	3	2	1	6
40	Stella Studio	3	2	1	6
41	Lenfilm	4	1	1	6
42	Harmony Studio	2	4		6
43	DIK	2	4		6
44	Iskra	2	4		6
45	Mordovia-Film	2	4		6
46	KinoArtel	3	3		6
47	Klio-XXI Film Studio	3	3		6
48	Magafilm	3	3		6
49	Rakord	3	3		6
50	Cine-Pro	3	3		6

Sources: company data, The Ministry of Culture, Cinema Fund, Nevafilm Research, open source publications

Classification of Russian film production companies

Companies involved in film production market include production centres and independent production companies; state, private, and public–private film studios; and studios at institutions of higher education specializing in film. In all, as at mid-2012, the Russian market has about 460 film production companies.

Table 15. Players involved in Russian film production

Type	Largest representatives (by number of projects completed in 2010–H1 2012)	Main market segments
Production companies designated as leaders in the film production industry and eligible for Cinema Fund support (2010–2012)	CTB, Rock Films, Central Partnership, Interfest (Real-Dakota), AR Films (Non-Stop Production), Bazelevs (TABBAK), Igor Tolstunov Production Company (PROFIT), Rekun Cinema, Studio Trite, Art	feature films

Type	Largest representatives (by number of projects completed in 2010–H1 2012)	Main market segments
	Pictures Studio, Koktebel, Direktsiya Kino	
Independent production companies	Paradise, Orel, Stella Studio, Star Media, Leopolis, Enjoy Movies, Kvadrat Film, VVP-Alyans, Zolotoi Vek, Metronome Films, Slovo. Novyy vek	feature films
	SNEGA, Master-Film (Province Fund), Risk Film and Video Studio, Paradjanof Film Studio, Studiya Produserskogo Kino, Horosho Production, Rezonans, A-Film, SM-Film	documentary films
	Animose Studio, A. Tatarsky's Pilot Moscow Animation Studio	animated films
State-owned film studios	Mosfilm, Lenfilm	feature films
	Centre of National Film, St. Petersburg Documentary Film Studio, Lennauchfilm, Kazan Documentary Studio, West-Siberian Studio	documentary films
Public–private partnerships	Gorky Film Studio, Sverdlovsk Film Studio (Strana)	Feature and documentary films
Private film studios	Amedia, Russian World Studios (RWS)	feature films
	Dalnevostochnaya Kinostudiya	documentary films
Universities	The All-Russian State Institute of Cinematography (VGIK), St. Petersburg State University of Film and Television	educational films

Sources: company data, The Ministry of Culture, Cinema Fund, Nevafilm Research, open source publications

Principal players in Russian film production with films in theatrical distribution

This list includes Russian production companies whose films showed the best results in Russian distribution from 2010–H1 2012, as well as leading production companies which received support from the Cinema Fund for that period. The 'Number of films' heading indicates the number of the company's projects completed in 2010–H1 2012.

AR Films (Non-Stop Production)
Websites: http://www.a-r-films.com, http://www.nonstop-kino.ru/
Year founded: 2009
Number of films: 4
Principal producer: Alexander Rodnyansky, Sergey Melkumov
Additional company activities: theatrical distribution

Art Pictures Studio
Website: http://www.art-pictures.ru/en/
Year founded: 1992

Number of films: 2
Principal producer: Fyodor Bondarchuk, Dmitry Rudovsky
Additional company activities: –

Enjoy Movies
Website: http://enjoy-movies.ru/
Year founded: 2010
Number of films: 4
Principal producer: Georgy Malkov
Additional company activities: -

Organic Films
Website: http://www.organicfilms.ru/
Year founded: 2009
Number of films: 3
Principal producer: Ekaterina Gerasicheva
Additional company activities: theatrical distribution

Bazelevs (TABBAK)
Website: http://www.bazelevs.ru/
Year founded: 1994
Number of films: 4
Principal producer: Timur Bekmambetov
Additional company activities: theatrical distribution

Direktsiya Kino
Website: -
Year founded: 2006
Number of films: 1
Principal producer: Anatoly Maximov
Additional company activities: -

Interfest (Real-Dakota)
Website: http://www.interfest.ru/
Year founded: 1975
Number of films: 6
Principal producer: Renat Davletyarov
Additional company activities: organizing and holding international and Russian film festivals in Russia and abroad

Koktebel
Website: http://www.koktebelfilm.ru/
Year founded: 2003
Number of films: 2
Principal producer: Roman Borisevich
Additional company activities: -

CTB film company
Website: http://en.ctb.ru/
Year founded: 1992
Number of films: 16
Principal producer: Sergey Selyanov
Additional company activities: theatrical distribution

Leopolis
Website: http://www.leopolis.ru/
Year founded: 2007
Number of films: 5
Principal producer: Sergey Livnev, Lev Nikolau
Additional company activities: -

Melnitsa Animation Studio
Website: http://melnitsa.com/#/en/
Year founded: mid-1990s
Number of films: 3
Principal producer: Sergey Selyanov
Additional company activities: -

Monumental Pictures
Website: http://www.monumental-pictures.ru/
Year founded:
Number of films: 3
Principal producer: Michael Schlicht
Additional company activities: -

PROFIT (Igor Tolstunov Production Company)
Website: http://www.profitkino.ru/
Year founded: 1995
Number of films: 4
Principal producer: Igor Tolstunov
Additional company activities: -

Paradise Productions
Website: http://www.paradisegroup.ru/production/?lang=en
Year founded: 2003
Number of films: 7
Principal producer: Gevorg Nersesyan, Armen Manasaryan
Additional company activities: theatrical distribution, exhibition

Rekun Cinema
Website: http://www.racooncinema.com/
Year founded: 1996
Number of films: 3
Principal producer: Ilya Neretin
Additional company activities: -

Riki Group (Riki Media)
Website: http://www.riki-group.com/
Year founded: 2003
Number of films: 1
Principal producer:
Additional company activities: game production, publishing, merchandising

Studio Trite
Website: http://www.trite.ru/
Year founded: 1987
Number of films: 2
Principal producer: Nikita Mikhalkov, Leonid Vereshchagin

Additional company activities: -

Rock Films
Website: http://rockfilm.ru/en/
Year founded: 1991
Number of films: 9
Principal producer: Alexey Uchitel
Additional company activities: -

Central Partnership
Website: http://www.centpart.ru/en
Year founded: 1996
Number of films: 8
Principal producer: Mark Lolo
Additional company activities: theatrical and TV distribution

Centre of National Film
Website: http://www.cnf.ru/
Year founded: 1933
Number of films: 48
Principal producer: Karen Shakhnazarov
Additional company activities: -

3.2 Current state of Russian film production infrastructure

3.2.1 Industry structure

Companies operating in film production across the Russian Federation may be categorised according to the functions they fulfil:

- Film studios (private and state-owned);
- Service companies (all of which are private).

As a rule, film studios also perform the functions of production centres. At the same time, state studios engaged in this type of business activity do not necessarily generate significant revenues, while private studios place greater emphasis on producing TV shows.

Film studios

Based on 2011 figures, Russia's film production capacity includes more than 100 sound stages. The four largest film studios (Amedia, Mosfilm, and two amalgamated companies: My Studio and Cinelab in Moscow, as well as Moscow's Centre of National Film and St. Petersburg's Lennauchfilm) have between nine and 16 sound stages.

Table 16. Russia's 10 largest film studios by number of sound stages in 2012

No.	Studio	Location	Number of sound stages	Sound stages by size in m^2				Number of location sets	Number of chroma key studios
				under 400	400–800	800–1,000	>1,000		
1	Amedia	Moscow	16	3	7	4	2	1	2
2	Mosfilm	Moscow	13	4	3	3	3	3	1
3	Cinelab and My Studio	Moscow	11	-	2	3	6	-	1
4	Centre of National Film and Lennauchfilm	Moscow, St. Petersburg	9	5	4	-	-	1	2
5	Russian World Studios	St. Petersburg	6	2	4	-	-	-	1
6	Gorky Film Studio and United Multimedia Projects (UMP)	Moscow	5	-	4	-	1	-	1
7	Novella Group (Creative TV Association [TV-Film])	Moscow	5	-	-	5	-	-	-
8	Kinofabrika No. 2	Moscow	4	1	2	-	1	-	1
9	Lenfilm	St. Petersburg	3	-	2	1	-	-	1
10	Magic Film	Moscow	3	-	2	-	1	-	2

Sources: Company data, open source publications, Nevafilm Research

Virtually all major film studios also offer camera, sound, and lighting rentals, along with a selection of sets, costumes, props, and post-production services. The leading companies in the sector are Mosfilm, Amedia, and the partnership between Cinelab and My Studio. Mosfilm is the oldest state-owned film studio, while the private Amedia (part of Leonard Blavatnik's Access Industries group), and Cinelab were created in the early 2000s.

The majority of state-run film studios (with the exception of Mosfilm) have ageing equipment. They require modernization and an up-to-date approach to business processes. As the majority of regional state-owned film studios are involved with production oftheir own documentary films, they have very poor production facilities and do not provide services to third parties, and, in some cases, they do not even have a website that would allow researchers to assess their production capacity.

There are, however, cases in which a state-run studio, in collaboration with outside companies, can develop modern post-production services. At the Gorky Film Studio, for example, a new post-production complex from United Multimedia Projects (UMP) is in operation, and the Sverdlovsk Film Studio works together with Strana Production Company. Private companies in the sector are also combining their efforts: in 2011, the owner of My Studio became a partner of Cinelab, a post-production service company. Thus, there is consolidation in the Russian film production services market; also, the range of public and private partnerships is expanding.

In 2012, a number of changes took place in the structure of Russian film studios. In August, Sistema was forced to turn down the chance to merge with Lenfilm; its parent company, RWS, then closed down its studio in Moscow[63]. The company also abandoned its plans to build the second stage of its studio in St. Petersburg due to lack of demand.

Table 17. Services provided by Russian film studio complexes

No.	Film studio	Ownership	Production stage								Post-production stage							Total number of services
			Sound stages	Cameras	Camera equipment	Light	Sound	Transport	Props	Set design	Film processing	Film editing	Recording studio	Computer graphics	Telecine	Film printing	Digital mastering, DCP, KDM	
1	Mosfilm	state	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	15
2	Gorky Film Studio and United Multimedia Projects (UMP)	state/ private	+	+	+	+	+		+	+	+	+	+	+	+	+	+	14
3	Cinelab and My Studio	private	+	+	+	+		+	+	+	+	+	+	+	+	+	+	14
4	Centre of National Film and Lennauch-film	state	+	+	+	+	+	+	+	+	+	+	+	+	+		+	14
5	Lenfilm	state	+	+	+	+	+	+	+	+		+	+	+	+			12
6	Sverdlovsk Film Studio and Strana	state/ private	+	+	+	+	+	+	+	+		+	+	+				11

[63] 'Vladimir Yevtushenkov's Plans to Build Russian Hollywood Fall Apart', *Vedomosti*, 6 September 2012

No.	Film studio	Ownership	Production stage								Post-production stage							Total number of services
			Sound stages	Cameras	Camera equipment	Light	Sound	Transport	Props	Set design	Film processing	Film editing	Recording studio	Computer graphics	Telecine	Film printing	Digital mastering, DCP, KDM	
7	St. Petersburg Documentary Film Studio	state	+	+	+	+	+		+	+		+		+			+	10
8	Amedia	private	+	+	+	+	+		+	+		+	+		+			10
9	YUGRA-Film	private	+	+	+	+	+					+	+					7
10	Novella (former Creative TV Association [TV-Film])	private	+	+	+	+				+		+	+					7
11	Russian World Studios	private	+	+	+	+	+	+	+	+		+	+	+				6
12	Magic Film	private	+			+				+				+				4
13	Kinofabrika No. 2	private	+			+			+	+								4
14	SL-Studio	private	+	+	+	+												4
15	Donskaya 32 (Pavilion Production)	private	+							+								2
-	N. Minervin Krasnodar Film Studio (Krasnodar)	private																n/a
-	West Siberian Film Studio (Novosibirsk)	state																n/a
-	Dalkino-studiya, Newsreel Studio (Khabarovsk)	state																n/a
-	North Caucasus Newsreel Studio (Vladikavkaz)	state																n/a
-	Russian Central Film and Video Studio for Newsreels, Documentaries, and Educational Films (Moscow)	state																n/a
-	Dalnevostochnaya Kinostudiya (Khabarovsk)	private																n/a
-	Kazan Film Studio (Kazan)	state																n/a
-	Nizhne-Volzhskaya Newsreel Studio (Saratov)	state																n/a
-	Rostov Film Studio	state																n/a
	Overall		**15**	**12**	**12**	**14**	**9**	**6**	**10**	**13**	**5**	**11**	**10**	**9**	**6**	**3**	**5**	

Sources: Company data, open source publications, Nevafilm Research

Production service companies

Service companies are firms which provide film production services but do not have their own sound stages. They are all private, and are located in Moscow and St. Petersburg. The most widely represented services in the market are editing and computer graphics (provided by about 15 companies), as well as production and lighting equipment rentals (14 companies). At the same time, there is a severe shortage of film print production services, which are provided by just one independent service company (Salamander); there is also a film printing laboratory at Mosfilm, as well as two which work in conjunction with United Multimedia Projects (UMP) and My Studio (Cinelab). Moreover, the market is experiencing a dynamic transition to digital film exhibition technologies. In connection with this, film print laboratories are becoming less important, and the role of digital mastering and distribution is growing more prominent: in 2011, there were already five among the independent service companies and five among the film studios (or the service companies associated with them).

Table 18. Services provided by Russian service companies

No.	Service company	Production stage							Post-production stage							Total number of services
		Cameras	Camera equipment	Light	Sound	Transport	Props	Set design	Film processing	Film editing	Recording studio	Computer graphics	Telecine	Film printing	Digital mastering, DCP, KDM	
1	Mentor Cinema	+	+	+	+	+				+	+	+				8
2	February 29	+	+	+	+					+		+			+	7
3	Studio VEK	+	+	+						+	+	+				6
4	Salamander								+		+		+	+	+	5
5	Art Vecher Film	+	+	+						+	+					5
6	Rumedia (Danian Film)	+	+	+		+				+						5
7	Rentacam	+	+	+		+										4
8	Bogdan i Brigada	+	+	+		+										4
9	X-Ray	+	+	+		+										4
10	Cinematronic Studio	+	+	+								+				4
11	Kinoprogramma XXI Vek (21st Century Cinema Programme)	+	+	+						+						4
12	Izarus-Film					+				+	+					3
13	IMT Group		+	+		+										3
14	AST	+	+	+												3
15	Cinelex									+		+			+	3
16	Kvadrat	+					+			+						3
17	Russian Film Group									+	+	+				3
18	HHG	+		+						+						3
19	Narti Movies		+	+						+						3
20	Bazelevs Production									+	+	+				3
21	Cinemateka									+		+				2
22	Nevafilm										+				+	2

No.	Service company	Production stage							Post-production stage							Total number of services
		Cameras	Camera equipment	Light	Sound	Transport	Props	Set design	Film processing	Film editing	Recording studio	Computer graphics	Telecine	Film printing	Digital mastering, DCP, KDM	
23	Central Production International Group										+				+	2
24	Melnitsa Animation (Midi Cinema's animation studio)										+	+				2
25	PS TVC									+		+				2
26	New Wave Production	+								+						2
27	Star Media				+	+										2
28	Rosar Multimedia (BS Graphics Production)											+				1
29	Studio My											+				1
	Overall	**14**	**13**	**14**	**3**	**8**	**1**	**0**	**1**	**16**	**10**	**12**	**1**	**1**	**5**	

Sources: Company data, open source publications, Nevafilm Research

Prices for film studio services in Russia

With regard to the pricing policy among Russian film studios and service companies, detailed data are not usually readily available. For this reason, the price of equipment and services on offer can only be analysed for a limited number of companies. We took eight price lists, from which comparable items of equipment and models were selected. The data obtained indicate that, as a whole, the price levels throughout Russia are very similar; any significant differences relate to the material and technical condition of the equipment. At the same time, the low price of one item at a given company is usually compensated for by the high prices of other items.

Table 19. Examples of prices for film production equipment at Russian film production companies in 2012

No.		Equipment	Equipment brands and technical characteristics	Company								Average cost per day, RUB
				Cinelab	Cinemat-ronic Studio	X-Ray	AST	Bogdan i Brigada	Gorky Film Studio	Sverdlovsk Film Studio	Midi Cinema	
				Price per day, RUB								
1	**Cameras**	Cameras	MOVIECAM SL						21,240	20,500		20,870
			Ariflex 435	8,500		9,912	18,000			8,850		11,316
			Ariflex BL			6,608	4,800					5,704
			Arricam Studio	27,000			37,100					32,050
2	**Camera equipment**	Dollies	Magnum		6,000		5,400		5,000	4,720		5,280
			Goblin			2,100			2,000			2,050
3		Cranes	2.5–4 m			7,000	5,400		3,100			5,167
			4–6 m			9,000	7,500					8,250
			8 m		27,000				25,000			26,000
			10 m		35,000	34,000						34,500
4		Power generators	6 KW					1,500		1,770		1,635
			10 KW					4,000		4,720		4,360
5	**Light**	Lighting apparatus	Dedolight 150 W 24 V			1,500	1,200			826		1,175
			HMI (18 KW)			6,000	6,000	10,000		8,260		7,565
			Tungsten (2 KW)				450			732		591
6	**Sound**	Recorder	EDIROL R4 pro					500		1,003		752
		Boom microphone						800		590		695
		Stands						100		118		109
		Mixing boards	16CH Soundcraft					1,000		354		677
		Amplifier	RAM audio					1,500				1,500
		Subwoofer	Das Audio					1,000				1,000
7	**Auxiliary equipment**	Smoke machine						1,500		1,416		1,458
		Chromakey	20′ x 30′ format		3,000			2,250				2,625

No.		Equipment	Equipment brands and technical characteristics	Company								Average cost per day, RUB
				Cinelab	Cinemat-ronic Studio	X-Ray	AST	Bogdan i Brigada	Gorky Film Studio	Sverdlovsk Film Studio	Midi Cinema	
				Price per day, RUB								
		Frame	20' x 20' format			900		600		142		547
		Soft goods	20' x 20' format			600		500		47		382
		Reflector						300		66		183
8	**Film editing**	Digital film editing									8,800	8,800
		Video dubbing									20,800	20,800
		Dubbing									33,600	33,600
		Encoding									33,600	33,600

Source: company websites, Nevafilm Research

Leaders in the Russian film production services market

There are several market leaders by volume of projects produced in Russia's film production services market. Among the state-owned studios, these are:

- Mosfilm, which not only provides a full range of film production services, but also produces its own films; it provides services for the production of a minimum of 200 films per year;
- Gorky Film Studio, which merged with the production base of service company UMP in 2011 and shot no fewer than ten of its own films (documentaries, feature films, and animation) in the same year;
- Sverdlovsk Film Studio (Strana), which produced seven of its own documentary films in 2011;
- the conglomerate Centre of National Film and Lennauchfilm, which was the sector leader in terms of the number of documentaries made (20 projects in 2011);
- St. Petersburg Documentary Film Studio, which made 17 documentaries in 2011.

It is more difficult to identify the leader in volume of production among private film studios and film production companies as the relevant data, like price information, are rarely accessible, and project statistics may not be kept at all. Nevertheless, among the private studios, the following stand out: Star Media (which produced six of its own feature films in 2011), and Russian World Studios, Kvadrat, February 29, and Bazelevs (with three projects each).

New film studio construction projects

During 2006–2008, demand for modern film production capacity resulted in the appearance of many new film studio construction projects involving private investors. Typically, investors in this industry planned to make a return on their investment in these projects not only via the profit generated from renting out film studio space and selling some of the premises, but also from selling large commercial developments and residential real estate that were to be built in the immediate vicinity of these film studios. The boom in projects was stimulated primarily by dissatisfaction with the level and price of the services already offered (the majority of such projects were initiated by production companies). There was also a need for new technology, while the industry had to compensate for the shortage of human resources by training people on the job. However, at present, the fate of the majority of film studio construction projects slated for 2008–2009 is unknown: it is likely that they have been frozen. The difficult financial and economic environment, among other things, has made it impossible to further develop many of the investment projects. This increases the significance of those projects that are currently in an active stage of development (if they are eventually implemented): the plans for Lenfilm XXI and Glav-kino were announced in 2011.

St. Petersburg-based Lenfilm XXI was initially conceived as a project by the All-Russia State Television and Radio Broadcasting Company and Russian World Studios (Sistema). The companies were planning to obtain loans from state banks amounting to USD 110–120 million to finance the project. However, this project did not receive the support of the film community, and in September 2012 a decision on the fate of Russia's oldest studio was handed down by the Ministry of Culture at a public hearing. Not long before the hearing, Sistema officially declined to participate in the restoration of Lenfilm, citing the high cost to its reputation[64], and two concepts remained on the agenda: one from the

[64] 'Lenfilm for Two', www.vedomosti.ru, 10 September 2012

studio's Board of Directors; the second put forward by Lenfilm's Community Board. In the end, the Ministry of Culture and the Federal Agency for State Property Management supported the Board of Directors' project, which proposed retaining the studio as state property, and keeping it in its current location. This concept proposes concentrating the main production and post-production services on the studio's four pre-existing sound stages in the centre of St. Petersburg. The studio's development should be funded through commercial credit and private partners for the construction of new sound stages and management of the site's infrastructure. Necessary investment in the project is estimated at RUB 1.5 billion.[65] Eduard Pichugin has been appointed as General Director. The programme to restore Lenfilm is scheduled to last three years, although the project's management expects major changes to have taken place by the end of 2013. The intention is not only to revive the legendary studio complex, but to attract Russian and foreign partners for participation in co-productions[66].

Moscow-based Glav-kino is officially scheduled to open before the end of 2013, but one Comedy Club project is already being filmed there. By February 2012, 22,000 m^2 of the area had been opened (including all sound stages) out of a total 33,000 m^2. The studio has five co-owners: private investor Vitaly Golovachev has a 50% stake; 16.67% is owned by Channel One Director General Konstantin Ernst and Uralsib Bank owner Nikolay Tsvetkov's Meta Foundation; 16.8% is held by director Fyodor Bondarchuk; and 5% by the studio's General Director, Ilya Bachurin. VTB Bank was also a co-owner, but left the project in 2009 while agreeing to continue to finance it. The bank issued Glav-kino loans amounting to RUB 2.7 billion, or around USD 84 million. Of these, RUB 919 million were loaned at an annual interest rate of 9.75%, while RUB 1.78 billion were loaned at a rate of 10.25%. The loans are to be repaid by 31 December 2018, and land, shares, and other studio assets are in place as collateral. According to preliminary forecasts, these investments will break even 12 years after the start of construction. Glav-kino will become the largest studio in Russia in terms of sound stage area (almost 12,000 m^2). The company has announced that 70–80% of the new studios will be used for television projects.

In Moscow, it is difficult to find a site that has good transport access at an affordable price to start a new studio construction project from scratch. This forces developers to look for alternative solutions: the majority of the projects which have been announced are set to be implemented in Moscow's suburbs, as well as in other Russian cities. For example, in mid-2012, the Ministry of Culture of Moscow Region announced plans to build a 'Russian Hollywood' (to be known as 'Kollywood') in Kolomna on the grounds of a former silk mill[67]. Investment in the project will exceed RUB 300 million, and it is planned that the finished sound stages will be used by young filmmakers and for tours (once the studio starts shooting 'significant' films).

Moreover, the Ministry of Culture of Perm Territory has come to an agreement with Permkino to develop the film industry in the region during 2013–2014[68]. In order to implement these plans, a Perm Film Commission will be set up to attract to the region feature film and documentary projects by Russian and foreign investors . Whether a separate film studio for these purposes will be built remains an open question, as generally the plans are to implement projects using production capacities already in existence in the region[69].

[65] 'The Future of Lenfilm', Ksenia Boletskaya, *Vedomosti*, 26 September 2012
[66] 'All Speculation on Lenfilm in the Past', www.izvestia.ru, 17 October 2012
[67] 'Russian Analogue of America's Hollywood to Appear in Kolomna', www.realestate.ru, 3 July 2012
[68] 'Film Commission to Attract Russian and Foreign Production Projects Forming in Perm', www.chitaitext.ru, 17 July 2012
[69] 'Filming to Occur in Perm', *Kommersant Vlast*, №29 (983), 23 July 2012

Table 20. New film studio construction projects in Russia

No.	Studio	Location	Total area (hectares)	Infrastructure	Investments (millions of RUB)	Development phase
1	Glav-kino[70]	Moscow Region (Glukhovo)	8	Hotels, trade centre, offices, workshops, garages	9,000	conclusion
2	Kollywood	Moscow Region (Kolomna)	3.5	Hotel, hostels, restaurants, cinema, film school	300	project planning, negotiations
3	Lenfilm	St. Petersburg	4.1 (10,550 m^2 – new transforming stage)	Hotel, restaurant, museum complex, excursion centres	1,500	project planning
4	Mediapark[71]	Moscow Region (Konstantinovo)	140 (60,000 m^2 – production stages)	Theme park, residential area	42,000	frozen

Source: open source publications

The total amount of investment announced in the construction of filming complexes comes to approximately RUB 53 billion. The number of planned sound stages is near to 40, and the total area of the filming complexes, including the accompanying infrastructure and amusement parks, will exceed 155 hectares. Thus, all the projects on the table have the potential to substantially increase Russia's current production capacity. Most importantly, they are all aimed at increasing public interest in film production by locating film studios near hotels, residential complexes, and shopping malls, and through developing the cultural, educational, and recreational aspects.

Industry insiders speculate that demand exists for a single modern film studio in the south of the country. It should provide extensive opportunities for location shooting and for staging marine shoots. There may also be a need for a new modern film studio in central Russia[72]. at present the only southern film studio is the Yalta Film Studio in the Ukraine. However the unstable political situation in Ukraine precludes using studio on a regular basis. At the same time, in the south, where periodically there are plans to build a 'Russian Hollywood', there is no serious training base for film professionals: Krasnodar State University of Culture and Arts is the only institution preparing directors and operators in the region, and educational programmes in Sochi are held only as part of the Kinotavr festival.

Due to the high cost of land and serious traffic problems, Moscow is less feasible for shooting. However, a new studio in a different city would be chosen ahead of any studio in Moscow only if it offered the full range of services. That factor in particular is the main requirement for developing any new film studio.

The rapid development of digital technologies is also having a negative impact on the work of Russian film studios. In the words of Mosfilm Director General Karen Shakhnazarov, many studios may very soon be on the verge of closure, as largescale sets and sound stages are required mainly for the shooting of large historical films, and these are rarely made.[73] For now, large studios, including Mosfilm, are addressing this problem by attracting television projects that need to use these stages.

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[70] 'Uralsib Directs Glav-kino', Olga Goncharova, Halil Aminov, *Kommersant* № 130/P (3947), 28 July 2008.
[71] 'Eurasia City Cuts Back Cinema', *Kommersant* № 210 (4027), 19 November 2008.
[72] Public report on the state of the Russian film industry, its capabilities and development prospects to 2015. Drafted on the basis of results of the Conference-Forum of the cinematographic community, Russian Film Industry 2008: Announcing the Future, Moscow, 25 August 2008.
[73] 'Large Studios Face Serious Crisis', *RIA Novosti*, 17 August 2012

3.2.2 Principal players in the film production services market in Russia

Film studios

Amedia (Media City)
Websites: http://www.media-city.ru, http://www.amediafilm.com
City: Moscow
Year founded: 2004
Form of ownership: private

N. Minervin Krasnodar Film Studio
Website: -
City: Krasnodar
Form of ownership: private

Russian World Studios
Website: http://www.rwstudio.com
City: St. Petersburg
Year founded: 1998
Form of ownership: private

Glavkino
Website: http://glavkino.ru/en
City: Moscow
Year founded: 2012
Form of ownership: private

Novella Group (Television Creative Association, TV-Film)
Website: http://www.tto.ru
City: Moscow
Year founded: 2000
Form of ownership: private

Donskaya 32 (Pavilion Production)
Website: http://donskaya32.ru
City: Moscow
Year founded: n/a
Form of ownership: private

Gorky Central Film Studio of Youth and Children's Films
Website: http://www.gorkyfilm.ru
City: Moscow
Year founded: 1915
Form of ownership: Open Joint Stock Company (OAO) with 100% state capital

Kinofabrika No. 2
Website: http://donskaya32.ru/-
City: Moscow
Year founded: n/a
Form of ownership: private

Lenfilm
Website: http://www.lenfilm.ru
City: St. Petersburg
Year founded: 1908
Form of ownership: Open Joint Stock Company (OAO) with 100% state capital

Mosfilm Film Concern
Website: http://www.mosfilm.ru
City: Moscow
Year founded: 1920
Form of ownership: state

Magic Film
Website: http://www.magicfilm.ru
City: Moscow
Year founded: 2006
Form of ownership: private

Nizhne-Volzhskaya Newsreel Studio
Website: -
City: Saratov
Year founded: n/a
Form of ownership: state

West-Siberian Film Studio
Website: http://www.magicfilm.ru/-
City: Novosibirsk
Year founded: n/a
Form of ownership: state

Kazan Film Studio
Website: http://www.magicfilm.ru/-
City: Kazan
Year founded: n/a
Form of ownership: state

North Caucasus Newsreel Studio
Website: http://www.magicfilm.ru/-
City: Vladikavkaz
Year founded: n/a
Form of ownership: state

Joint Cinelab and My Studio
Websites: http://www.mystudio.su, http://www.cinelab.ru
City: Moscow
Year founded: 2001
Form of ownership: private

Far-Eastern Film Studio
Website: http://www.magicfilm.ru/http://vk.com/dvkinost
City: Khabarovsk
Year founded: n/a
Form of ownership: private

St. Petersburg Documentary Film Studio
Website: http://www.magicfilm.ru/http://www.cinedoc.ru
City: St. Petersburg
Year founded: n/a
Form of ownership: state

Sverdlovsk Film Studio and Strana
Website: http://www.stranamedia.com
City: Ekaterinburg
Year founded: 1943
Form of ownership: state/private

SL-Studio
Website: http://www.magicfilm.ru/-
City: Moscow
Year founded: n/a
Form of ownership: private

TeleCity
Website: http://www.magicfilm.ru/http://www.telealliance.ru
City: Moscow
Year founded: 2007
Form of ownership: private

Rostov Film Studio
Website: http://www.magicfilm.ru/-
City: Rostov-on-Don
Year founded: n/a
Form of ownership: state

Russian Central Film and Video Studio for Newsreels, Documentaries, and Educational Films
Website: http://www.magicfilm.ru/-
City: Moscow
Year founded: n/a
Form of ownership: state

Dalkinostudiya, Newsreel Studio
Website: http://www.magicfilm.ru/-
City: Khabarovsk
Year founded: n/a
Form of ownership: state

Centre of National Film and Lennauchfilm
Websites: http://www.cnf.ru, http://lennauchfilm.ru
City Moscow, St. Petersburg
Year founded: 1933
Form of ownership: state

Yugra-Film
Website: http://www.ugra-film.ru
City: Khanty-Mansiysk
Year founded: 2003
Form of ownership: private

Service companies

February 29
Website: http://29f.org
Year founded: 2004
Principal focus of activities:
Organization of film production for TV and cinema as well as animated films; computer graphics and special effects; organization and execution of sound-stage and on-site filming; production of ads and video clips; editing and colouring work.

Art Vecher Film
Website: http://avecherfilm.com
Principal focus of activities:
Creation of low-budget digital films.

Cinelex
Website: http://cinelex.ru
Principal focus of activities:
Editing of films, trailers, music videos, and advertising clips; computer graphics; colour correction; project design; sound studio.

CineSoft
Websites: http://www.cinesoft.ru, http://cinemateka.ru
Year founded: 2009
Principal focus of activities:
Development of computer programs for media content production and distribution.

Cinematronic Studio
Website: http://cinematronic.ru
Year founded: 2003
Principal focus of activities:
Video production (advertising clips, presentation films, online video broadcasts), filming equipment rental.

HHG
Website: http://www.hhg.ru
Year founded: 1998
Principal focus of activities:
Commercial film and video production; organization and execution of filming; post-production; film promotion; organization of screenings; student film support; rental of film equipment; non-commercial and art activities.

New Wave Production
Website: http://www.nwp.tv
Year founded: 2009
Principal focus of activities:
Production of feature-length films, TV serials, and advertisements; project development; screenplay and treatment development; preparation and planning; the filming process; editing and colouring work; post-production; distribution and placement of visual products.

PS TVC
Website: http://pstvc.ru
Year founded: 1993
Principal focus of activities:
Television advertising clips, music clips, editing, casting, adaptation of advertising clips, radio spots, corporate films, circulation, animated images, computer graphics, DVD authoring.

Rumedia (Danian Film)
Website: http://www.ru-media.com
Year founded: 2006
Principal focus of activities:
Full cycle of film production and project implementation (TV serials, feature films, ad and music video clips, content for digital and cable TV channels).

Russian Film Group (RFG)
Website: http://www.russianfilmgroup.com
Principal focus of activities:
Production of feature and documentary films, TV programmes and animation, music and advertising clips; full range of post-production services (editing, computer graphics, voice-overs); distribution; acquisition and sale of rights to film, TV, and video productions; informational support for PR projects.

Star Media
Website: http://www.starmediafilm.com
Principal focus of activities:
Sales house for special projects; rental of equipment, transportation, costumes, and props.

X-Ray
Website: http://www.xraycompany.ru
Year founded: 2009
Principal focus of activities:
Providing a full set of services facilitating the filming process; equipment rental and sales.

ACT (Film Facilities Agency)
Website: http://www.actfilm.ru
Year founded: 1999
Principal focus of activity:
Filming equipment rental.

Bogdan i Brigada
Website: http://www.bogdanibrigada.ru
Year founded: 2000
Principal focus of activities:
Rental of filming equipment and transportation.

Bazelevs Group
Website: http://www.bazelevs.com
Year founded: 1994
Principal focus of activities:
The full film production cycle (producing, selection of outdoor scenes for filming, casting, technical facilitation of filming in Russia and abroad), a full range of

post-production services of any complexity (editing, voice-overs, computer graphics and animation, special effects for film and video).

Izarus-Film
Website: http://izarus.ru
Principal focus of activities:
Post-production services, transportation rental.

International Movie Technic (IMT)
Website: http://www.imt-group.ru
Principal focus of activities:
Lighting and operator equipment rental.

Kvadrat
Website: http://kvadratstudio.ru
Year founded: 2009
Principal focus of activities:
Rental of camera and editing equipment, costumes, props, weapons and historical machines, offices and screening hall; accounting and legal assistance for filming.

Kinoprogramma XXI Vek (21st Century Cinema Programme)
Website: http://www.kp21vek.ru
Year founded: 2000
Principal focus of activities:
Film and video production (feature, documentary, and presentation films, advertising clips), editing, equipment rental.

Nevafilm
Website: http://nevafilm.com
Year founded: 1992
Principal focus of activities:
Tonstudios in St. Petersburg and Moscow. Sound recording, dubbing into Russian and Ukrainian, Dolby soundtrack convergence and coding, production of digital cinema prints, mastering, packaging, DCP replication, managing film replay keys.

Midi Cinema Tonstudio (Melnitsa Animation Studio)
Websites: http://www.midicinema.ru, http://www.melnitsa.com
Year founded: 1992
Principal focus of activities:
Voice and sound recordings, background editing, FX creation and editing, TV dubbing, film dubbing, Dolby sound coding.

Mentor Cinema
Website: http://www.mentor-cinema.ru
Year founded: 1988
Principal focus of activities:
Rental of filming equipment, editing and colouring equipment and transportation.

ROSAR Multimedia holding
Website: http://www.rosarmedia.ru
Year founded: 2003
Principal focus of activities:
Creation of innovative media technologies (digital technologies); multimedia installations and 3D visualizations; development of new products for indoor advertising, shows, and special events.

Rentacam
Website: http://www.rentacam.ru
Year founded: 2004
Principal focus of activities:
Film equipment rental.

Salamandra Creative Laboratory
Website: http://www.salamandra.ru
Year founded: 1998
Principal focus of activities:
Modern technologies for film processing and digital image processing.

Studio VEK
Website: http://www.studiavek.ru
Year founded: 1994
Principal focus of activities:
Production and technical facilitation of films (feature films, documentaries, popular science films, ads, TV serials, etc.).

3.2.3 Industry development trends

Thus, as of mid-2012, there are more than 100 sound stages in operation in Russia. The majority of state-run film studios (with the exception of Mosfilm) have ageing equipment. They require modernization and an up-to-date approach to business processes. As many regional state-owned film studios are involved to varying degrees with production of their own documentary films, they have very poor production facilities and do not provide services to third parties. In 2011, approximately 70 sound stages were actually functioning.

At the same time, there are precedents for public–private partnerships in Russia: cases in which state-run studios, in collaboration with outside companies, develop modern centres for post-production, editing, and colouring services. At the Gorky Film Studio, for example, a new post-production complex from United Multimedia Projects (UMP) is in operation, and the Sverdlovsk Film Studio works together with Strana Production. Private companies in the sector are also combining their efforts. In 2011, the owner of My Studio became a partner of Cinelab, a post-production service company. There is therefore consolidation in the Russian film production services market; also, the range of public and private partnerships is expanding.

A large number of film service companies do not have their own sound stages. The majority of them are located in Moscow and St. Petersburg. Recently, due to the switch to digital technology, the significance of digital mastering and circulation studios, as well as the companies providing those services, is ever increasing.

The prices for domestic equipment and services offered by film studio complexes and service companies throughout Russia are more or less identical. Any significant differences are to do with the equipment’s material and technical condition. At the same time, the low price of one item at a given company is usually compensated for by the high prices of others. The average price for camera equipment ranges from RUB 2,000 to 35,000 per day, depending on the product. Prices for light, sound, and auxiliary equipment vary between RUB 1,000 and 7,000 per day. Digital editing services are offered by Russian film studios and service companies at an average price of RUB 8,000; the price of one day of dubbing can reach RUB 30,000.

Major shortcomings include the ageing film production base of state-run studios, as well as the gradual transition of to digital technology, which threatens the existence of large film studio complexes with large numbers of sound stages. These tend to be used for the production of TV content, as well as for large-scale films, of which there are relatively few. The market is also feeling the effect of the lack of qualified personnel in the regions, which is calling into question a so-called 'Russian Hollywood' project in the southern part of the country.

It should be noted that since the boom in investment that occurred in Russia in 2008–2009, there has been stagnation in the market caused by the financial and economic crisis. Many of the projects announced at that time are currently either in the planning stages or frozen. Notwithstanding this fact, there are still a few large, active film studio investment projects. These are slated for completion over the next few years.

3.3 Exhibition

3.3.1 Industry structure

Modern cinema exhibition

We use the term 'modern theatre' to mean a cinema that runs regular commercial film screenings using 35mm film or digital projection, and has multichannel sound systems and comfortable auditoriums. Film ticket and concession sales remain principal sources of revenue for the owners of these facilities. Cinemas like these play a leading role in Russia's modern film exhibition market.

At the same time, national statistics define the principal market unit as a 'film projection unit' – a rather vague term for a film theatre or screen, whose meaning is freely interpreted by local cinema authorities who report the number of projection units to the Ministry of Culture. However, the Ministry of Culture is taking steps to standardize cinema types.

According to official data, in 2011, the country had 4,383 film projection units (1,322 in cities and 3,061 in rural areas). However, Nevafilm Research experts believe these rural film projection units play an insignificant role in the Russian film market, since many are either not operational or run just a few screenings a week at nominal prices of RUB 5–10 per ticket. These cinemas also offer second- or third-run programmes. They work with regional film and video rental agencies and film funds, often using DVD projectors, and in the end play only a minor role in the industry since they generate minimal revenues. With every year, the number of film projection units falls, which is connected both with the reduction in the number of obsolete cinemas and with increasingly poor reporting from the regions. However, these data do not reflect the actual condition of the film exhibition market, and may only indicate the continuing breakdown of the system of state cinema chains and reporting.

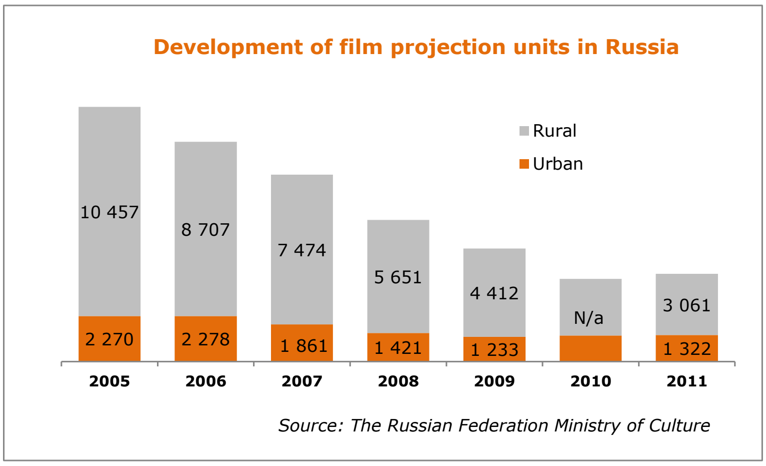

Figure 16. Number of film projection units in Russia

Drive-in cinemas are excluded from the total number of modern film theatres. This sector has been developing since 2002, when the first Kinodrom opened its doors in Moscow. Currently, the country has around ten theatres of this kind. In addition to those in Moscow, drive-in cinemas are operating in Nizhny Novgorod, Perm, Naberezhnye Chelny, Kaliningrad, Omsk, and Khabarovsk. Most drive-ins are fitted with video projection equipment and operate only in the summer, screening films a few weeks or months after their première. But there are theatres, such as Night Watch in Kaliningrad and Avtokinoteatr in Khabarovsk, which use high-quality, digital cinema equipment. Overall, the Russian climate precludes widespread development of these cinemas, and can lead to their closure.

Modern film exhibition Russia is continuing to expand, although the rate of growth has slowed due to the gradual saturation of the market. According to Nevafilm Research, as of 1 July 2012, Russia had 2,894 modern screens in 994 cinemas, with an average of 2.9 screens per cinema. Almost 60% of these modern screens – 1,647 screens (in 772 cinemas) – had already been equipped with digital projectors, 1,590 of which have 3D capabilities.

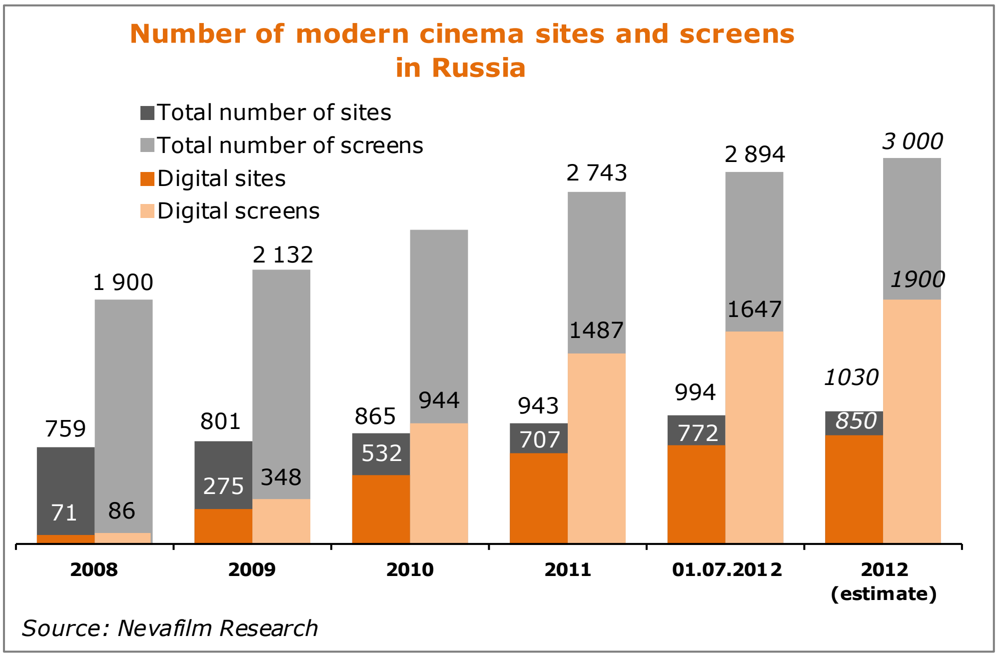

Figure 17. Number of modern cinema sites and screens in Russia

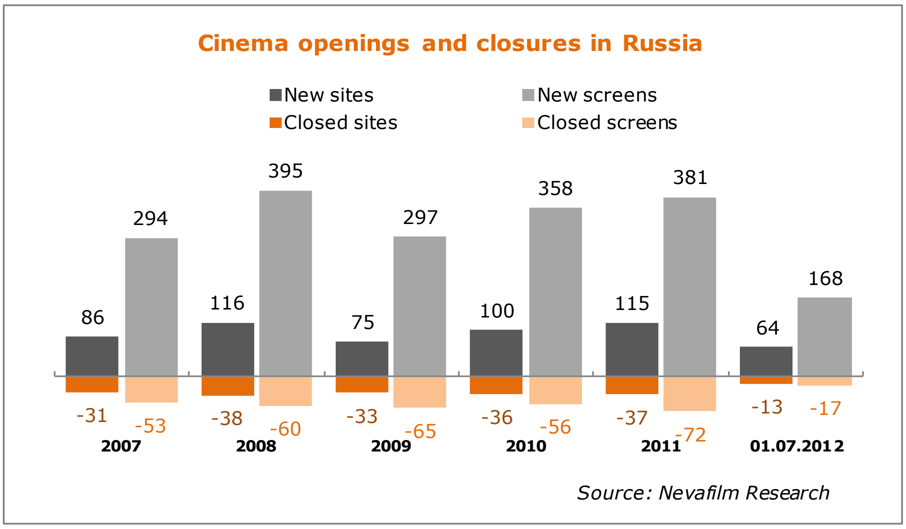

Figure 18. Cinema openings and closures in Russia

Overall, the number of modern cinema screens across the country grew by 13.6% in one year (as at 1 July 2011, 2,235 screens in 890 cinemas were active in Russia). Between 1 January and 1 July 2012, the market expanded by another 5.5% (compared to 4.6% for the same period of 2011). By the end of 2012, the total number of modern cinema screens in the country could reach 3,000 (in approximately 1,030 cinemas). In view of the market conditions (increased competition in all cities with populations over 100,000, Internet coverage, and accessible video-on-demand services), we expect annual growth in 2012 to fall to 9%.

Table 21. Screen density per 100,000 residents in cities with a population of at least 1 million (as of 01 July 2012) (Greater Moscow = 100%)

Rank as at 1 July 2012	Rank as at 1 July 2011	City	Population (in thousands)	Number of cinemas	Number of screens	Number of screens per 100,000 inhabitants	% of screen concentration compared with Greater Moscow Area
1	1	Yekaterinburg	1,383.4	17	81	5.85	130%
2	2	Novosibirsk	1,473.7	16	79	5.36	119%
3	4	Kazan	1,143.5	11	60	5.25	117%
4	3	St. Petersburg	4,848.7	48	246	5.07	113%
5	**6**	**Greater Moscow**[74]	**12,683.1**	**123**	**571**	**4.50**	**100%**
6	5	Chelyabinsk	1,130.3	11	50	4.42	98%
7	7	Rostov-on-Don	1,089.9	10	47	4.31	96%
8	8	Ufa	1,071.6	8	40	3.73	83%
9	9	Samara	1,165.0	6	40	3.43	76%
10	11	Omsk	1,154.0	9	38	3.29	73%
11	10	Volgograd	1,021.2	7	32	3.13	70%
12	12	Nizhny Novgorod	1,259.7	12	36	2.86	63%

Source: Nevafilm Research

[74] The Greater Moscow area includes the following communities in the immediate vicinity of Moscow: Barvikha, Vidnoe, Dzerzhinsky, Dolgoprudny, Zelenograd, Kashira, Kotelniki, Krasnogorsk, Lyubertsy, Moskovsky, Mytishchi, Odintsovo, Reutov, and Khimki. As of the end of 2010, the total population of the region was 12.7 million, according to census data.

Cinemas in retail and entertainment centres

Currently, 30% of modern cinemas and more than half of modern screens in Russia are located in retail and entertainment centres (RECs).

The share of screens located in RECs continues to grow. During H1 2012, it has risen by 0.6%, while the share of those located in cinemas has fallen by 1.4%, totalling 58.8% and 31% of the total number of screens respectively (1,702 screens in 307 cinemas in RECs). The segment is also growing faster than the market as a whole: while the total number of screens and cinemas as of 1 July 2011 had increased by 14% and 12% respectively, the annual increase of screens and cinemas in REC was 20% and 18%.

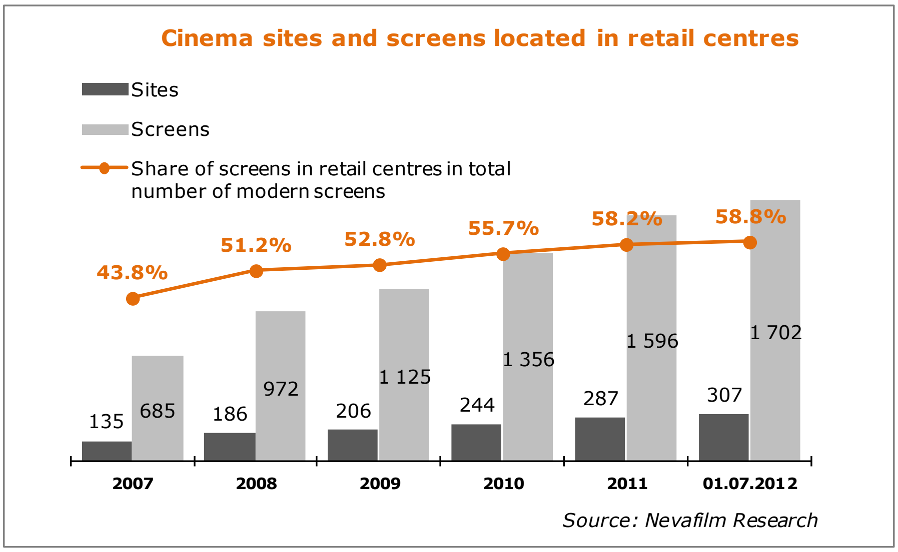

Figure 19. Cinema sites and screens located in retail centres

Multiplexes

Since 2010, multiplexes have housed 25% of Russia's modern cinema screens. Multiplexes also accounted for an average of approximately 8% of total cinemas, and more than 90% of multiplex screens are located in RECs.

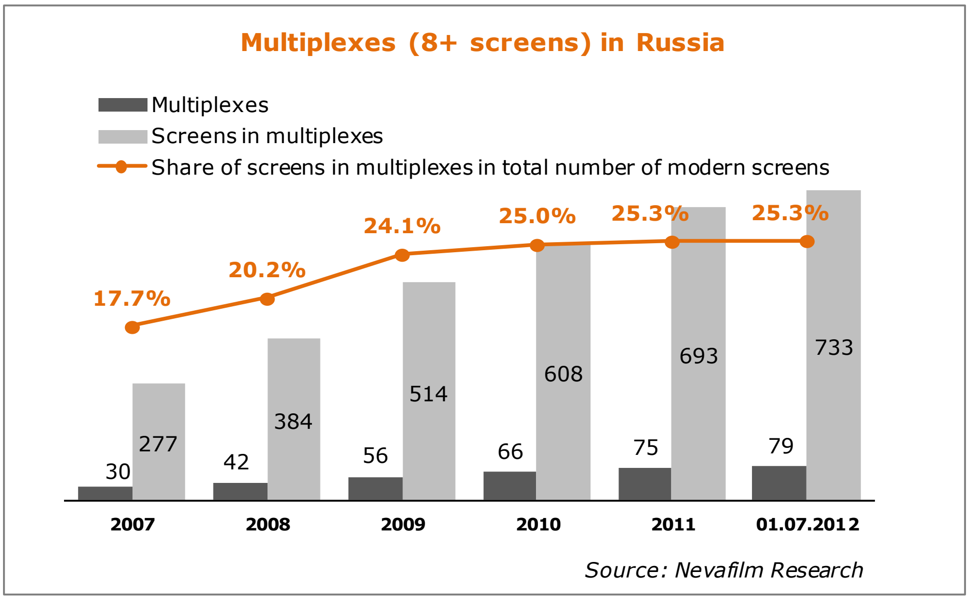

Figure 20. Multiplexes (8+ screens) in Russia

The majority of operational theatres in Russia remain single-screen (42.5%). When analysing theatres by number of screens, most Russian screens are located in miniplexes (theatres with three to seven screens): 60% of screens and 50% of cinemas.

Table 22. Russian cinemas by number of screens (as at 1 July 2012)

Number of screens per cinema	Number of cinemas	Number of screens	Market share by number of cinemas	Change in the share of cinemas as of 1 July 2011	Market share by number of screens	Change in the share of screens as of 01 July 2011
1 screen	**422**	**422**	**42.5%**	**-0.7%**	**14.6%**	**-0.5%**
2 screens	197	394	19.8%	-0.2%	13.6%	-0.4%
3 screens	78	234	7.8%	0.2%	8.1%	0.1%
4 screens	90	360	9.1%	-0.4%	12.4%	-0.8%
5 screens	50	250	5.0%	0.6%	8.6%	1.0%
6 screens	45	270	4.5%	-0.1%	9.3%	-0.3%
7 screens	33	231	3.3%	0.3%	8.0%	0.6%
MINIPLEX Total	**493**	**1,739**	**49.6%**	**0.5%**	**60.1%**	**0.2%**
8 screens	35	280	3.5%	0.0%	9.7%	-0.1%
9 screens	19	171	1.9%	0.0%	5.9%	-0.1%
10 screens	11	110	1.1%	0.0%	3.8%	-0.1%
11 screens	5	55	0.5%	0.1%	1.9%	0.2%
12 screens	4	48	0.4%	0.1%	1.7%	0.2%
13 screens	2	26	0.2%	0.1%	0.9%	0.4%
14 screens	2	28	0.2%	0.0%	1.0%	-0.1%
15 screens	1	15	0.1%	0.0%	0.5%	-0.1%
MULTIPLEX Total	**79**	**733**	**7.9%**	**0.2%**	**25.3%**	**0.3%**
Total in Russia	**994**	**2,894**	**100.0%**		**100.0%**	

Source: Nevafilm Research

Currently the average number of digital screens in miniplexes is 2.6; in multiplexes, it is 7.2. That is, film exhibitors which own a large number of screens are more likely to equip all the screens in the complex with digital technology, whereas smaller cinema complexes are in no hurry to make the full conversion to digital.

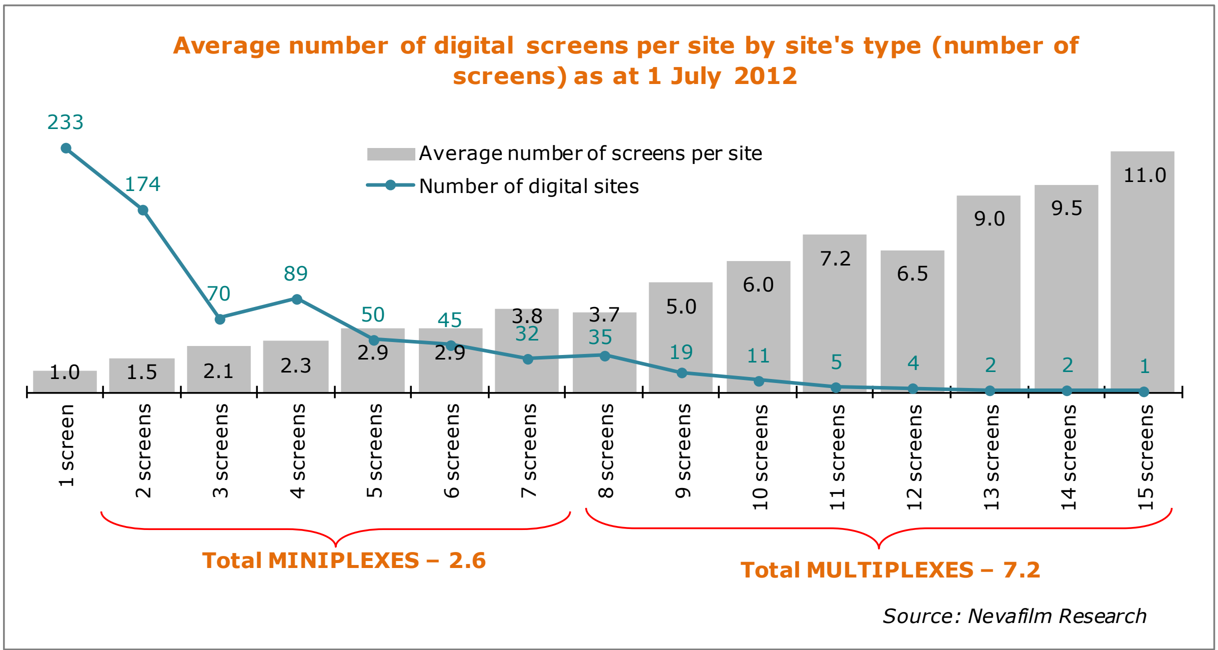

Figure 21. Average number of digital screens per site by site's type (number of screens) as at 1 July 2012

Multiplexes continue to spread over an ever-greater area of the country. As of mid-2012, multiplexes were operating in 23 Russian cities with populations of more than 500,000, while in smaller cities the largest cinemas had a maximum of seven screens. The leading cities in terms of shares of screens in multiplexes in mid-2012 were Naberezhnye Chelny (72.5%), Chelyabinsk (66.8%), Novosibirsk (60.8%), Samara (60%), and Rostov-on-Don (59.6%). Moscow and St. Petersburg, Russia's two largest cities, are in eighth and seventeenth places respectively according to this indicator.

Share of population with access to film exhibition

The share of Russia's population with access to modern film exhibition continues to increase. The number of towns with modern cinemas has reached 413 (an increase from 369 at the beginning of 2012). On average, access to modern film exhibition reached 2.88 screens per 100,000 persons by the middle of the year.

Table 23. Availability of modern screens to the inhabitants of Russian cities (as at 1 July 2012)

City population bracket	Share of cities in this bracket with modern cinemas	Share of cities in this bracket with digital cinemas	Share of population with access to modern film exhibition	Cinemas	Screens	Cinemas with digital screens	Digital screens	Number of screens per 100,000 inhabitants
More than 1 million people	100.0%	100.0%	100.0%	278	1,320	233	702	4.67
500,000–1 million people	100.0%	100.0%	100.0%	151	543	131	297	3.35
250,000–500,000 people	100.0%	100.0%	100.0%	150	385	126	247	2.80
100,000–250,000 people	89.6%	80.2%	89.8%	144	296	120	199	2.07

City population bracket	Share of cities in this bracket with modern cinemas	Share of cities in this bracket with digital cinemas	Share of population with access to modern film exhibition	Cinemas	Screens	Cinemas with digital screens	Digital screens	Number of screens per 100,000 inhabitants
Fewer than 100,000 people	26.6%	16.4%	39.2%	271	350	162	202	1.25
Total in cities of the Russian Federation (population – 95,609,400 people)	**37.2%**	**27.8%**	**82.8%**	**994**	**2,894**	**772**	**1,647**	**2.88**
Overall in cities with cinemas (population: 83,184,700)								**3.48**
Overall in Russia (population: 141,800,000)								**2.03**

Source: Nevafilm Research

There are modern cinemas in all cities with a population of more than 250,000. In cities with a population of 100,000–250,000, the situation is close to saturation: 89.6% of these cities have modern cinemas. As a rule, in these smaller cities, one or two modern cinemas are sufficient, and the level of coverage of these cities by the cinema network is already reaching 90%. Today, the average number of cinemas per city with a population of 100,000–250,000 residents is 1.7, and the density of screens per 100,000 persons is 2.4. Thus, the main area of growth for this segment of the market is to increase the number of screens in operating complexes (currently, there is an average of 2.2 screens per theatre in this segment, compared to an average of 2.8 for the country as a whole). The most underdeveloped part of the market in Russia remains cities with populations of fewer than 100,000, more than 73% of which do not have modern cinemas. However, private businesses may have difficulties covering their investment by themselves.

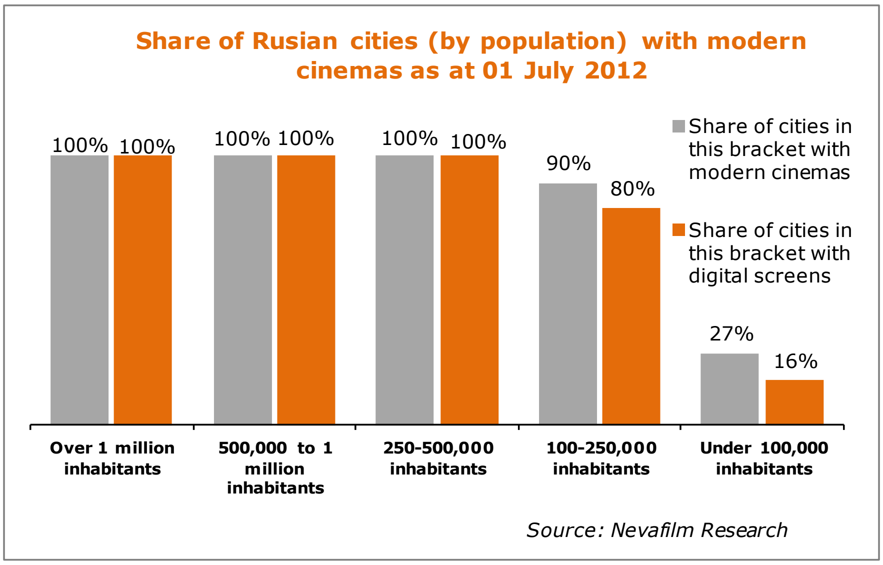

Figure 22. Share of Russian cities (by population) with modern cinemas as at 1 July 2012

Digital cinema

Since 2006, Russia has seen active transition to digital film exhibition. Today, it may be said that the digital film exhibition is at a mature stage; the speed at which this stage was reached is a peculiarity of the Russian market. In 2008, growth of digital screens reached 187%; in 2009, it was 305%; in 2010, it was 171%; in 2011, it was just 58%, and in the first half of 2012, growth was at 40% (in comparison to the totals for the first half of 2011). According to Nevafilm Research's predictions, total growth in the number of digital cinemas will be just 15% in 2012. The share of modern screens in the country with digital equipment was approaching 60% in the first half of 2012.

The number of theatres not equipped to show 3D films is increasing in Russia. Whereas in the peak years of 2009–2010, nearly 100% of screens could show 3D films, in 2011 cinemas installed 3D systems at a slower rate, and in the first half of 2012, 96.5% of digital screens had the option to show 3D films (57 screens do not use 3D).

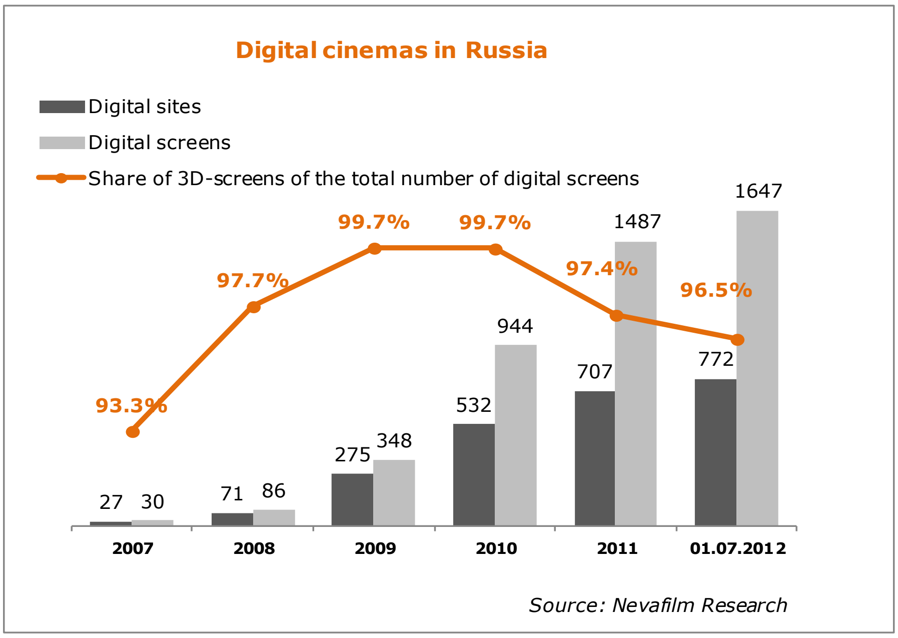

Figure 23. Digital cinemas in Russia

According to Nevafilm Research estimates, in chain cinemas, about 30% of screens are already completely digitized. 'The death of film reels' is also confirmed by the results of Nevafilm Research's surveys of cinemas as part of a consumer confidence index. In the summer of 2012, 46% of respondents no longer had film projectors at all in their digital screens, or the projectors were not being used; a third were using film reels for those screens extremely rarely; the remaining 20% of responding cinemas were using film reels for up to half of their showings, but not a single one used them more than that.

Russia's largest cinema chains are on their way to making a complete switch to digital-format screens. Digital screens are now available in every cinema in the Cinema Park chain (70% of screens) and in every Luxor cinema (68% of screens), as well as Monitor (60%), Formula Kino (58%), Pyat Zvezd (Paradise) (55%), Kronverk Cinema (41%), and Cinema Star (40%). Market-leading chains Karo Film and Kinomax are also both nearing this mark, as are several smaller chains (some of which have completely digitized their screens or are opening their doors as fully digitized cinemas to begin with).

According to data as of 1 July 2012, there were digital screens in operation in 319 Russian cities. Moscow and St. Petersburg have the largest numbers: 320 and 133 respectively.

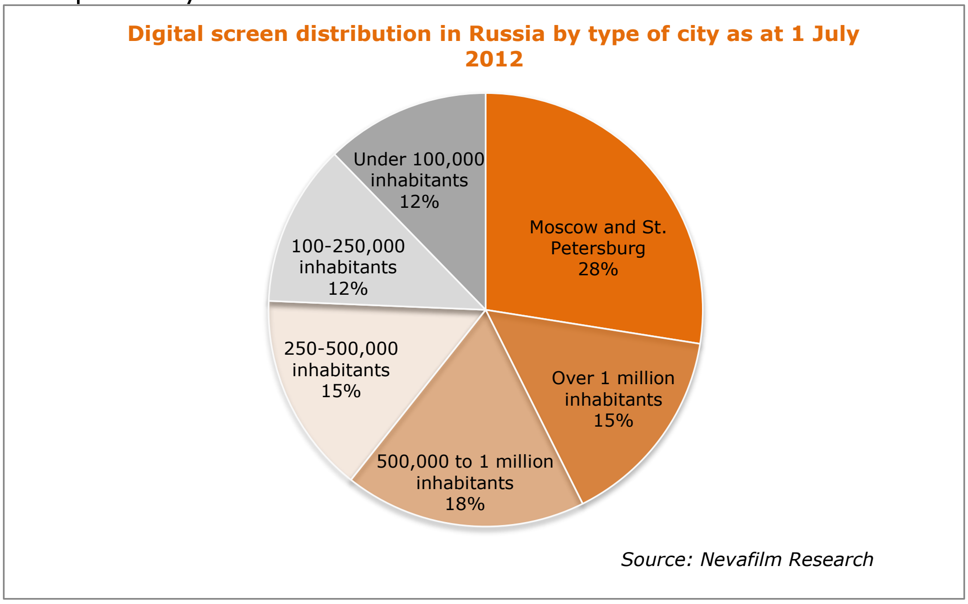

Figure 24. Digital screen distribution in Russia by type of city as at 1 July 2012

IMAX cinemas

The first Russian Nescafe-IMAX screen opened in 2003 in the Kinosfera miniplex in Moscow. For some time it remained the only one of its kind in the country, and the Cascade distribution company bought 3D film prints from IMAX for its exclusive use.

Since then, more than 20 IMAX cinemas have been built in Russia. According to Nevafilm Research, as at 1 July 2012, Russia boasted 20 IMAX cinemas. Two new cinemas opened in the first half of the year: one in Astrakhan and the other in Nizhniy Novgorod (as part of the Kinomax and Cinema Park chains).

New IMAX theatres are scheduled to be opened in Anapa, Moscow (Mytishchi), Ryazan, Sochi, Surgut, and Ulyanovsk before the end of 2012. By the end of 2013, the number of IMAX cinemas in Russia could reach approximately 40 if projects are completed in Kaliningrad, Krasnoyarsk, Murmansk, Pyatigorsk, Samara, Stavropol, Tver, Tomsk, and Ulan-Ude.

In October 2013, the first Russian IMAX film will be distributed to Russian cinemas: Fyodor Bondarchuk's *Stalingrad.* The film is being shot in 3D format and will later be converted to IMAX format.

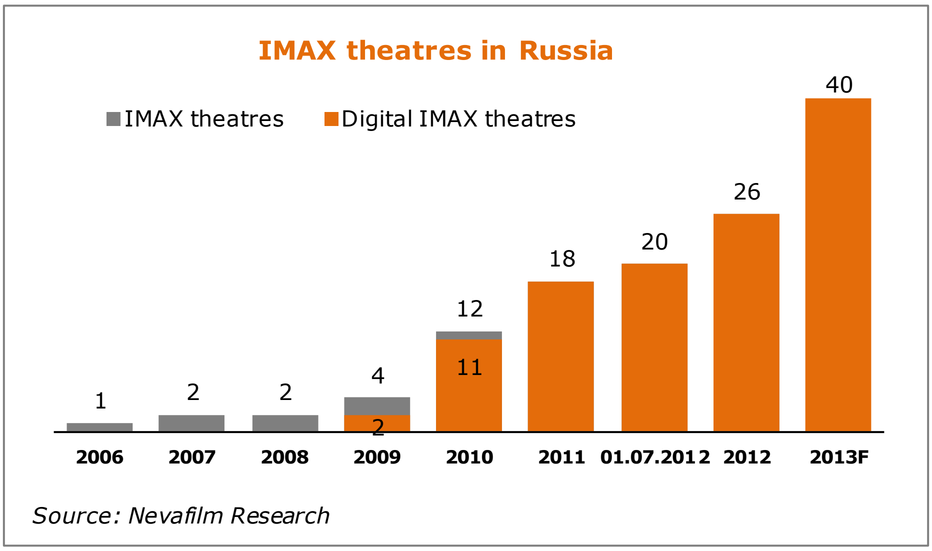

Figure 25. IMAX theatres in Russia

Box office receipts and admissions per screen

The growth in the number of modern cinemas and screens in Russia can still be considered justifiable since box office takings per screen have not decreased. However, since 2009, there has been a reduction in admissions per screen. This means that the increase in box office receipts is occurring as a result of rising ticket prices.

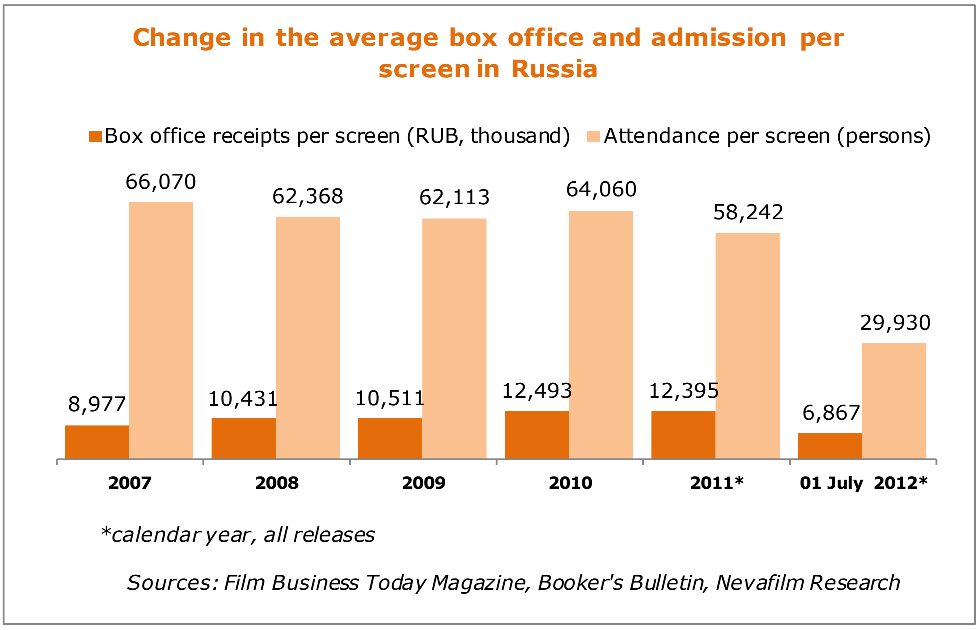

Figure 26. Change in the average box office and admission per screen in Russia

3.3.2 Principal trends and development prospects

Changes in cinema ownership

One of the trends visible in the modern film exhibition market remains the takeover of independent cinemas by operators of larger chains, either through direct purchase or through the signing of programming agreements, as well as the major cinema chains' policy of closing down smaller branches they see as unviable.

We would like to note a few important events that have taken place over recent years amongst film exhibition companies:

KinoStar and Cinema Park

In the summer of 2011, the first large-scale public merger and takeover deal was concluded in Russia: the Cinema Park chain acquired 100% of the stock of Rising Star Media, which managed the KinoStar chain. KinoStar had been the first foreign cinema network in Russia, opened in 2003 by American entrepreneur Paul Heth. At the beginning of 2010, it was transferred to UFG Private Equity, a Russian investment fund, which sold it a year and a half later. Now, the combined cinema chain is the market leader in number of screens (it manages 27 cinemas with a total of 252 screens, including 177 digital screens).

Karo Film

In November 2012, it was announced that Paul Heth and two investment funds managed by Baring Vostok and UFG Asset Management were in the final stages of talks to buy a majority holding in the Karo Film cinema chain (besides the cinema chain, the KARO holding company includes two distribution companies: Karo Prokat and Karo Premier).

Formula Kino and Kronverk Cinema

At the beginning of 2012, Russian investment company A1 (a key investment subdivision of Alfa Group Consortium, one of the country's largest private financial and industrial consortiums), which manages the Kronverk Cinema chain, acquired a majority shareholding in the Formula Kino chain. A1 plans to merge the chains into a single structure. For now, Kronverk Cinema and Formula Kino continue to operate on the market as two independent companies. The new, merged cinema chain could occupy second place in terms of number of screens. In 2011, Kronverk Cinema had a change in management, and its central office was moved from St. Petersburg to Moscow.

Kino City

In 2010, the Kino City project was begun. The project involves the construction of multimedia centres in small and medium-sized Russian cities, based on public–private partnerships. The initiators of the project were former Director of Kronverk Cinema Eduard Pichugin and film director and producer Fyodor Bondarchuk. In the summer of 2011, the Kino City project received the support of Vnesheconombank during the St. Petersburg International Economic Forum, when a memorandum on the implementation of the Kinoclub: Culture, Education, Communication project was signed. Vnesheconombank was offered the opportunity to set up Kino City, which would finance the construction of state film clubs. By 2014, approximately 200 are scheduled to be built, which will require RUB 30 billion. Moreover, a credit line was requested from Vnesheconombank for the construction of private film clubs which would be owned by Kino City Management: 53 clubs are planned, at a total cost of RUB 9.8 billion.

In mid-2011, the Kino City chain was expanded through the addition of KinoExpert chain cinemas (seven cinemas with 23 total screens), which had previously belonged to Machinery & Industrial Group N. V. and was transferred to Vnesheconombank at the end of 2010 (with a buyback option) with 100% of Machinery & Industrial Group N. V.'s stock. KinoExpert cinemas were managed by Kino City for one year, until mid-2012.

Finally, in mid-2012, Kino City signed a partnership agreement with the Premier-Zal chain. This new merger is being declared a non-profit partnership; its goal is to transform into standalone entity. The two cinema chains are operating under their current brands, developing new directions for their businesses, expanding in the regions, and cooperating with other companies. Presently, Premier-Zal is a partner of cinema equipment integrator MTR, implementing a programme for the supply of Barco digital equipment to cinemas at a discount. Additionally, Premier-Zal is launching new distribution activities.

Eurimages/Europa Cinemas

It should also be noted that in the summer of 2012, five Russian cinemas became part of the Eurimages/Europa Cinemas network, which was founded by the Eurimages European Cinema Support Fund: 35 mm and Pioner (Moscow), Chayka (St. Petersburg), Orlenok (Nizhniy Novgorod), and Zarya (Kaliningrad). Participation in Eurimages imposes certain obligations on the theatre: 33% of the films and no less than 50% of the showings must be European. A certain share of the showings, as determined by the contract, is dedicated to European films supported by Eurimages. The theatre must not only show these films, but also promote them. If it fulfils these obligations, the cinema may rely on receiving financial support from Eurimages for the technical equipping of the theatre, conducting film festivals, improving distribution, and promoting European films.

Exhibition in smaller Russian cities

The most notable phenomenon of the first half of 2012 was the sharp drop in openings in cities with populations of 100,000–250,000. The main reason for this is the saturation of this segment of the market: as a rule, in these small cities, one or two modern cinemas are sufficient, and the level of coverage of these cities by the cinema network is already reaching 90%. Today, the average number of cinemas per city with a population of 100,000–250,000 residents is 1.7, and the density of screens per 100,000 persons is 2.4. Thus, the main area of growth for this segment of the market is to increase the number of screens in complexes (currently, there is an average of 2.2 screens per theatre in this segment, compared to an average of 2.8 for the country as a whole). The least tapped segment of the cinema market in Russia remains cities with populations of fewer than 100,000, more than 73% of which do not have modern cinemas.

At the same time, in the first half of 2012, the pre-existing cinemas in small cities (with populations of fewer than 100,000) have become the most active players in digitizing their cinemas: their share of the new digital installations came to 39%. In many cases, this is happening with the cooperation of local authorities, in municipal cinemas, or as part of public–private partnerships.

The transition to digital film exhibition in Russia continues apace

Film exhibition is continuing its rapid transition to digital format: digital equipment has already been installed in 78% of Russia's cinemas (60% of screens) in 319 cities. Cinemas are removing their 35 mm projectors or ceasing to use them: in chains, approximately 30% of the screens are already fully digitized. The move away from the idea of digital screens being designated exclusively for 3D exhibitions continues (3.5% digital screens in Russia do not have 3D capabilities now, up from 2.6% at the beginning of the year).

In parallel, the process of switching over to digital format is occurring in distribution: in the first half of 2012, 90% of the releases in Russian distribution were in both digital and 35mm format or exclusively in digital format; 44% were sent out in digital format only. The process is being reinforced by the development of a system of digital delivery of copies of films to cinemas: according to our estimates, the two companies which sent films to Russia via satellite and the Internet transferred around 100 copies (0.1% of all copies in distribution) in 2011; by July 2012, they had sent about 1,200 copies (1.9%).

According to estimates by Nevafilm Research, the complete transfer of distributors to digital film screening in Russia can be expected in 2014. Accordingly, we can forecast the number of digital screens in the country: by 2015, 99% of the film screens in the country should have been switched to digital projection.

We believe that in the next few years, the growth of the market for modern cinemas and screens may slow significantly due to the proliferation of the Internet and the development of video-on-demand services in Russia, which, along with the decline in traditional film distribution, will impact average-performing cinemas, forcing them to close.

Analysis of Russian cinemagoers

The main distinguishing characteristic of the cinema audience in Russia is its relative youth: according to 2010 census data, 19.6% of the country's residents are aged 18–29, but they dominate cinema audiences, making up 61.7% of all cinemagoers. [75]

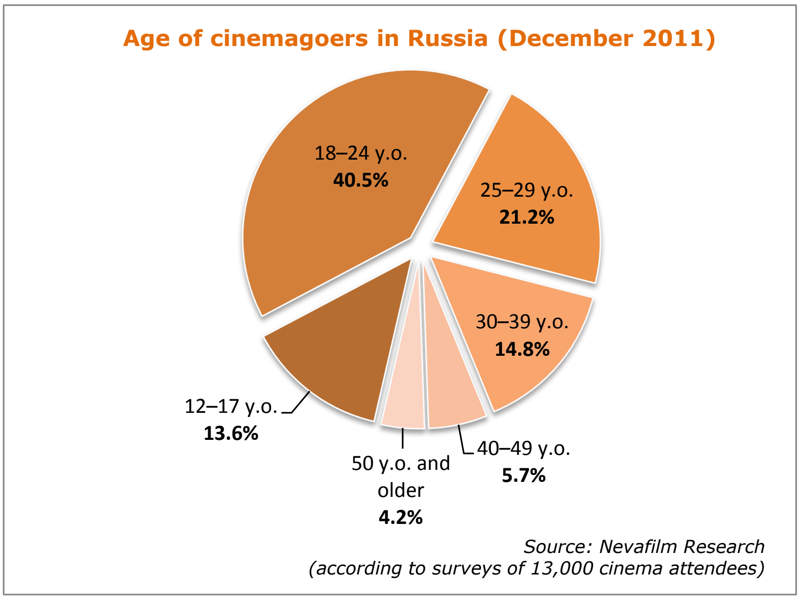

Figure 27. Age of cinemagoers in Russia (December 2011)

Only 21% of people living in Russian towns and cities with modern cinemas are regular cinemagoers (going to the cinema at least once a year).

[75] This is according to Nevafilm Research data from research conducted between October 2011 and February 2012. Empirical data was collected between 7 November and 25 December 2011, via surveys in cinemas, over the phone, and online. Telephone and cinema-based surveys were conducted using a representative sample of towns and cities with cinemas, and federal district and population size were also taken into account. In all, 18,105 surveys were collected from 335 towns and cities.

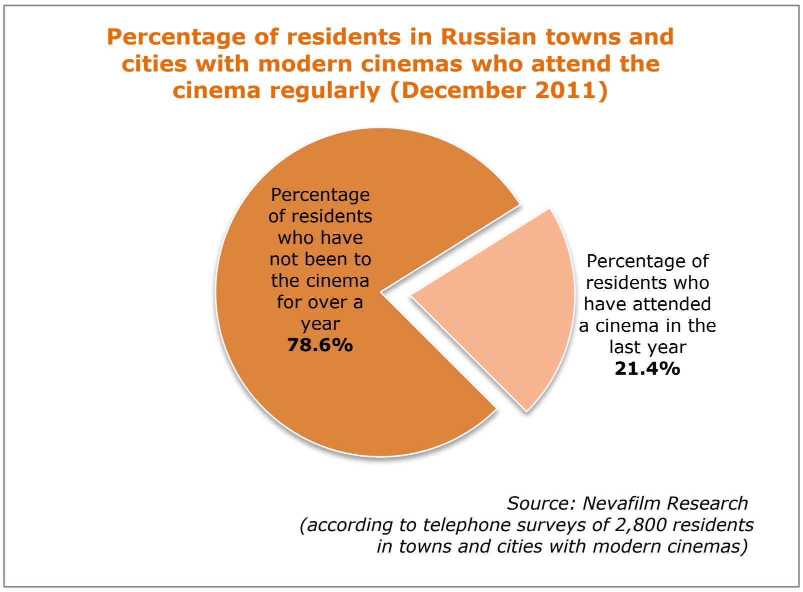

Figure 28. Percentage of residents in Russian towns and cities with modern cinemas who attend the cinema regularly (December 2011)

Among those who do go to the cinema, most visit once or twice per month (41%), while the proportion of active cinemagoers (those who attend cinema screenings almost every week) is less than 29%. Another 30% of the cinema audience is made up of infrequent or rare cinemagoers, who prefer to see films on the big screen no more than twice a quarter.

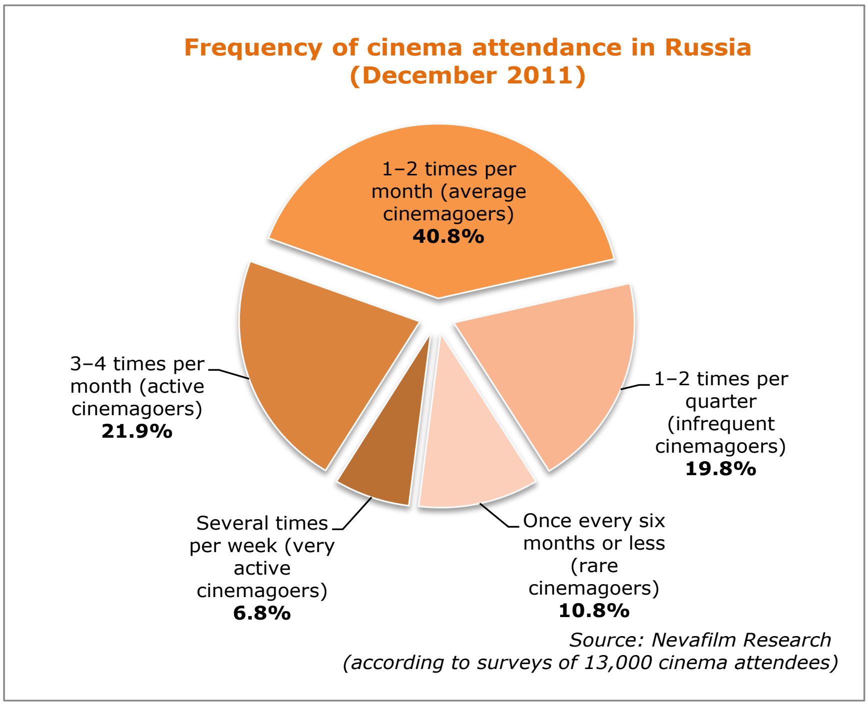

Figure 29. Frequency of cinema attendance in Russia (December 2011)

Thus, in total just one fifth of the potential cinema audience actually goes to the cinema, and does so infrequently. This share of viewers is made up largely of young people, who also actively use the Internet to watch films, most often illegally. All of this has a negative effect on the prospects for Russian film distribution in the coming years, while there remains little on offer for more mature cinema audiences.

3.3.3 Principal players

Russia's film exhibition market is highly fragmented. It has more than 560 players, of which 15% are chains (86 cinema chains), with 20 operating on a nationwide level (managing cinemas in several federal districts), 13 operating on a regional level (working in several regions within a single federal district), and 53 operating locally (each functioning within a single Russian region). There are more than 470 independent cinemas.

All market players have upgraded more than half of their screens to digital. More than 80% of cinemas belonging to all types of chains and 67% of independently operated cinemas have digital screens.

State-funded cinema chains and independent theatres remain the key players in the modern Russian cinema market, accounting for 48% and 31% of the market respectively.

Table 24. Fragmentation of the film exhibition market in Russia by type of cinema operator (as at 1 July 2012)

Operator type	Number of operators		Number of cinemas		Percentage of cinemas with digital screens	Number of screens		Share of digital screens	Market share by number of screens	Market share by number of digital screens
	Overall	Digital	Overall	cinemas with digital screens		Overall	Digital			
Nationwide chains	20	20	284	265	93.3%	1,396	743	53.2%	48.2%	45.1%
Regional chains	13	12	55	48	87.3%	213	137	64.3%	7.4%	8.3%
Local chains	53	52	177	139	78.5%	385	231	60.0%	13.3%	14.0%
Independent cinemas	478	316	478	320	66.9%	900	536	59.6%	31.1%	32.5%
Total in Russia	**564**	**400**	**994**	**772**	**77.7%**	**2,894**	**1,647**	**56.9%**	**100.0%**	**100.0%**

Source: Nevafilm Research

In the rankings of top Russian cinema chains, ten companies have a comfortable lead, including the largest federal cinema chains: Cinema Park, Karo Film, Kinomax, Kronverk Cinema, Luxor, Formula Kino, Premier-Zal, Cinema Star, Monitor, and Pyat Zvezd (Paradise). The top ten chains own 40% of all modern screens and 55% of all digital screens in Russia.

Table 25. Top 10 Major cinema network operators in Russia as at 1 July 2012 (by number of screens, including franchises and repertory cinemas)

Rank as at 1 July 2012	Rank as at 1 July 2011	Cinema chain operator	Number of cinemas	Number of screens	Cinemas with digital screens	Digital screens	Percentage of the chain's cinemas with digital screens	Percentage of digital screens in the chain	Market share by number of screens	Head office
1	1	Cinema Park	27	252	27	177	100%	70%	8.7%	Moscow
2	2	Karo Film	29	174	28	92	97%	53%	6.0%	Moscow
3	3	Kinomax	27	142	25	50	93%	35%	4.9%	Moscow
4	5	Kronverk	18	123	18	51	100%	41%	4.3%	Moscow

Rank as at 1 July 2012	Rank as at 1 July 2011	Cinema chain operator	Number of cinemas	Number of screens	Cinemas with digital screens	Digital screens	Percentage of the chain's cinemas with digital screens	Percentage of digital screens in the chain	Market share by number of screens	Head office
		Cinema								
5	4	Luxor	16	96	16	65	100%	68%	3.3%	Moscow
6	6	Formula Kino	14	90	14	52	100%	58%	3.1%	Moscow
7	7	Premier-Zal	58	75	44	49	76%	65%	2.6%	Yekate-rinburg
8	11	Cinema Star	14	70	14	28	100%	40%	2.4%	Moscow
9	8	Monitor	19	65	19	39	100%	60%	2.2%	Krasnodar
10	9	Pyat Zvezd (Paradise)	10	58	10	32	100%	55%	2.0%	Moscow
Total for these cinema operators			**232**	**1,145**	**215**	**635**	**93%**	**55%**	**39.6%**	
Total in Russia			**994**	**2,894**	**772**	**1,647**	**78%**	**57%**	**100%**	

Source: Nevafilm Research

Table 26. Key exhibitors in Russia (as at 1 July 2012) (including franchises and repertory cinemas)

Rank	Operator	Cinema network	Head office	Number of cinemas	Number of screens	Number of digital cinemas	Number of digital screens	Membership in public non-profit organisations
1	Cinema Park	Cinema Park	Moscow	27	252	27	177	-
2	Karo Film Management Company	Karo Film	Moscow	29	174	28	92	Kinoalliance Non-Profit Partnership
3	Kinomax	Kinomax	Moscow	27	142	25	50	Kinoalliance Non-Profit Partnership
4	Epos	Kronverk Cinema	Moscow	18	123	18	51	Kinoalliance Non-Profit Partnership
5	Cinemamanagement	Luxor	Moscow	16	96	16	65	-
6	Formula Kino Management Company	Formula Kino	Moscow	14	90	14	52	Kinoalliance Non-Profit Partnership
7	Premier Zal	Premier-Zal	Yekate-rinburg	58	75	44	49	-
8	Kinopokaz strani	Cinema Star	Moscow	14	70	14	28	-
9	Monitor	Monitor	Krasnodar	19	65	19	39	-

Rank	Operator	Cinema network	Head office	Number of cinemas	Number of screens	Number of digital cinemas	Number of digital screens	Membership in public non-profit organisations
10	Paradise Productions	Pyat Zvezd (Paradise)	Moscow	10	58	10	32	Kinoalliance Non-Profit Partnership
11	DVI Cinema	Kinoformat, Svetofor-Cinema, Rolix	Moscow	9	48	9	19	Kinoalliance Non-Profit Partnership (Kinoformat only)
12	Kinofresh, Cinema Invest, Profit Cinema International, Kinosfera, Eurasia Cinema	Profit Cinema International	Moscow	8	48	8	23	-
13	InvestKinoProject	Kinoplex	Moscow	6	41	5	5	-
14	Mirage Cinema	Mirage Cinema	St. Petersburg	6	32	6	22	-
15	West	West	Moscow	5	29	4	18	-
16	Art & Science Cinema Distribution	Art & Science Cinema Distribution	Novosibirsk	10	28	8	11	-
17	Imperiya Igr	Megapolis (Imperiya Igr)	Chelyabinsk	4	24	4	12	-
18	Kinoexpert	Kinoexpert	St. Petersburg	7	23	6	10	-
19	Planet of Entertainment	Kinomechta	Moscow	3	22	3	10	-
20	Mori Cinema Management	Mori Cinema	Moscow	3	20	3	5	Kinoalliance Non-Profit Partnership
21	Barguzin	Barguzin	Irkutsk	7	19	6	13	-
22	Metelitsa-Baikal	Metelitsa-Baikal	Irkutsk	7	19	7	19	-
23	Kubankino Krasnodar Territory State Autonomous Cultural Institute	Kubankino	Krasnodar	13	18	10	11	-
24	Very Velly	Very Velly	Perm	3	18	3	7	-
25	Cinema	Cinema 5	Cheboksary	3	17	3	17	-

Source: Nevafilm Research

3.4 Theatrical distribution

3.4.1 Industry structure

Film distribution in Russia today

Today, film distribution in Russia operates independent of the state, consisting of a network of private distribution companies and cinemas (independent or chains). Traditionally, an important role is also played in by regular film markets (http://www.kinorinok.ru) held in Moscow (March and December), Sochi (June, as part of the Kinotavr film festival) and St. Petersburg (September, as part of the international Kino Expo convention) (http://kinoexpo.ru).

The basic business model between cinemas and distributors is that of a 50/50 split of box office receipts. However, other types of agreement exist: these include minimum guaranteed distribution payments and fixed price sales of exhibition rights (sometimes offered together with the film print). The system of minimum guarantees involves an advance the cinema pays prior to commencing exhibition and a further 50/50 split of box office receipts once they reach an agreed level. Such a contract is mostly applicable to new cinemas with whom distributors have not yet established a working relationship. Here the distributor wants to ensure a guaranteed return on expenses they have incurred for prints and logistics. It is notable that similar trends have become an important catalyst for equipping cinemas in small cities throughout the country with digital equipment, as distributors are more enthusiastic about providing even the smallest cinema platforms with less expensive digital prints of films in the first week of distribution. In this way, cinemas now have the opportunity to not only receive extra profits from showing 3D films, but also to become first-run exhibition sites.

The option of a fixed price licence is used in similar cases, and also when distributors operate via intermediaries, such as regional film and video rental organizations (FVROs), instead of interacting directly with cinemas. FVROs often have their own film funds left over from the time of the USSR and receive public funding to replenish it. In these cases FVROs purchase film prints from distributors together with the right to exhibit them on municipal screen networks in the region. In addition, the system of fixed payments is used for video distribution of films (so-called 'public video') to electronic cinema networks.

Note that exhibitors must also pay royalties to composers of soundtracks of Russian films. These are collected by the Russian Authors' Association (RAO) [76]). The minimum compensation for the use of music, with or without text, during commercial film, television, and video screenings in cinemas, on television, in video clubs, or in other public places, is 3% of profits; for free screenings, it is 0.5% of profits[77]; the cinemas pay this compensation to an accredited organization. The minimum royalty amounts are set by the federal government.[78] However, this regulation is a subject of contention. As a result of sustained, intensive work aimed at reconciling the exhibition and production communities, the Association of Television and Film Producers and the Producers' Guild threw their support behind a composers' fee initiative proposed by Kinoalliance. This shaped the first consolidated position of all segments of Russia's film industry on one of the most pressing issues facing cinema today, thereby creating the conditions for further cooperation. Ongoing work in this area has already yielded a decrease in the base rate from 1.5% to 1.2% and implementation of special

[76] http://rao.ru/index.php/en/

[77] Decree No. 218 of the Government of the Russian Federation 'On Minimum Royalty Rates for Certain Types of Literature and Art Use', dated 21 March 1994

[78] Paragraph 4, Article 1286, Part IV of the Civil Code

rates for cinema chains (1%), as well as for new or renovated cinemas (0.5%). Kinoalliance continues to fight for a further rate decrease to 0.3%.

The traditional day for cinema schedule rollover in Russia is Thursdays (though some major films may be released on Wednesdays).

Exhibition conditions for weeks 1 and 2 of release (the number of screenings and their time slots, the minimum ticket price, the validity of discounts and free passes, etc.) play a critical role. For major releases the distributor as a rule requires a 'full screen', i.e. the film has to run morning to night on the same screen (in the case of multi-screen sites the distributor may require several screens). Rigid rental conditions often result in conflicts between distributors trying to secure the best dates, such as the New Year holidays when blockbusters are released simultaneously or one after another.

In 2011, there was a fall in the number of widely distributed titles throughout the country: the average weekly number of films in cinema programmes nearly halved in comparison to 2008. At the same time, a significant increase in theatrical runs at cinemas did not occur; only one-screen cinemas slightly increased the number of screenings of films that had been released more than a month previously. All cinemas with digital screens spend more than a third of their screen time per week on 3D screenings. And although theatrical runs for 3D films are longer than those for 2D films, extended periods for 3D films are not currently very widespread.[79]

Until recently, film market development in Russia was characterized by tough competition and the domination of large players over smaller, independent ones. However, the situation has now changed.

Methodological aspects of gauging the Russian film distribution market

Until recently, the film distribution year in Russia was considered to run from 1 December to 30 November. This system came into being in 1997, when Nevafilm Research's partner in providing statistics on Russian distribution, the independent industry magazine *Russian Film Business Today* (http://www.kinobusiness.com), began to run a calculation of distributors' box office data it had accumulated. However, since 2011, *Russian Film Business Today* has begun calculating data based on the calendar year.

Information on the results of film distribution has also been collected since 2006 by another industry magazine, *Booker's Bulletin* (http://kinometro.ru). Currently, box office statistics are also published by online magazine *ProfiCinema* (http://www.proficinema.ru) and the company Movie Research (http://www.movieresearch.ru).

Since 2008, Russian analysts have also had access to a service from the Russian office of Rentrak Corporation, the world's largest collector of box office returns data, which is currently engaged in collecting data on the distribution of films in Russian cinemas for major Russian distributors. It works with industry publications, adding historical records to its database with their help, and also provides them with working data on weekend totals.

However, every available source of information about Russia's box office receipts comes with a high margin of error, for a number of reasons:

- Information is collected exclusively from distributors. This leaves exhibitors free to distort the information in either direction in the hope of boosting their ratings edge over the competition. Distributors themselves have admitted that this is the case, though they claim that in the last few years, they have avoided such manipulations, while certain distributors refuse outright to provide data.

[79] According to Nevafilm Research studies 'Different Platforms, Different Films' (2008) and 'Distribution Cannot Be Regulated' (2011)

- In turn, distributors often receive box office and admissions from the cinemas without any confirmation of the data from automatic electronic control systems, since the majority of independent cinemas do not have these systems installed, and the Consolidated Automated Cinema Exhibition Information System (CAIS, previously known as the Consolidated Electronic Cinema Ticket System) has not been implemented in all cinemas, leaving them open to misreporting.

- Information is compiled and published by film title, rather than by date. This makes it impossible to accurately capture a film's box office results for a specific time period.

- Distributors don't organize their box office receipts by city or region, and don't even sort data by CIS countries (except Ukraine) covered by their distribution rights.

Many market players expected this problem to be addressed by the wide-scale implementation of CAIS, which was scheduled to be introduced in 2010. According to Federal Law No. 375 'On enacting amendments to Federal Law "On state support for Russian Federation cinematography"', dated 27 December 2009 (and coming into force on 1 May 2010), all film exhibitors are obliged to provide data to the Unified Information System of every ticket sold, with the purchase and running costs of the necessary equipment the responsibility of the exhibitor. The operator of the Unified Information System is chosen on a competitive basis (the Chief Information Computing Centre of the Ministry of Culture has already been commissioned to undertake the role) and is financed using public funds.

However, notwithstanding the issuance of all the necessary decrees and circulars requiring strict mandatory reporting by cinemas to CAIS, the process of establishing CAIS in all cinemas has not been concluded. In accordance with data from http://ekinobilet.ru and Nevafilm Research, as at 1 July 2012, just 39% of the country's modern cinemas (49% of screens) were registered in the system, and their number has been increasing at a very slow rate since the beginning of 2012.

Despite the complexity of obtaining information by analysing box office statistics and admissions in Russia, the size of the Russian film distribution market can be calculated on the following basis:

- Specialists at Nevafilm Research conduct an evaluation of indicators of Russian distribution; they estimate Russian box office returns and admissions as percentages of box office returns and admissions for the CIS (not including Ukraine), which are printed in industry publications. These percentages are based on information received from Russia's largest distributors, which estimate the average market share of their films (excluding the CIS, except Ukraine). In the relevant period, these indicators showed the following dynamics:

Table 27. Nevafilm Research's estimate of box office takings and admissions at Russian cinemas (percentage of data on the CIS [excluding Ukraine] published by industry publications)

Year	Assessment of box office	Assessment of admissions	Contributing distributor data
2007	97.0%	98.0%	expert evaluation
2008–2009	95.6%	95.6%	WDSPR, 20th Century Fox CIS, Karo Film, UPI, Central Partnership, and Nashe Kino
2010	95.9%	93.9%	WDSPR, 20th Century Fox CIS, Karo Film, and UPI
2011–2012	94.7%	92.4%	WDSPR, 20th Century Fox CIS, Karo Film, UPI, West, Cascade, and Volga

- For the results from 2011–2012, the estimate was made by comparing databases of films in CIS distribution (excluding Ukraine) from *Russian Film*

Business Today magazine and *Booker's Bulletin*: if there was a difference in the numbers of prints, box office returns, and the number of tickets sold in the calculation, the highest number for each film was used.

- Indicators for box office returns and admissions exclude the distribution of alternative content, which for the purposes of this study was considered to be operas and ballets, concert films, documentaries and scientific documentary films (including IMAX films), educational programmes, and live broadcasts in cinemas.

- Analysis of the results for distribution of individual films, as well as groups of films by country of origin and studio, can be conducted only on the basis of aggregate data for CIS countries, excluding Ukraine.

In this overview, data for 2007–2010 are from the distribution year, and data for 2011 and H1 2012 are from the calendar year, so it is impossible to run a direct comparison of the indicators from 2010 and 2011.[80]

Film distribution market volume in Russia

Every year, approximately 350 films are shown at Russian cinemas. An increase in the annual number of films released is evident in the market as a result of the development of digital film screenings. In recent years, the main trend in Russia's film distribution has been the transition to digital technology.

In 2011, 331 new films were released in Russian cinemas[81] (out of a total of 353 films in distribution); of these, 247, or 75%, were released in digital format (the total number of films in digital format for 2011 was 260, or 73.7%). The share of digital 2D and 3D releases is also growing, along with the number of digital screens. In H1 2012, 174 of the 192 new releases were distributed to cinemas in digital format (91% of the number of new releases in the first half of the year). In total, there were 218 films in distribution, including 193 in digital format.

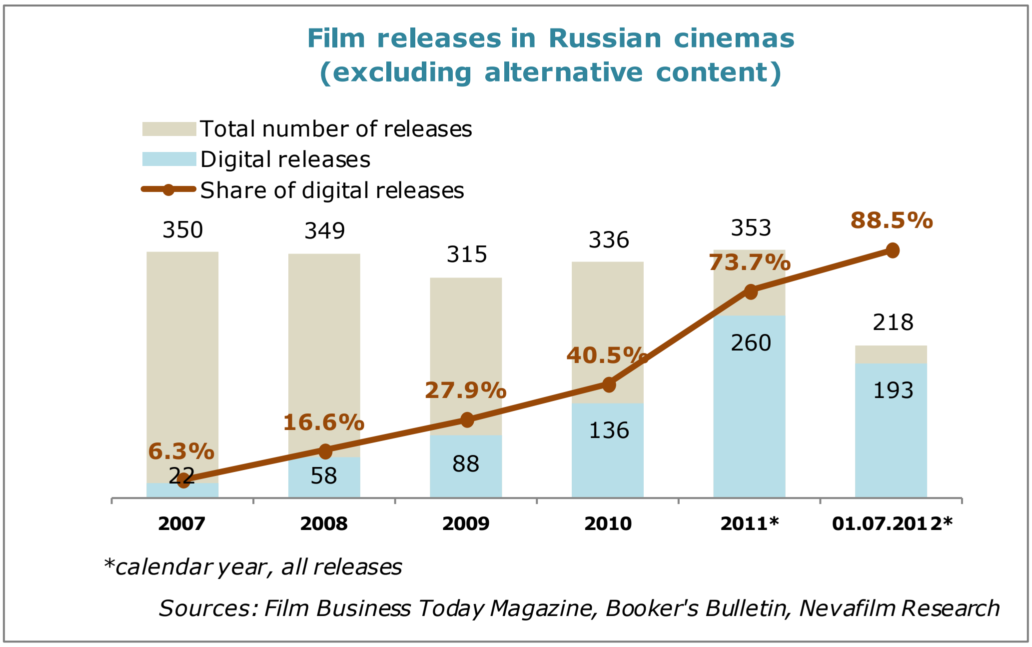

Figure 30. Film releases in Russian cinemas (excluding alternative content)

Since the 2008–2009 financial crisis, box office returns have been increasing: in 2011, they amounted to RUB 34 billion.

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[80] A comparison may be found in the report entitled *The Russian Cinema Market. Results for 2011* at http://www.nevafilm.com

[81] Not counting alternative content

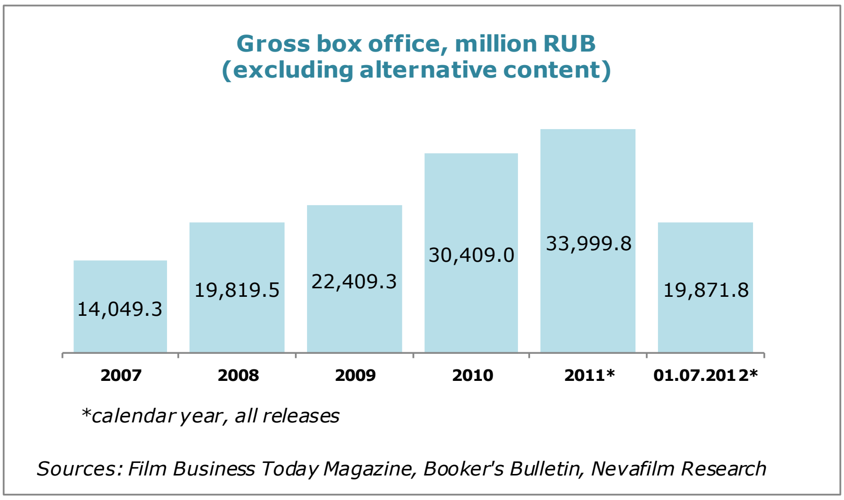

Figure 31. Gross box office, million RUB (excluding alternative content)

However, the growth rates of box office returns in Russia have slowed: whereas in 2010 the growth rate was 35.7%, it fell to 11.8% in 2011, although it did increase to 19.3% in H1 2012.

Table 28. The Film Distribution Market in Russia

Year	Total number of releases	Digital releases	Share of digital releases	Gross box office returns, million RUB (excluding alternative content)	Admissions in Russia, million people (excluding alternative content)	Average ticket price, RUB	Annual admissions per capita	Annual admissions in cities with modern cinemas per capita
2007	350	22	6.3%	14 049.3	103.4	135.9	0.73	1.43
2008	349	58	16.6%	19 819.5	118.5	167.3	0.83	1.61
2009	315	88	27.9%	22 409.3	132.4	169.2	0.93	1.79
2010	336	136	40.5%	30 409.0	155.9	195.0	1.10	2.07
2011*	353	260	73.7%	33 999.8	159.8	212.8	1.13	2.12
01.07.2012*	218	193	88.5%	19 871.8	86.6	229.4	1.22	2.30

**calendar year, all releases*

Sources: Film Business Today Magazine, Booker's Bulletin, Nevafilm Research

A trend is emerging with the development of digital 3D film exhibition: the country's box office returns are increasing primarily due to higher ticket prices since 2010. In 2010, the average price of a cinema ticket increased by 15.4%; that figure was 8.9% in 2011 and 8.3% in H1 2012. We have seen a decline in the growth rates of the price of cinema attendance since 2010. In 2011–2012, the average price of cinema attendance did not fall below RUB 200.

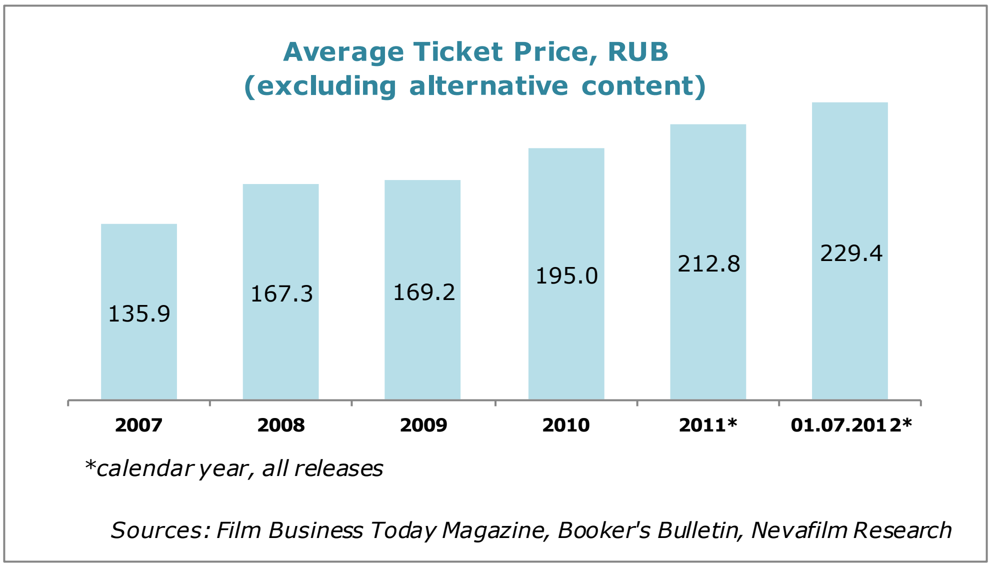

Figure 32. Average Ticket Price, RUB (excluding alternative content)

Cinema attendance in Russia is growing; however, as is the case with box office returns and ticket prices, that growth rate is slowing. In 2011, 159.8 million cinema tickets were sold in the country. According to provisional information, cinema admissions in Russia rose by 5.8% in 2012 to an estimated 169 million. The market share for Russian films is estimated to have been 15.1%.[82]

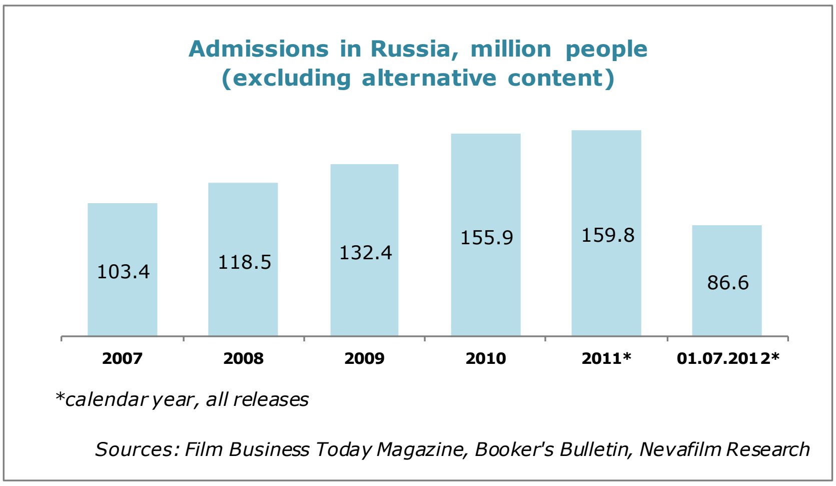

Figure 33. Admissions in Russia, million people (excluding alternative content)

The level of film consumption in Russia is increasing, having reached 1.1 visits to the cinema per person per year on the whole throughout the country and 2.1 in cities with modern cinemas.[83] In the first half of 2012, we have also seen an increase in these indicators to 1.2 and 2.3 respectively.

[82] Observatory estimates based on information from *Russian Film Business Today*
[83] For the sake of comparison, according to data from the European Audiovisual Observatory, in 2010 in the EU the level of film consumption was 1.93 visits per year per person. In France, this number was 3.28; in Germany, it was 1.55; in the UK, it was 2.72; and in North America, it was 4.1. In nearly all countries (except France), this indicator had fallen in comparison with 2009 (by 0.01–0.1 times per year per person).

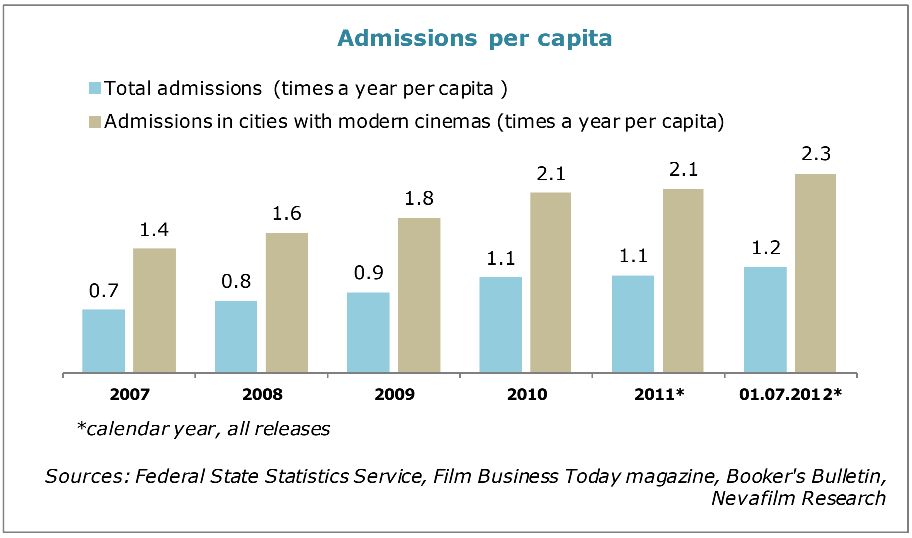

Figure 34. Admissions per capita

Highpoints in film distribution in Russia from 2007 to 01 July 2012

The top performing films at the Russian box office are US-made films. However, since 2004, Russian films have also featured in the top ten, sometimes with very strong results. In 2008, the Russian film *The Irony of Fate: The Sequel* topped box office takings, repeating the performance of the film *Night Watch*, which took first place in 2004.

Table 29. Top 10 films by box office in CIS (from 2007, excluding Ukraine)

Rank	Title	Distributor in Russia	Country of production	Number of prints	Gross Box Office (million RUB)	Box Office per screen (RUB)
			2007			
1	*Pirates of the Caribbean: At World's End*	Buena Vista Sony Pictures Releasing	USA	703	788.2	1,121.30
2	*Shrek the Third*	Universal Pictures International	USA	596	597.6	1,002.60
3	*Volkodav iz roda Serykh Psov* (Wolfhound)	Central Partnership	Russia	601	511.4	850.9
4	*Harry Potter and the Order of the Phoenix*	Karo Premier	UK, USA	534	417.1	781.2
5	*Zhara* (The Heat)	Gemini	Russia	600	401.4	669
6	*Transformers*	Universal Pictures International	USA	700	389.7	556.8
7	*Spider-Man 3*	Buena Vista Sony Pictures Releasing	USA	560	356.3	636.3
8	*Night at the Museum*	20th Century Fox CIS	USA, UK	455	331.9	729.4
9	*Taxi 4*	Central Partnership	France	466	308	660.9
10	*Boi s tenyu-2* (Shadow Boxing 2)	Central Partnership	Russia	583	300.8	515.9
			2008			
1	*The Irony of Fate. The Sequel*	20th Century Fox CIS	Russia	914	1,238.30	1,354.80
2	*Madagascar: Escape 2 Africa*	UPI	USA	850	1,012.20	1,190.90

Rank	Title	Distributor in Russia	Country of production	Number of prints	Gross Box Office (million RUB)	Box Office per screen (RUB)
3	*The Admiral*	20th Century Fox CIS	Russia	1,107	835.9	755.1
4	*The Mummy: Tomb of the Dragon Emperor*	Universal Pictures International	USA, Germany	854	689.3	807.2
5	*Samyy luchshiy film* (The Best Movie)	Karoprokat	Russia	702	684.3	974.8
6	*Wanted*	Universal Pictures International	USA, Germany	859	652.4	759.5
7	*Hancock*	Buena Vista Sony Pictures Releasing	USA	645	644.5	999.3
8	*Kung Fu Panda*	Universal Pictures International	USA	821	517.9	630.8
9	*Quantum of Solace*	Buena Vista Sony Pictures Releasing	UK, USA	750	449.2	598.9
10	*Indiana Jones and the Kingdom of the Crystal Skull*	Universal Pictures International	USA	811	422.8	521.3
			2009			
1	*Ice Age: Dawn of the Dinosaurs*	20th Century Fox CIS	USA	1,098	1,417.4	1,290.9
2	*2012*	Buena Vista Sony Pictures Releasing	USA, Canada	840	1,162.8	1,384.3
3	*The Inhabited Island 1: Stranger*	Karoprokat	Russia	916	693.7	757.3
4	*Harry Potter and the Order of the Phoenix*	Karo Premier	UK, USA	915	595.7	651.1
5	*The Twilight Saga: New Moon*	West	USA	680	591.4	869.7
6	*Transformers: Revenge of the Fallen*	Central Partnership	USA	913	577.2	632.2
7	*Lovey-Dovey 2*	Karoprokat	Russia	931	567.1	609.1
8	*Kanikuly strogogo rezhima* (High Security Vacation)	20th Century Fox CIS	Russia	1,041	558.0	536.0
9	*Taras Bulba*	Central Partnership	Russia	648	541.3	835.4
10	*Stilyagi* (Hipsters)	Central Partnership	Russia	893	534.0	598.0
			2010			
1	*Avatar*	20th Century Fox CIS	USA, UK	1,327	3,517.5	2,650.7
2	*Shrek Forever After*	Central Partnership	USA	1,238	1,542.8	1,246.2
3	*Alice In Wonderland*	Walt Disney Sony Pictures Releasing	USA	625	1,265.6	2,025.0
4	*The Twilight Saga: New Moon*	West	USA	1,085	792.4	730.3
5	*Harry Potter and the Deathly Hallows: Part 1*	Karo Premier	UK, USA	1,134	773.9	682.4
6	*Clash of the Titans*	Karo Premier	UK, USA	921	739.1	802.5

Rank	Title	Distributor in Russia	Country of production	Number of prints	Gross Box Office (million RUB)	Box Office per screen (RUB)
7	*How To Train Your Dragon*	Central Partnership	USA	801	705.4	880.7
8	*Tangled*	Walt Disney Sony Pictures Releasing	USA	710	697.7	982.7
9	*Nasha Russia. Yaytsa Sudby* (Our Russia: The Balls of Fate)	Central Partnership	Russia	1,025	667.2	651.0
10	*Megamind*	Central Partnership	USA	942	661.0	701.7
			2011*			
1	*Pirates of the Caribbean: At World's End*	Walt Disney Sony Pictures Releasing	USA	1,716	1,782.8	1,038.9
2	*Puss in Boots*	Central Partnership	USA	1,299	1,522.2	1,171.8
3	*Transformers 3: Dark of the Moon*	Central Partnership	USA	1,385	1,265.4	913.6
4	*Harry Potter and the Deathly Hallows: Part 2*	Karo Premier	UK, USA	1,562	1,050.7	672.6
5	*Twilight Saga: Breaking Dawn, Part 1*	West	USA	1,275	978.9	767.8
6	*Kung Fu Panda 2*	Central Partnership	USA	1,342	899.3	670.1
7	*Vysotsky. Thank You For Living*	Walt Disney Sony Pictures Releasing	Russia	1,400	842.9	602.1
8	*Fast Five*	Universal Pictures International	USA	1,100	807.0	733.6
9	*Rio*	20th Century Fox CIS	USA	1,297	702.6	541.7
10	*Yolki 2* (Seven Degrees Of Celebration)	Bazelevs	Russia	1,467	630.3	429.6
			01 July 2012*			
1	*Madagascar 3*	Central Partnership	USA	1,830	1,511.7	826.1
2	*The Avengers*	Walt Disney Sony Pictures Releasing	USA	1,210	1,272.7	1,051.9
3	*Men In Black 3*	Walt Disney Sony Pictures Releasing	USA	1,519	1,145.9	754.4
4	*John Carter*	Walt Disney Sony Pictures Releasing	USA	1,203	992.8	825.2
5	*Prometheus*	20th Century Fox CIS	USA	1,670	704.2	421.7
6	*Clash of the Titans*	Karo Premier	USA	771	651.8	845.4
7	*Battleship*	Universal Pictures International	USA	1,205	649.2	538.8
8	*Journey 2: The Mysterious Island*	Karo Premier	USA	888	525.2	591.5
9	*The Lorax*	Universal Pictures International	USA	919	472.5	514.1
10	*Titanic 3D*	20th Century Fox CIS	USA	972	395.6	407.0
*calendar year, new releases						

Source: Film Business Today magazine, Booker's Bulletin, Nevafilm Research

Assessing the effectiveness of the film distribution system in Russia

One of the main trends in contemporary Russian distribution is towards releasing a higher number of film prints. The drive towards large-scale releases among the distribution companies may be interpreted as an attempt on their part to gain maximum box office receipts during the first weekend, before pirates copy the film and appear on the Internet; or to give greater weight to cinema exhibition, so that sales of rights to the film-to-video distributors or a TV channel are made at a higher price. At the same time, wide circulation is not always justified by the quality of the title, and the distributor may suffer losses as a result. Even the rising cost of making film prints (linked to the devaluation of the national currency in 2008–2009) did not seriously influence the practice of large-scale releases.

It should be noted that the increase in the number of prints in distribution in Russia began in 2004. 2010 proved to be a critical year for domestic distribution companies, forcing all players – from the majors to independent art house distributors – to adapt to the new realities and begin releasing films in digital format. In 2011, digital distribution began to yield real results. This was reflected primarily in a sharp increase in the number of prints in Russian distribution from 83,400 in 2010 to 111,300 in 2011 (for new releases), a 33.5% increase. This growth is due mainly to a rise in the number of digital prints[84] (from 20,000 to 56,700: an increase of more than 183%). While previous years saw an impressive increase in digital prints of more than 360%, the number of digital prints was low. Currently, digital prints account for over 50% of all prints in circulation for the first time, up from 24% in 2010.

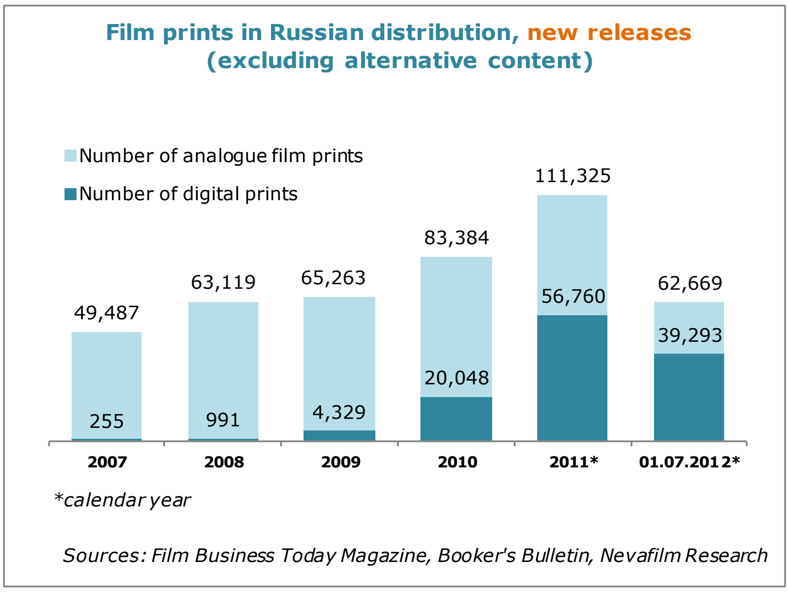

Figure 35. Film prints in Russian distribution, new releases (excluding alternative content)

Since 2010, there has been strong growth in offprint numbers for Hollywood, Russian, and European films and those made by independent US studios. Especially strong growth is being seen in Hollywood films; in 2009, the average number of prints of a single film stood at 367; in 2011, this figure had reached 675. In 2011, there was a large rise in the circulation of films from other countries (from 23 copies per film on average in 2010 to 99 in 2011).

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[84]A ‘digital print’ is taken to mean the maximum simultaneous number of digital screens on which a film was shown.

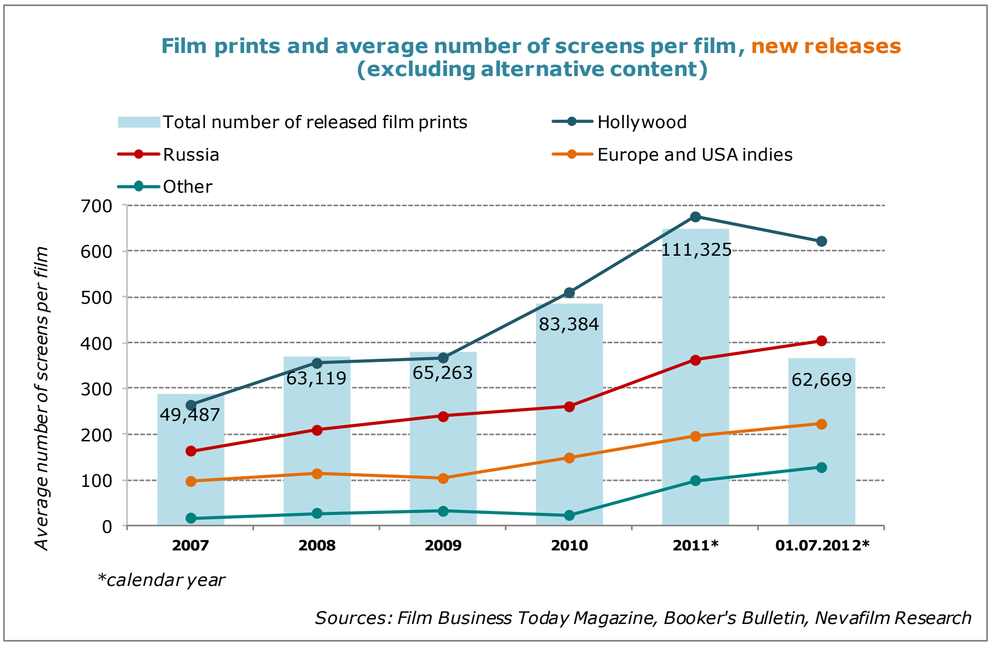


Figure 36. Film prints and average number of screens per film, new releases (excluding alternative content)

A curious result of these trends was a dip in average box office returns and admissions per screen, and per print. In 2011, returns per print in roubles fell by 21%, and admissions decreased by 28%. This is the first time the Russian film industry has experienced this kind of phenomenon. In other words, a decrease in duplication expenses borne by distributors allows them to move painlessly towards increasing film circulation despite falling per-screen returns.

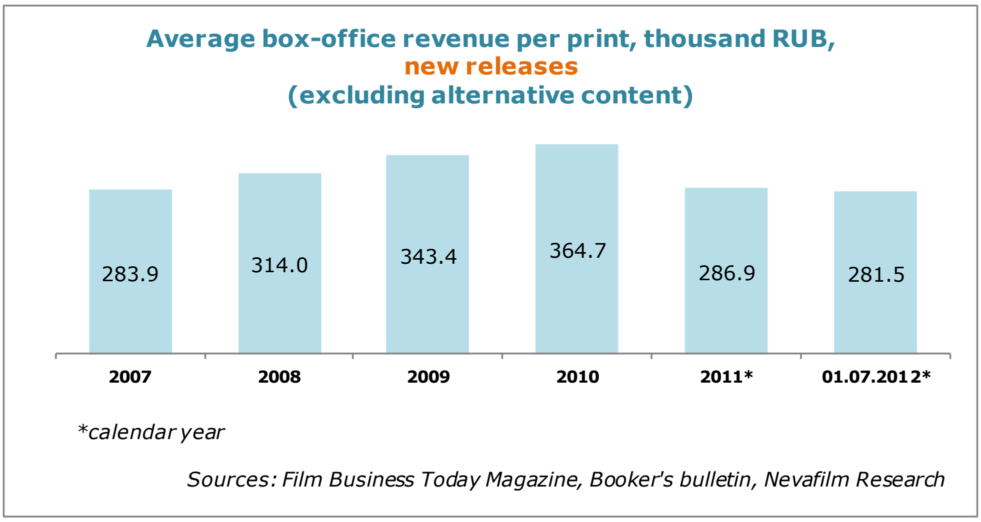


Figure 37. Average box office revenue per print, thousand RUB, new releases (excluding alternative content)

At the same time, this emerging situation cannot easily be classified as unambiguously positive, since film rotation in Russian cinemas is accelerating. For example, while a film spent an average of 53 days in distribution in 2009 and 57 days in 2010, this number fell to 42 days in 2011 and to 34 in H1 2012.

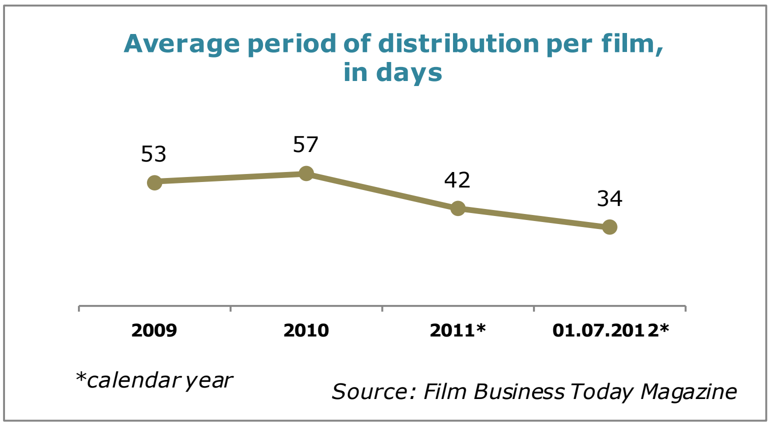


Figure 38. Average period of distribution per film, in days

Digital format releases allow distributors to save considerably on prints, given that there is as yet no system for sharing the costs of digital projection equipment between exhibitors and distributors in Russia. Printing and delivering a single 35 mm film print in Russia costs about RUB 37,000, including advertising reels, while producing a single digital cinema package (DCP), including hard disc turnover and delivery, costs only about RUB 3,700.

As a rule, distributor revenues amount to 50% of cinema box office receipts, so these may be calculated and compared against the costs of printing copies and producing DCPs. Analysis shows that the share of print costs as a proportion of total distributor expenses remained stable from 2007–2010 at the level of 21% of revenues, or 10% of box office receipts. By 2011–2012, they had grown to 26% of revenues, or 13% of box office receipts, in connection with the continuing growth in the number of copies per film.

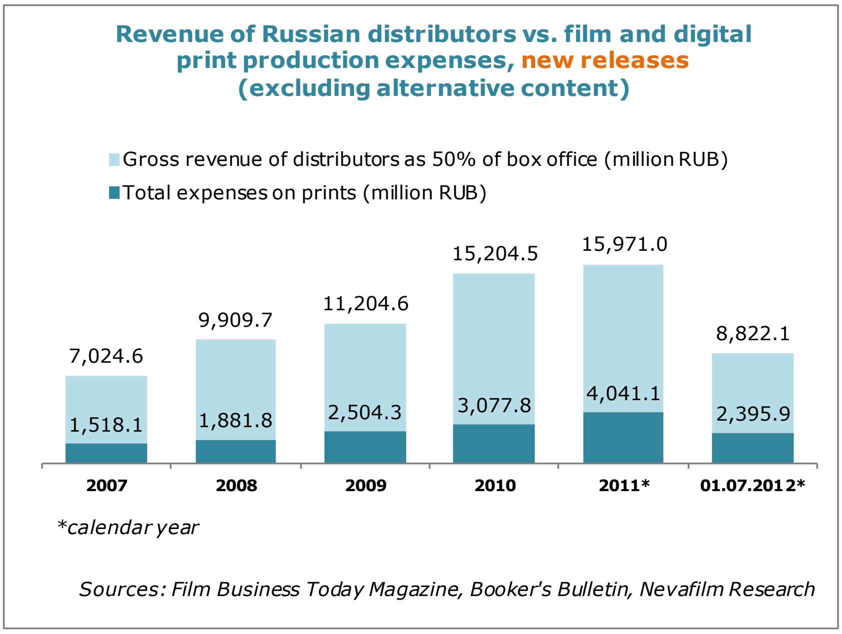


Figure 39. Revenue of Russian distributors vs. film and digital print production expenses, new releases (excluding alternative content)

Information on film marketing budgets in Russia is normally confidential, with only a small number of producers willing to publicize it. Nevafilm Research managed to collect film distribution marketing data for 51 domestic films released in Russia between 2007 and 2012 (this accounts for approximately 12% of all Russian releases for this period).[85]

Since the sample is insufficiently representative, it is difficult to draw conclusions about any trends these figures might suggest. However, analysis shows that amounts spent by producers (and distributors) vary greatly between RUB 200,000 and RUB 180 million, averaging out at RUB 30 million (USD 1.1 million). Evidence of a relationship between the films' marketing budgets, production budgets, and box office returns, is especially telling. This indicates that in the majority of cases, marketing expenses add 20–45% to production budgets; however, since Russian releases are generally unprofitable, marketing expenses often exceed box office returns. 2010–2011 produced the most balanced figures, while 2012 saw expenses rise above returns once again.

Figure 40. Average marketing expenses borne by Russian producers and distributors as part of distribution

[85] We analysed figures for the following films: *Sem kabinok* (Seven Stalls), *Gloss, 12, 1612, Vise, Mermaid, Cruelty, Moscow Chill, Kacheli* (The Swing), *Realnyy papa* (A Real Dad), *Den D* (D-Day), *S.S.D., Priklyuchenya Alenushki i Eremi* (The Adventures of Alena and Yerema), *Skazhi_Leo* (Say_Leo), *Hipsters, Ocean, Kislorod* (Oxygen), *Trete zhelanie* (The Third Wish), *I Am, Pikap: Sem bez pravil* (Pickup: No Rules), *Nasha Masha i Volshebnyy orekh* (Our Masha and the Magic Nut), *Novye priklyucheniya Alenushki i Eremy* (The New Adventures of Alena and Yerema), *The Golden Mean, A Yakuza's Daughter Never Cries, Detyam do 16...* (Children under 16...), *Dark World 3D, The Last Station, Six Degrees of Celebration, How Not to Rescue a Princess, Hook, Na kryuchke!* (Line and Sinker!), *Burnt by the Sun 2: Citadel, Supermenedzher, ili Motyga sudby* (Supermanager, or the Hoe of Fate), *Bez muzhchin* (Without Men), *Bablo* (Cash), *Shadow Boxing 3. The Final Round, Bezdelniki* (Loafers), *Angel, Six Degrees of Celebration 2, Ivan Tsarevich & the Grey Wolf, Kamen* (Stone), *Poklonnitsa* (The Admirer), *Faust, Dom na obochine* (The Roadside House), *The Conductor, Heart's Boomerang, Shpion* (Spy), *Nebo pod serdtsem* (Like Heaven in the Heart), *Voin.com* (Warrior.com), *Match, Bagrovy Tsvet Snegopada* (Crimson Snowfall), and *Skazka. Est* (Fairy Tale. Present)

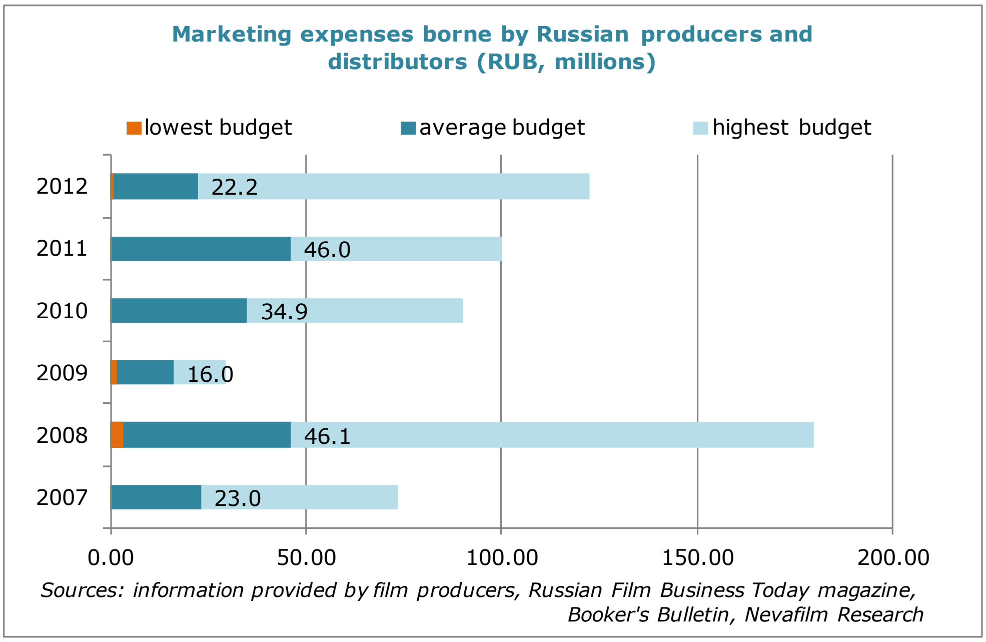


Figure 41. Marketing expenses borne by Russian producers and distributors (RUB, millions)

Nevertheless, the effectiveness of distributing feature films in Russia may be analysed by comparing box office receipts per single copy to its printing and delivery costs. The results of this analysis for the period from 2007 to H1 2012 demonstrate that an average of 24% of releases (42% in 2012!) failed to even return the costs of organizing their distribution, meaning that they collect less than RUB 74,000 per screen (bearing in mind that the distributor collects only half of the gross box office receipts – RUB 37,000 – which is needed to print and deliver a single 35-mm print). The share of Russian films failing to recover their print costs averages 41%.

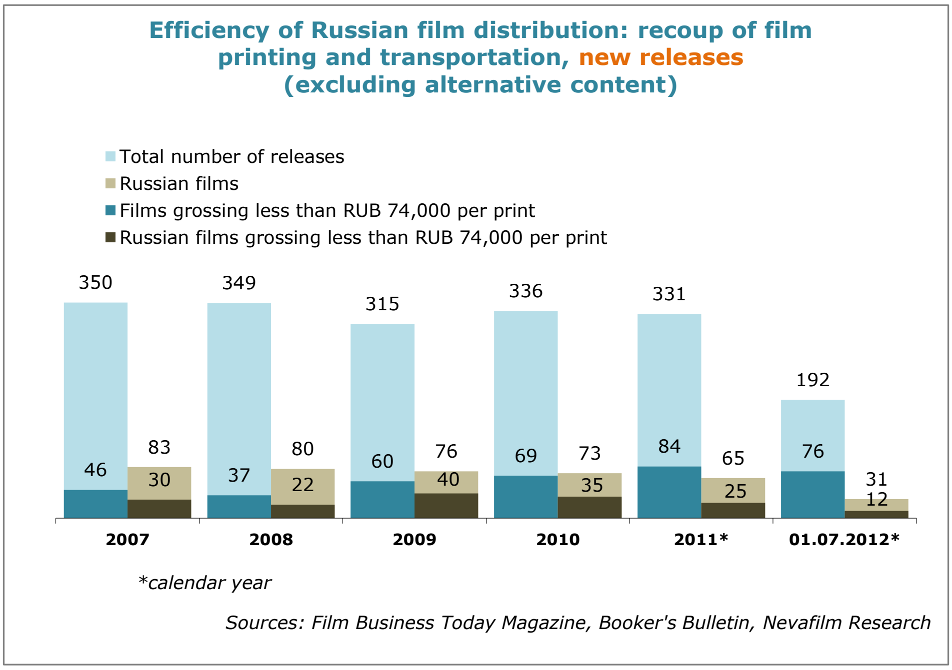


Figure 42. Efficiency of Russian film distribution: recoup of film printing and transportation, new releases (excluding alternative content)

Film releases by country of origin

Analysis of films released in the CIS countries (excluding Ukraine) shows that US-produced films dominate the Russian market in terms of the number of titles released.[86] These films bring in the lion's share of theatrical revenues, and their market share is growing every year (from 46.4% in 2007 to 72.6% in H1 2012 for all releases, and 76.6% for new releases).

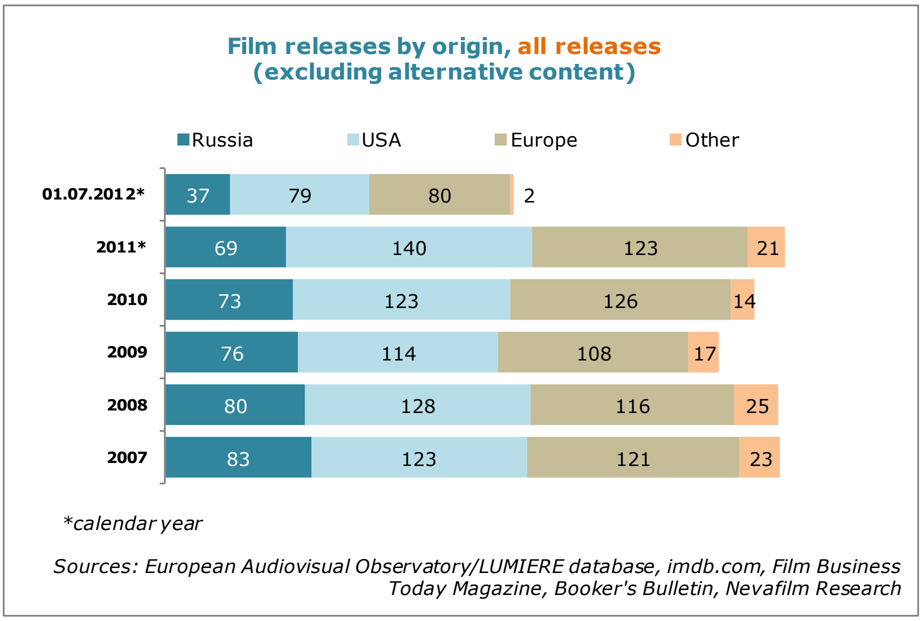


Figure 43. Film releases by origin, all releases (excluding alternative content)

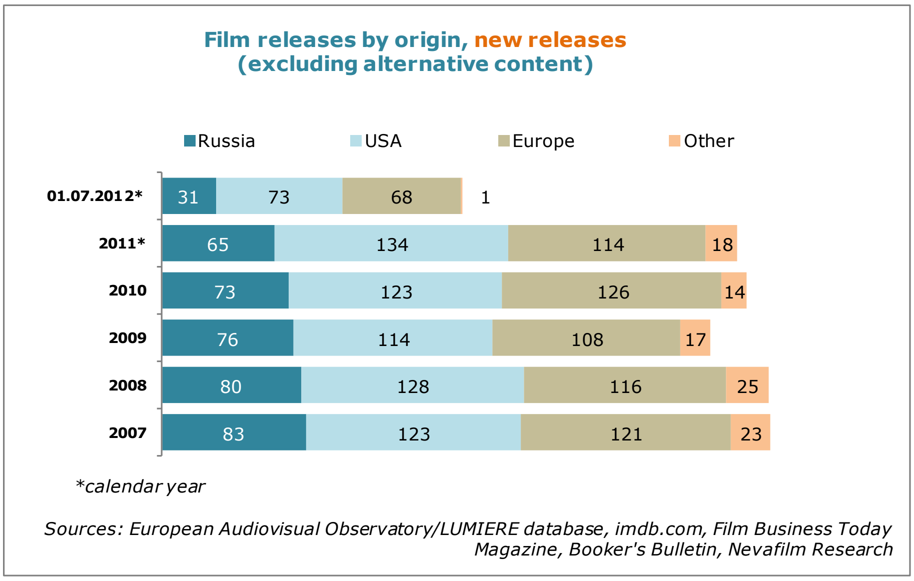


Figure 44. Film releases by origin, new releases (excluding alternative content)

[86] The following method is used to determine the country of production: films produced with Russia's participation are counted as Russian releases; films produced by a European country without Russia's participation are counted as European releases; films produced by the USA or Canada without the participation of Russia or European countries are counted as North American releases; the rest are counted as releases produced by another country.

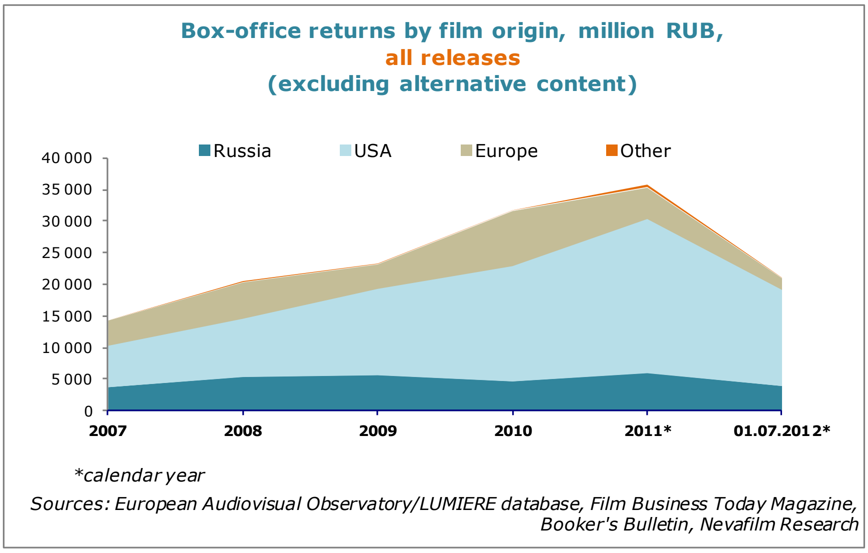


Figure 45. Box office returns by film origin, million RUB, all releases (excluding alternative content)

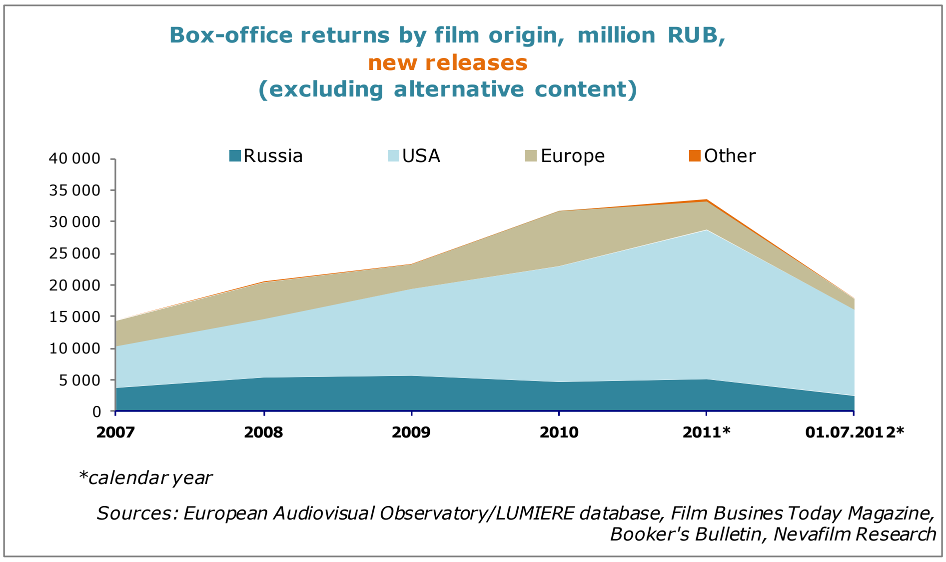


Figure 46. Box office returns by film origin, million RUB, new releases (excluding alternative content)

With regard to Russian-made films, in recent years their share by number of releases has fallen from 24% in 2009 to 18–19% in 2011–2012; their share of box office returns has declined from 24% in 2009 to 17–18% in 2011–2012.

Table 30. Cinema distribution market share in Russia, by country of production (excluding alternative content)

Year	Russian films		US films		European films		Other	
	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)
2007	83	3,709.2	123	6,664.2	121	3,994.1	23	1.6
	23.7%	25.8%	35.1%	46.4%	34.6%	27.8%	6.6%	0.0%
2008	80	5,319.2	128	9,331.5	116	5,740.4	25	147.7
	22.9%	25.9%	36.7%	45.4%	33.2%	27.9%	7.2%	0.7%
2009	76	5,597.0	114	13,782.7	108	3,863.5	17	67.0
	24.1%	24.0%	36.2%	59.1%	34.3%	16.6%	5.4%	0.3%
2010	73	4,623.8	123	18,351.0	126	8,713.6	14	24.0
	21.7%	14.6%	36.6%	57.9%	37.5%	27.5%	4.2%	0.1%

Year	Russian films		US films		European films		Other	
	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)	Number of releases	Gross box office (million RUB)
2011*	69	5,925.1	140	24,506.9	123	4,948.5	21	374.4
	19.5%	16.6%	39.7%	68.5%	34.8%	13.8%	5.9%	1.0%
2011**	65	5,059.4	134	23,661.9	114	4,520.9	18	370.1
	19.6%	15.1%	40.5%	70.4%	34.4%	13.5%	5.4%	1.1%
01 July 2012*	37	3,896.7	79	15,314.4	80	1,836.9	2	32.7
	18.7%	18.5%	39.9%	72.6%	40.4%	8.7%	1.0%	0.2%
01 July 2012**	31	2,455.0	73	13,662.6	68	1,699.0	1	30.9
	17.9%	13.8%	42.2%	76.6%	39.3%	9.5%	0.6%	0.2%

* calendar year, all releases
** calendar year, new releases

Sources: European Audiovisual Observatory / LUMIERE database, imdb.com(for country of origin), Film Business Today Magazine, Booker's Bulletin, Nevafilm Research

As regards the distribution of specifically European movies in Russia, the leader in the number of releases over the period in question is France, followed by the UK, Germany, Spain, and Italy. The UK is the box office leader among these European films (about 5.9% over the period 2007 to 01 July 2012); in all, EU countries have generated about 15% of total Russian box office receipts from 2007 to 01 July 2012, while other European countries only accounted for 0.07%. The share of box office receipts from films produced in Europe with US investment (so-called 'inward investment films') remains quite high: 5.8% of total box office receipts from Russian film distribution over the period 2007 to 01 July 2012. At the same time, the total number of such films released was quite small – just 55 (2.9% of the total releases over the same period).

Table 31. Distribution of European films in Russia (2007–01 July 2012)

Country	Number of releases		Box office returns (million RUB)	
	Number of releases	Share of total number of releases in Russia	Box office receipts	Share of total box office in Russia
Austria	5	0.26%	1.59	0.00%
Belgium	8	0.42%	233.32	0.17%
Bulgaria	2	0.10%	2.63	0.00%
UK	139	7.24%	8,285.42	5.89%
Hungary	4	0.21%	41.93	0.03%
Germany	95	4.95%	5,536.91	3.94%
Greece	1	0.05%	0.70	0.00%
Denmark	12	0.63%	138.48	0.10%
Ireland	6	0.31%	134.94	0.10%
Spain	45	2.34%	607.96	0.43%
Italy	24	1.25%	174.28	0.12%
Latvia	1	0.05%	0.27	0.00%
Luxembourg	1	0.05%	1.40	0.00%
Netherlands	5	0.26%	11.16	0.01%
Poland	3	0.16%	8.86	0.01%
Portugal	1	0.05%	0.50	0.00%
Romania	7	0.36%	119.35	0.08%
Finland	4	0.21%	24.44	0.02%
France	209	10.89%	4,708.84	3.35%
Czech Republic	3	0.16%	264.64	0.19%
Sweden	13	0.68%	371.13	0.26%

Country	Number of releases		Box office returns (million RUB)	
	Number of releases	Share of total number of releases in Russia	Box office receipts	Share of total box office in Russia
Total EU	**588**	**30.63%**	**20,668.78**	**14.70%**
Bosnia and Herzegovina	1	0.05%	0.15	0.00%
Iceland	3	0.16%	17.52	0.01%
Norway	8	0.42%	12.53	0.01%
Serbia	1	0.05%	8.86	0.01%
Serbia and Montenegro	1	0.05%	0.07	0.00%
Turkey	2	0.10%	1.14	0.00%
Ukraine	9	0.47%	14.98	0.01%
Croatia	1	0.05%	7.43	0.01%
Switzerland	6	0.31%	33.90	0.02%
Total other European countries	**32**	**1.67%**	**96.60**	**0.07%**
Incoming investment	55	2.86%	8,172.69	5.81%
Total EU	**675**	**35.16%**	**28,938.07**	**20.59%**

** including data for 2011 and to 1 July 2012 by calendar year and for all releases*

Sources: European Audiovisual Observatory / LUMIERE database, imdb.com(for country of origin), Film Business Today Magazine, Booker's Bulletin

The most popular European film in Russian theatrical distribution for the period in question is *Resident Evil: Afterlife* (2010), excluding inward investment and/or EUR/US co-productions.

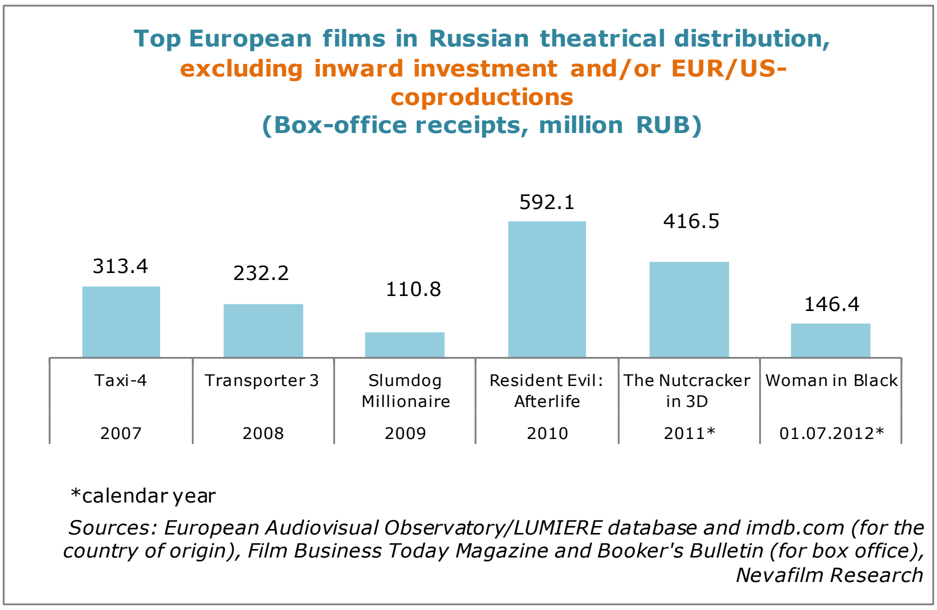


Figure 47. Top European films in Russian theatrical distribution, excluding inward investment and/or EUR/US-coproductions (Box office receipts, million RUB)

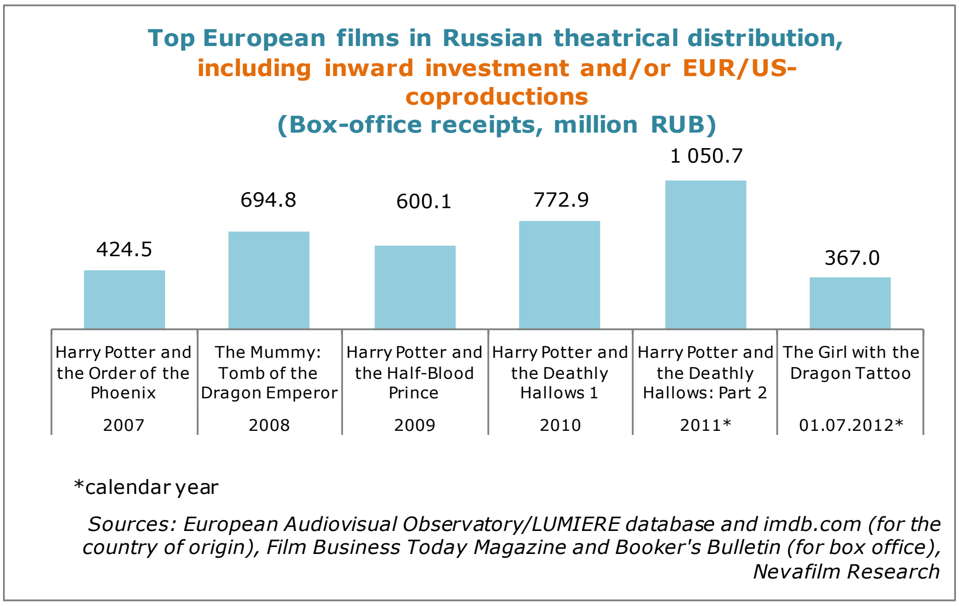


Figure 48. Top European films in Russian theatrical distribution, including inward investment and/or EUR/US-coproductions (Box office receipts, million RUB)

3.4.2 Principal trends and development prospects

TV channel support

TV channels have played an important role in the Russian film market since 2004, when, as well as getting involved in the production of domestically produced feature films, Channel One Russia started using its airtime to provide wide advertising support to projects it was involved in. In 2005, the CTC and Rossiya TV channels also began supporting film distribution. In 2007, they were joined by NTV; in 2008, by TNT; and in 2010 by Muz-TV, which became UTV in autumn 2012. Generally, the higher the box office potential of a feature and the greater the TV channel's interest in its successful run (if it was involved in the film's production), the larger the TV campaign.

It should be noted that, whereas in 2007–2009 Russia's top 10 box office hits list always included Russian films supported to various degrees by television companies, in 2010–2011, their number was reduced to just one film, and in H1 2012, not one Russian film was a top 10 hit.

In all, over the period from December 2007 to July 2012, more than 50 national films (13% of all the releases by Russian producers over the period) received free TV air time.

Table 32. Russian films whose release was supported by TV channels

Rank, for the year	Title	TV Channel	Box office receipts (million RUB)
2007			
3	*Volkodav iz roda Serykh Psov* (Wolfhound)	Channel One, NTV	511.4
5	*Zhara* (The Heat)	CTC	401.4
11	*Lubov-Morkov* (Lovey-Dovey)	Channel One	297.4
18	*Apocalypse Code*	Channel One	205.3
68	*Konservy* (Preserves)	Rossiya	52.9
84	*Tiski* (Vise)	Rossiya	36.3
130	*Odna Lyubov na Million* (One Love in a Million)	NTV	20.1

Rank, for the year	Title	TV Channel	Box office receipts (million RUB)
197	*Russkaya Igra* (The Russian Game)	Rossiya	6.1
	2008		
1	*The Irony of Fate: The Sequel*	Channel One	1,238.30
3	*The Admiral*	Channel One	835.9
5	*Samyy luchshiy film* (The Best Movie)	TNT (Comedy Club)	684.3
28	*We Are from the Future*	Rossiya	204.1
32	*There is Nothing Kings Cannot Do*	NTV	184.9
76	*1814*	CTC	61.8
93	*Real Dad*	Rossiya	46.5
147	*Kamennaya Bashka* (The Stone Head)	NTV	22
158	*Swings*	Rossiya	18.5
	2009		
3	*The Inhabited Island 1: Stranger*	CTC	693.7
7	*Lovey-Dovey 2*	Channel One	567.1
8	*High Security Vacation*	Channel One	558
9	*Taras Bulba*	Rossiya	541.3
10	*Stilyagi* (Hipsters)	Rossiya, Channel One	534
17	*Samyy luchshiy film-2* (The Best Film 2)	TNT (Comedy Club)	408.1
34	*Obitaemyy ostrov. Skhvatka* (The Inhabited Island: Rebellion)	CTC	192.9
68	*Pro Fedota-Streltsa* (About Fedot the Shooter)	Channel One	82.2
88	*First Love: It's the Music!*	CTC	56.4%
147	*Goryachie novosti* (The Newsmakers)	RBC-TB, Akado (product placement)	19.9
	2010		
9	*Nasha Russia. Yaytsa Sudby* (Our Russia: The Balls of Fate)	TNT (Comedy Club)	667.3
14	*Black Lightning*	CTC	591.2
17	*Kandagar*	Rossiya	446.6
44	*Belka i Strelka. Zvezdnye Sobaki* (Space Dogs)	Rossiya	186.9
52	*The Edge* (Kray)	Channel One	154.2
92	*Hooked*	CTC	69.0
101	*Na izmene*	CTC	62.0
115	*The Priest*	Channel One	51.3
124	*Glukhar v kino*	NTV	44.4
139	*Bury Me Behind the Baseboard*	Channel One	34.2
155	*Detyam do 16...* (Children under 16...)	Muz-TV (United Television Holding Russia)	24.3
167	*How I Ended This Summer*	Rossiya	17.6
168	*The Phobos*	CTC	17.6
	2011		
10	*Vysotsky. Thank You For Living*	Channel One	842.9
13	*Yolki 2* (Seven Degrees Of Celebration)	Rossiya	630.3
28	*Office Romance: Our Time*	Channel One	340.4
63	*All Inclusive!*	CTC	169.4
185	*Na kryuchke!* (Hooked!)	CTC	59.0
	1H2012		
24	*August. Eighth.*	Channel One	295.9
27	*Rzhevskiy protiv Napoleona* (Rzhevsky vs. Napoleon)	CTC	239.7
29	*8 First Dates*	Muz-TV (United Television Holding Russia)	221.8
38	*Zolushka* (Cinderella)	Channel One	155.1
42	*Spy*	Rossiya	135.4

Rank, for the year	Title	TV Channel	Box office receipts (million RUB)
67	*Suiciders*	Muz-TV (United Television Holding Russia)	57.4
145	*Atomic Ivan*	Illuzion	1.474

Sources: Film Business Today Magazine, ProfiCinema, data from distributors, open source publications

Art-house film distribution

Russia does not have a chain of specialized art-house cinemas; however, the vast majority of Russian cinemas show not only feature films, but also art-house and 'serious' films for the thoughtful viewer. In 2008, 79% of Russian cinemas had these pictures in their programmes alongside blockbusters intended for a wide audience. By 2011, there had been an increase in the number of cinemas where viewers could watch these films (to 84%).

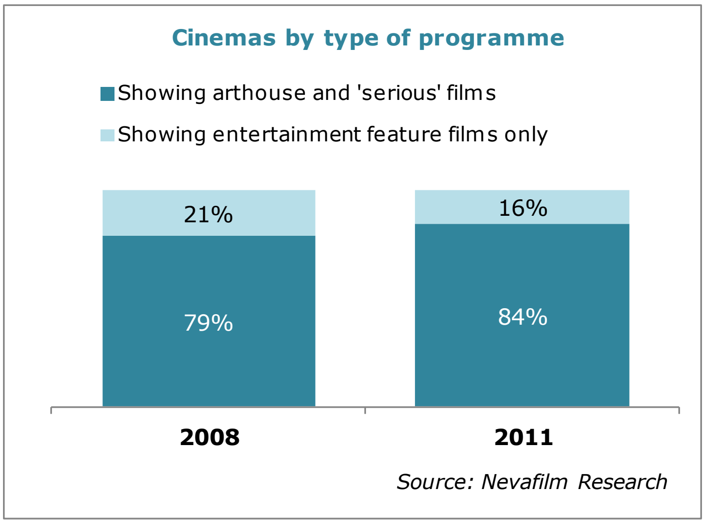


Figure 49. Cinemas by type of programme

This gave birth to Russia's 'limited release' phenomenon: small-scale release of films with narrow appeal (on one to 20 prints), which tour the country over a long period of time. Some features run for a year or longer: *Paris, je t'aime*, the record-holder for limited release in the CIS, took in more than RUB 30 million with 10 prints in 2007. The film *Atonement* achieved similar results in 2008 (though with 49 prints), but in 2009 not a single limited release film managed to achieve this kind of success (the best results came from *Antichrist*, which made almost RUB 11 million with 10 copies).

At the same time, the number of screenings at which art house and 'serious' films are screened is quite low in Russia: 8.4% of screenings in 2008 and 6.6% in 2011.

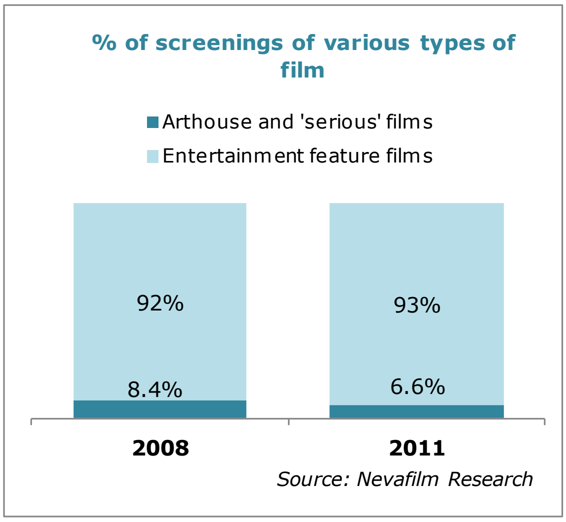


Figure 50. % of screenings of various types of films

In 2012, a study of cinema programmes in large cities showed that approximately 60% of them are showing art-house films to a certain extent, although just 5% of them specialize in art-house programmes.[87]

In addition, limited release films are often released on DVD (provided the distributor holds the necessary rights), which facilitates a reduction in print and delivery expenses, but makes such films vulnerable to pirates.

From 2007 onwards, major exhibitors have begun showing an interest in art-house titles. This has helped these productions expand their presence in Russian distribution. Art-house films have been traditionally well represented on the schedule of the Five Stars cinema chain. The InvestKinoProject chain started the Kolizey art house film club using one of its screens in the Kinoplex in Tolyatti in 2007; the Moscow Formula Kino chain opened a special art screen in its Gorizont (2007) and Europa (2008) venues. A similar screen was launched at the Moscow Oktyabr cinema (it became a test site for the Karo Film network); by the end of 2008, Cinema Park started releasing a whole collection of films under the brand Film With and Without Rules in Chelyabinsk, Novosibirsk, and Tyumen. In addition, the chain regularly holds various festivals. The Future Shorts festival is held no less than three times a year, and in October–November, the Nepravilnoe Kino Festival, which has already become a regular event, brings its films to the regions.

In the summer of 2012, five Russian cinemas became part of the Eurimages/Europa Cinemas chain, which was founded by the Eurimages European Cinema Support Fund: 35 mm and Pioner (Moscow), Chayka (St. Petersburg), Orlenok (Nizhny Novgorod), and Zarya (Kaliningrad). Participation in Eurimages allows cinemas to expand their programme of European films and hold film festivals, where art-house film screenings are more successful. Also, many Russian cinemas regularly participate in similar events or organize their own festivals on various themes. Formula Kino, Paradise, and Cinema Park are among the cinema chains active in this area. Overall in 2011, according to *Bookers' Bulletin*, 76 different festivals took place; to date in 2012, there have already been 68.

[87] Monitoring in 2012, unlike previous large-scale research, took place not according to a representative sample of all the cities in Russia, but in 40 cities with a population of more than 500,000; moreover, during this research, the frequency of a given cinema's dealings with art-house projects was investigated, but the number of screenings of each film was not determined. It was discovered that among 370 cinemas in large cities, about 20 are specialized art cinemas; approximately 30 more have special art-house screens, and 170 more show art films on an occasional basis.

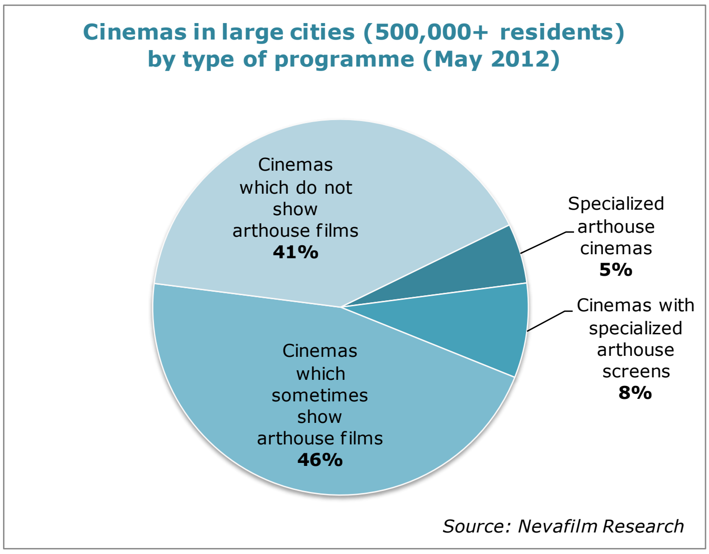


Figure 51. Cinemas in large cities (500,000+ residents) by type of programme (May 2012)

Digital distribution

Transition to digital technologies remains the main trend in Russian film distribution. Nearly 90% of all releases in Russia are released in digital format or on both 35mm and digital formats: that is 15% more than a year earlier, and nearly twice the corresponding number in 2010. At the same time, the share of *exclusively digital releases* is growing: in H1 2012, 43% of films were released in digital-only format (almost 26% more than in 2011).

Russia is witnessing rapid growth in the number of digital releases: in 2010–2011, this doubled each year. In 2011, the number of releases of US productions increased by 160% in comparison with 2010; the number of European and Russian productions doubled, and films from other countries, went up six-fold.

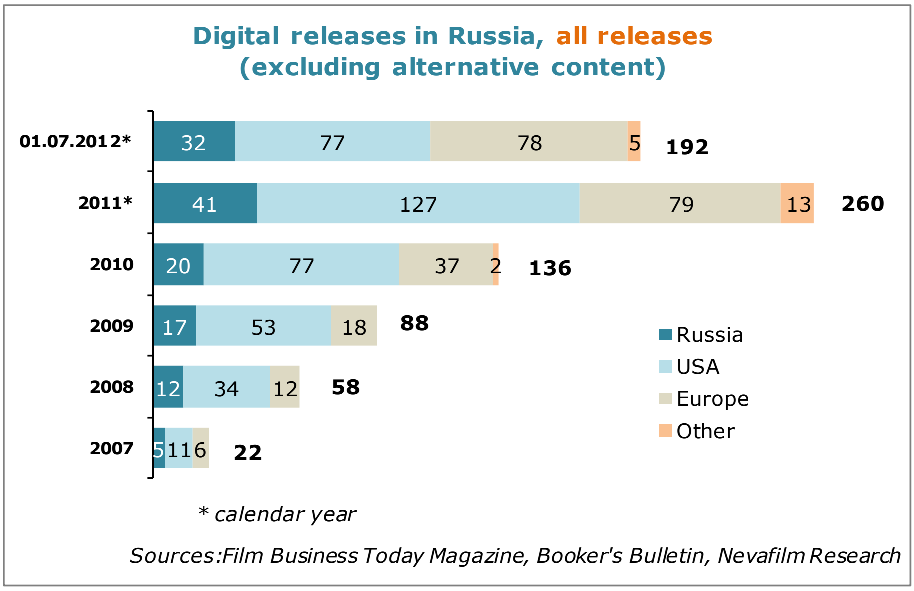


Figure 52. Digital releases in Russia, all releases (excluding alternative content)

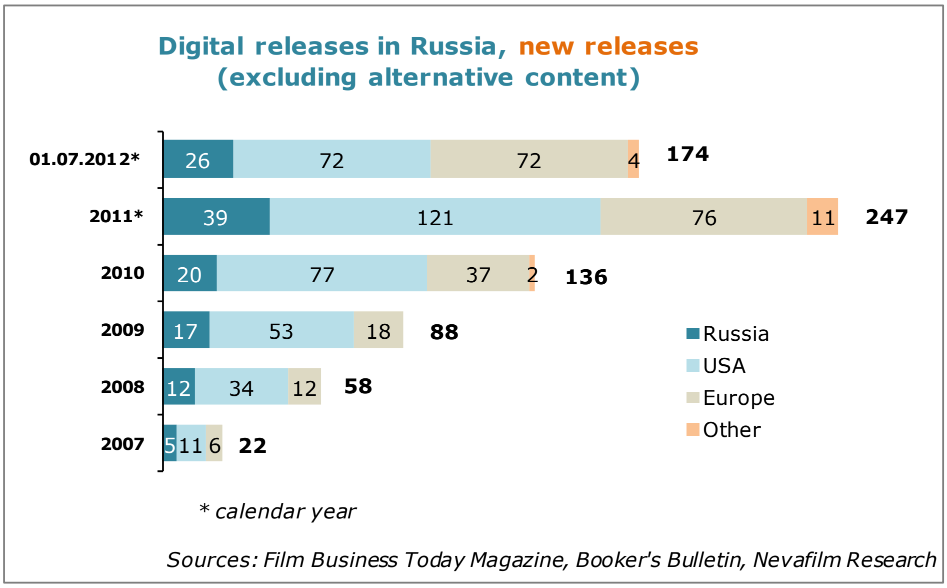


Figure 53. Digital releases in Russia, new releases (excluding alternative content)

Moreover, the increase in the number of digital releases is due to releases with limited distribution – those playing on fewer than 200 screens. In H1 2012, 90% of these films were released in digital format (compared to 74% in 2011 and 20% in 2012), and 60% of them were digital-only. Growth in the share of digital releases playing on fewer than 50 screens is also impressive, rising from 4% in 2012 to 78% in H1 2012; nearly all of these were digital-only. In total in H1, 82 films were released *in digital format only* (not including alternative content).

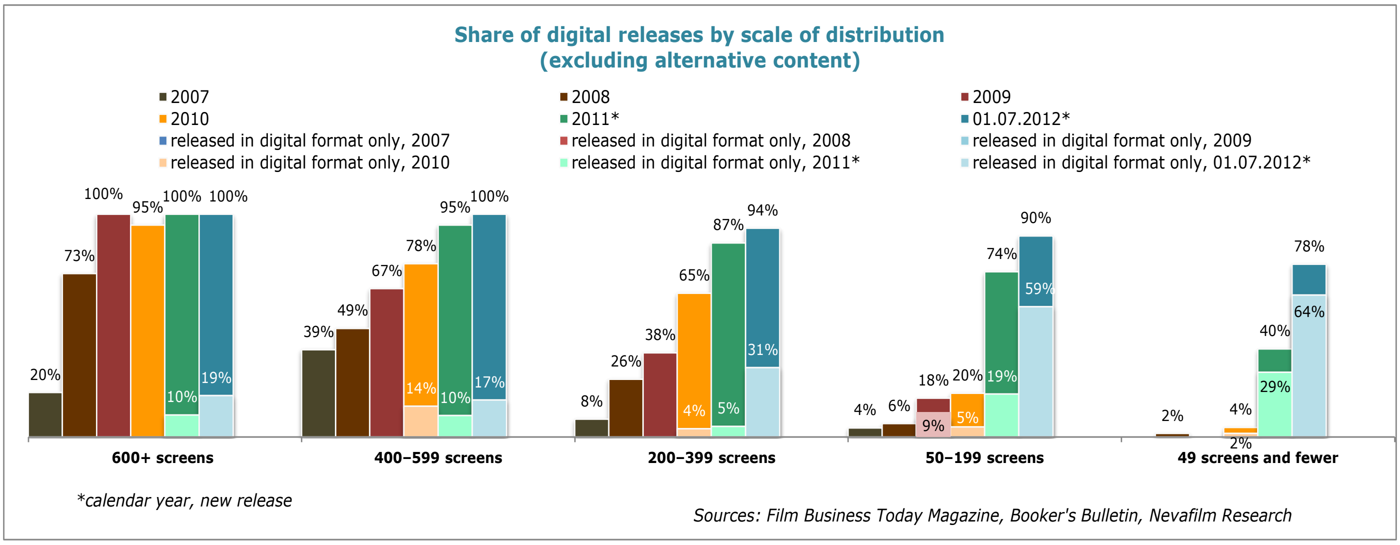


Figure 54. Share of digital releases by scale of distribution (excluding alternative content)

Distribution of 3D films is quite healthy in Russia. While 15 3D films were released in 2009, there were 66 in 2011 (58 of which were new releases) and 37 in H1 2012.

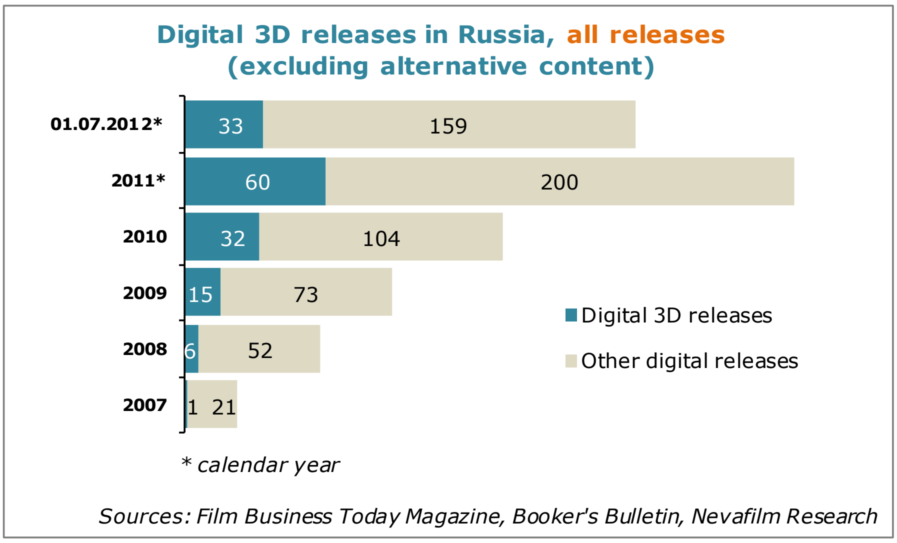


Figure 55. Digital 3D releases in Russia, all releases (excluding alternative content)

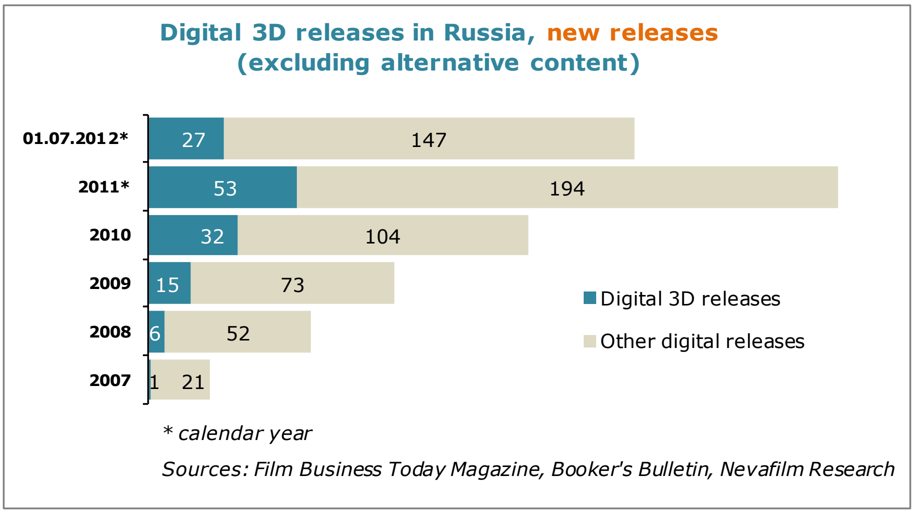


Figure 56. Digital 3D releases in Russia, new releases (excluding alternative content)

Alternative content

The distribution of alternative content distribution is developing rapidly in Russia.[88] The number of alternative releases has increased from 10 films in 2009 to 50 in 2011 and 24 in H1 2012.

[88] Alternative content (or creative content) is defined as content distributed to cinemas and differing from traditional cinema programming (feature and animated films). This can be opera, ballet, concerts, educational projects, sports events, documentaries and science documentaries, and live broadcasts in digital format with at least 2K resolution.

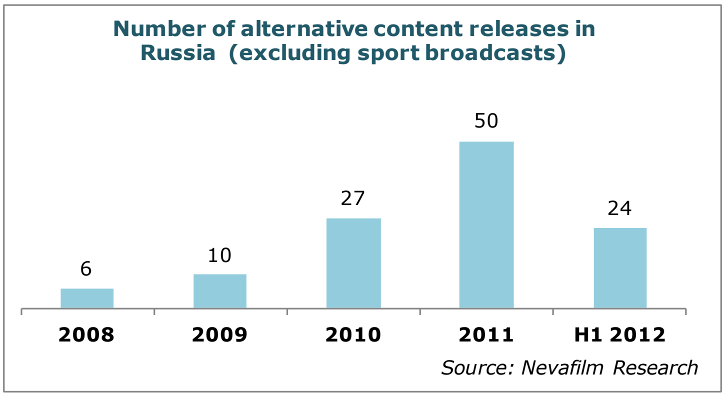


Figure 57. Number of alternative content releases in Russia (excluding sport broadcasts)

This market sector is being developed by Nevafilm Emotion, the distribution branch of Nevafilm, whose subsidiary Nevafilm Research authored this report. As at 1 July 2012, 100 titles had been released to cinemas. As alternatives, cinemas are offered the following to show on the big screen: opera and ballet (including live broadcasts) from the world's leading opera houses – Teatro alla Scala, the Royal Opera House, the Sydney Opera House, and the Paris Opera – and includes classic productions in 3D format, such as *Giselle 3D* and *Lucrezia Borgia 3D*; concert films in 3D format – *Lord of the Dance*, *Peter Gabriel and the New Blood Orchestra 3D*, *Kylie 3D – Aphrodite Les Folies*, and *U2 3D*; concerts by Led Zeppelin, the Chemical Brothers, Prodigy, the Rolling Stones, and others; popular documentary films such as *Cave of Forgotten Dreams 3D* and *The Age of Stupid*. More than 20 live broadcasts have been organized.

Since 2011, the CoolConnections art association has also been developing alternative content for digital cinemas. CoolConnections distributes both opera productions by the Metropolitan Opera and shows by the National Theatre in London (the first of which was *Frankenstein* in the autumn of 2012) to cinemas.

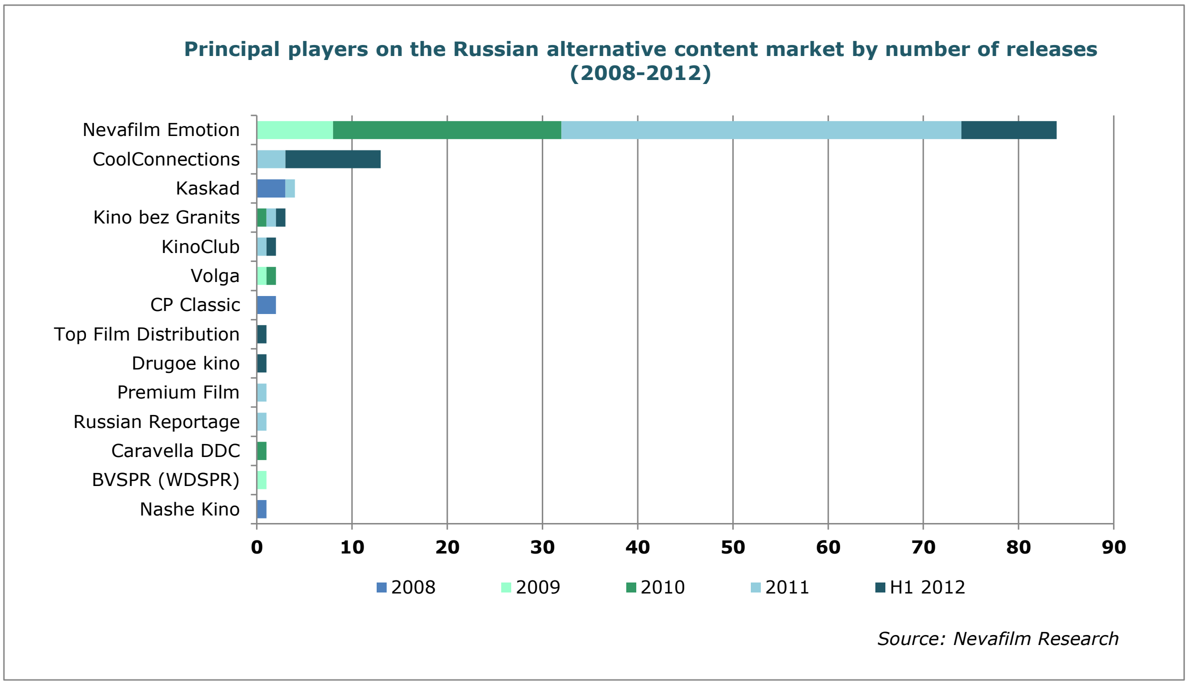


Figure 58. Principal players in the Russian alternative content market by number of releases (2008-2012)

Digital delivery of content to cinemas

In the Russian digital film distribution market, alternative methods of delivering digital prints of films from the film lab to cinemas via the Internet and satellite, without the use of physical media, are increasingly being used.

DCP24 can transfer films through the Internet. By the end of August 2012, DCP24 had connected 251 cinemas in Russia and neighbouring countries to its digital delivery network. More than 60 films have been transferred via the system (one or two films are transferred each week, including test transfers). Today, a cinema must link up to the network using a 5 Mbit unlimited connection. Under these conditions, a film is streamed to the projector room in three days. The main partner of DCP24 (Central Partnership) also has successful experience collaborating with Cascade, 20th Century Fox CIS, Top Film Distribution, Volga, WDSPR, UPI, Luxor, Paradise, Kinoprom, Kazak Film, and Premium Film. According to forecasts made by DCP24, by the end of 2012 at least 50% of Russian cinemas will be equipped for Internet delivery.

In Russia, the system of film and alternative content satellite delivery to digital cinemas is being offered by CineLab Data Delivery. According to company data as at 1 July 2012, 43 films (including test deliveries) were delivered to cinemas. Three hundred and forty-seven cinemas, including leading cinema chains, have been connected to CineLab Data Delivery's satellite delivery system. The system is scheduled to be installed in 500 of the country's cinemas before the end of 2012. Today it takes 12 to 24 hours to transfer a film (depending on the size of the DCP). Two to three films can be delivered in a week. In the near future, the number of satellite channels will double, which will allow the transfer of up to five films per week. As a result, the time needed to transfer a film is set to be reduced to eight hours.

In total, according to estimates by Nevafilm Research, on average no more than 10% of digital prints of a film are sent virtually, saving 2,500 actual discs from being used by September 2012. At the same time, the share for the first half of 2012 represents about 1,200 of these transfers using both methods, which represents about 1.9% of the total number of copies in Russian distribution.

3.4.3 Principal players

Distributors operating in Russia may be divided into groups depending upon the nature of the content they deal in:

- Foreign companies – direct representatives of major Hollywood studios (Universal Pictures International, Buena Vista Sony Pictures Releasing, 20th Century Fox-CIS).
- Russian companies – official representatives of the Hollywood majors (Karo Premier, Central Partnership).
- Independent distribution companies which deal primarily with mainstream films: Paradise, West, Luxor, Top Film Distribution, Cascade, Volga, Nashe Kino, Karoprokat, P&I Films.
- Independent film distribution companies working with niche content: Caravella DDC/Drugoe Kino, P and I Films, Premium Film, Panorama; art-house (Kino bez granits [Cinema without Borders], Russian Reporting, Cinema Prestige, Ruscico); and alternative content (Nevafilm Emotion, CoolConnections).
- Film producers (certain national producers that distribute and exhibit their films themselves; they often establish new dedicated distribution companies for a single feature).
- Regional film and video rental organizations (FVROs) – essentially these are the remnants of the local cinema authorities from Soviet times that have lost most of their functions and currently remain custodians of film funds that support

exhibition in the regional cinema network, mostly in out-of-date cinemas, village clubs, and 'houses of culture' using portable film projectors and fixed installations.

In all, as at 2012, about 30 companies are operating in the Russian film distribution sector (disregarding FVROs and companies launched for the exhibition of a single film). The majority of companies represented in the market are independent distributors (18); four work with art house films; five represent Hollywood majors (although their line-ups are usually not limited to films from the majors); and two work only with alternative digital content.

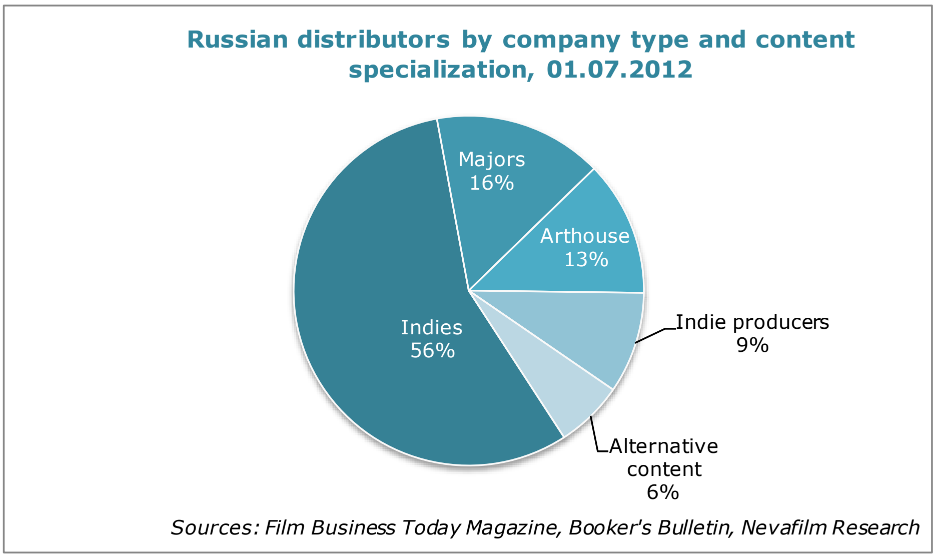


Figure 59. Russian distributors by company type and content specialization, 01.07.2012

In terms of the countries of origin of the films handled, distribution companies may be classified as follows: nine distribution companies work solely with foreign films; 11 work with both foreign and Russian features; seven (including distributors of film only) handle Russian content alone; one company works exclusively with Hollywood films; and four others offer a combination of Hollywood features and major Russian films.

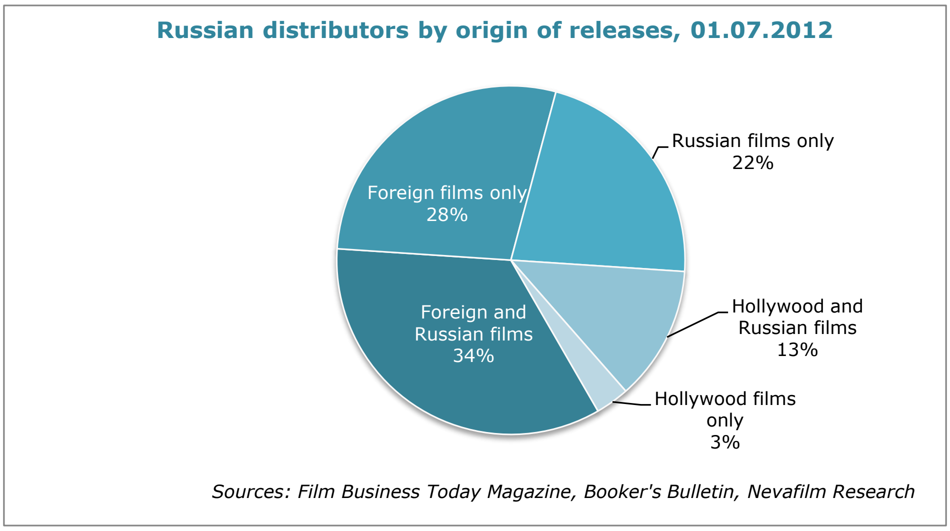


Figure 60. Russian distributors by origin of releases, 01.07.2012

The structure of the companies working in Russian distribution changes constantly. The direct entry of Hollywood studios into the Russian market has resulted in changes of status, business focus, and sometimes even in the closure of companies that used to represent the interests of those studios. In 2004, the East-West company – the oldest player in the Russian film market, which opened back in 1989 and used to run films by practically all the majors in Russia, lost its Hollywood partners after the opening of the Russian office of UIP. Upon receipt of a proposal from this major, the company management of East-West decided to transfer its employees to the new company, folding its activities. In 2006, a new representative office of 20th Century Fox appeared in Russia that acquired employees from its former partner, Gemini, which gradually closed down its operations and shut in 2008. Cascade distributed films from Columbia and Disney between 1998 and 2006, then lost its Hollywood content after Buena Vista Sony Pictures Releasing (now Walt Disney Sony Pictures Releasing) opened its Russian office, and was forced to seek out new niches. Using its many years of experience in distributing IMAX features, the company began offering stereoscopic films in Russia's digital 3D market.

Interest on the part of Russian producers in improving results from the exhibition of their films may force them to start their own film distribution units (many such producers believe strongly that the distributors they hire pay less attention to their films than to foreign ones and undermine their box office success). So, in summer 2009 the three most experienced Russian film producers – CTB, Krasnaya Strela [Red Arrow] and Profit – united under Nashe Kino, which had previously distributed CTB films for many years. As of autumn 2009, Russian producers Fyodor Bondarchuk and Dmitry Rudovsky have also entered the distribution business with their company, Art Pictures Media, which had a full rights package both for Russian films (Art Pictures Studio), and films from independent foreign producers; however, in 2012 the company decided to leave distribution, focusing on film production. In addition, in 2009 the production centre Leopolis began making inroads in film distribution; it distributes its own productions as well as packages of films bought at international cinema markets. A specialized art-house division, LeopArt, was created within the company (however, in May 2010 the company folded its distribution activity and in June it announced the sale of its rights library to the Russian office of UPI; meanwhile, the art-house division was established as an independent distribution structure).

The structure of the independent market players is also changing constantly, especially in art house exhibition. Some market players have been forced to leave the market entirely: in 2009, the Pyramid and Lizard companies ceased their distribution activity. The recent financial crisis-related developments affected another important video market player, Nastroenie. From 2007, this chain of multi-media stores also controlled half of one of the largest Russian art-house distributors, Kino bez Granits. The company also launched the Nastroenie Kino brand in mid-2008, which released mainstream films to cinemas. However, in March 2010 51% of the Kino bez Granits shares were sold to Alexander Rodnyansky's media corporation, AR Films.

Despite the world economic crisis, new independent distributors keep appearing on the Russian market; 2009 saw the appearance of new distributors, including Volga (representing the American distributor Film Depot Inc.), P&I Films, and Nevafilm Emotion, which began working with alternative content for digital screens.

In May 2010, Caravella DDC appeared on the Russian film distribution market, announcing that it would specialize in 3D digital releases, including documentaries. However, the company, which is part of the Carmen group, is currently specializing in the distribution of genre films for a wide audience. Drugoe Kino (art projects) is also part of the Carmen Film group of companies.

Since 2010, Cinema Prestige, one of the leaders in the release of classic, art-house, and independent films on DVD, has been working in theatrical distribution.

In 2011, Kinoprom Distribution entered the market, specializing in the distribution of foreign-produced films. Bazelevs, which is largely a film producer, is currently one of the 10 leading distributors, thanks to the release of its own productions since 2011. CoolConnections, which is developing the distribution of alternative content, has also entered the market.

In 2012, companies such as Organic Films and Kazak Films (working with Russian films) and AKM-Movie (foreign films) have also made an impact.

Table 33. Main film distributors in Russia as at 01 July 2012*

Rank as at 01 July 2012	Distributor	Box office (million RUB) and market share						Number of releases and market share					
		2007	2008	2009	2010	2011**	01 July 2012**	2007	2008	2009	2010	2011**	01 July 2012**
1	WDSSPR/BVSPR/Walt Disney Russia	2,149.6	3,008.7	6,441.5	6,200.9	9,138.7	**5,506.1**	14.0	21.0	32.0	25.0	30.0	**18**
		14.3%	*14.4%*	*27.5%*	*19.4%*	*24.6%*	***26.2%***	*3.9%*	*5.9%*	*9.8%*	*6.8%*	*7.4%*	***7.3%***
2	Central Partnership/ CP Classic	2,215.0	1,600.2	3,828.3	8,428.6	8,947.3	**3,644.5**	47.0	37.0	42.0	39.0	38.0	**20**
		14.7%	*7.7%*	*16.3%*	*26.4%*	*24.1%*	***17.3%***	*13.2%*	*10.5%*	*12.9%*	*10.6%*	*9.4%*	***8.1%***
3	Karo Premier/ Karoprokat	2,527.5	3,239.4	4,383.3	4,768.6	4,271.9	**3,485.7**	31.0	31.0	31.0	26.0	24.0	**17**
		16.8%	*15.5%*	*18.7%*	*14.9%*	*11.5%*	***16.6%***	*9.6%*	*8.8%*	*9.5%*	*7.1%*	*5.9%*	***6.9%***
4	20th Century Fox/ Gemini	2,047.4	3,842.4	3,481.0	5,092.8	3,417.2	**2,630.3**	34.0	20.0	14.0	19.0	18.0	**14**
		13.6%	*18.4%*	*14.8%*	*15.9%*	*9.2%*	***12.5%***	*9.6%*	*5.6%*	*4.3%*	*5.2%*	*4.5%*	***5.7%***
5	UPI/UIP (2004-2006)	2,425.4	5,058.3	1,772.1	1,984.2	2,704.0	**2,463.0**	21.0	21.0	19.0	14.0	18.0	**14**
		16.1%	*24.2%*	*7.6%*	*6.2%*	*7.3%*	***11.7%***	*5.9%*	*5.9%*	*5.8%*	*3.8%*	*4.5%*	***5.7%***
6	Paradise	1,002.9	943.1	828.8	1,108.7	2,192.0	**714.4**	37.0	29.0	28.0	24.0	25.0	**14**
		6.7%	*4.5%*	*3.5%*	*3.5%*	*5.9%*	***3.4%***	*10.4%*	*8.2%*	*8.6%*	*6.5%*	*6.2%*	***5.7%***
7	Nashe Kino	533.7	578.9	328.3	212.7	1,788.7	**693.9**	9.0	14.0	9.0	12.0	13.0	**4**
		3.6%	*2.8%*	*1.4%*	*0.7%*	*4.8%*	***3.3%***	*2.5%*	*4.0%*	*2.8%*	*3.3%*	*3.2%*	***1.6%***
8	Volga	-	-	298.4	321.6	264.9	**604.8**	-	-	10.0	14.0	12.0	**9**
		-	-	*1.3%*	*1.0%*	*0.7%*	***2.9%***	-	-	*3.1%*	*3.8%*	*3.0%*	***3.7%***
9	Bazelevs	-	-	-	-	889.9	**322.0**	-	-	-	-	2.0	**2**
		-	-	-	-	*2.4%*	***1.5%***	-	-	-	-	*0.5%*	***0.8%***
10	Top Film Distribution	37.8	519.7	372.6	223.8	715.7	**189.2**	7.0	21.0	15.0	12.0	26.0	**14**
		0.3%	*2.5%*	*1.6%*	*0.7%*	*1.9%*	***0.9%***	*2.0%*	*5.9%*	*4.6%*	*3.3%*	*6.4%*	***5.7%***
11	Cascade Film	491.6	527.9	180.4	719.2	415.9	**177.5**	16.0	23.0	10.0	14.0	13.0	**6**
		3.3%	*2.5%*	*0.8%*	*2.3%*	*1.1%*	***0.8%***	*4.5%*	*6.5%*	*3.1%*	*3.8%*	*3.2%*	***2.4%***
12	WEST	650.1	602.2	867.4	1,462.9	1,418.4	**173.8**	22.0	18.0	11.0	13.0	11.0	**6**
		4.3%	*2.9%*	*3.7%*	*4.6%*	*3.8%*	***0.8%***	*6.2%*	*5.1%*	*3.4%*	*3.5%*	*2.7%*	***2.4%***
13	Luxor	211.6	366.7	252.8	590.1	516.5	**116.5**	12.0	13.0	10.0	15.0	16.0	**7**
		1.4%	*1.8%*	*1.1%*	*1.8%*	*1.4%*	***0.6%***	*3.4%*	*3.7%*	*3.1%*	*4.1%*	*4.0%*	***2.8%***
14	Caravella/Carmen	-	-	-	11.2	125.7	**89.9**	-	-	-	7.0	24.0	**9**
		-	-	-	*0.0%*	*0.3%*	***0.4%***	-	-	-	*1.9%*	*5.9%*	***3.7%***

Rank as at 01 July 2012	Distributor	Box office (million RUB) and market share						Number of releases and market share					
		2007	2008	2009	2010	2011**	01 July 2012**	2007	2008	2009	2010	2011**	01 July 2012**
15	Premium Film	2.9	104.9	55,5	68.9	56.7	**65.5**	3.0	12.0	11.0	15.0	10.0	**11**
		0.0%	*0.5%*	*0.2%*	*0.2%*	*0.2%*	***0.3%***	*0.8%*	*3.4%*	*3.4%*	*4.1%*	*2.5%*	***4.5%***
16	Kino bez Granits/ AR Films/ Nastroenie Kino	19.8	37.6	49.5	49.1	32.5	**54.9**	22.0	31.0	23.0	22.0	19.0	**15**
		0.1%	*0.2%*	*0.2%*	*0.2%*	*0.1%*	***0.3%***	*6.2%*	*8.8%*	*7.1%*	*6.0%*	*4.7%*	***6.1%***
17	Cinema Prestige	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.9*					*1.0*	*7.0*
		0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.2%*	*2.8%*
18	Organic Films	0.0	0.0	0.0	0.0		0.7						1.0
		0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.4%*
19	Pavel Lungin Studio	0.0	0.0	0.0	0.0	-	0.4	-	-	-	-	-	1.0
		0.0%	*0.0%*	*0.0%*	*0.0%*		*0.0%*						*0.4%*
20	Kazak Film	0.0	0.0	0.0	0.0	-	0.3	-	-	-	-	-	1.0
		0.0%	*0.0%*	*0.0%*	*0.0%*		*0.0%*						*0.4%*
	Total in Russia	**15,018.6**	**20,890.7**	**23,450.1**	**31,936.0**	**37,082.9**	**21,024.1**	**355.0**	**354.0**	**326.0**	**367**	**404**	**246**

**In cases of co-distribution, data on the number of release and box office relates to all participating companies in partnership as no information is available about each company's share.*
*** calendar year, all releases*

Sources: Film Business Today magazine, Booker's Bulletin, Nevafilm Research

3.5 The home video market

3.5.1 Industry structure

Origins

The main feature in the development of the Russian home video market is the constant battle between licensed and pirate video products. The roots of this battle lie in the Soviet era. The following stages of development can be identified:

- **1990–1992 – From VHS screening rooms to private viewing.** Prior to the fall of the USSR, the number of videotape recorders in households in the Russian Federation was very low. The costly technology was barely affordable for the average consumer, and video cassettes with foreign films were usually copied at home by the few Soviet citizens who could make regular trips abroad; such copies were generally circulated among the privileged top brass, often belonging to the political establishment, the nomenklatura, and symbolized an element of freedom in that they permitted a glimpse over the Iron Curtain. At that time the fight against unlawful film video cassettes concentrated not on prosecuting the illegal use of copyright works, but on convictions for copying and storing 'anti-Soviet' or 'pornographic' products, which actually covered quite a wide range of fairly innocent works. This did, however, lay the foundations for the further development of the country's market for licensed video. In 1986, under the auspices of the USSR Goskino, an enterprise was created for industrial copying and distribution of films on VHS — the Videofilm All-Union Creative and Production Association. Moreover, with the advent of perestroika in the USSR, various forms of entrepreneurship in video exhibition began to emerge: both private and state screening rooms equipped with videotape recorders and TV sets appeared. They operated under the management of regional film and video distribution organizations, and offered titles from video libraries. The issue of licensing such video products was of no relevance for such enterprises since the country had not yet joined the Berne Convention, the Law on Copyright and Adjoining Rights had not been adopted, and the production, distribution, and exhibition of motion pictures were entirely free and unregulated. During the first years of the Russian Federation, however, the number of VCRs in households started to grow quickly and the popularity of video screening rooms waned.[89]
- **1993–1995 – The rise and fall of two-for-one pirate video rental.** The penetration of home video technology resulted in the transformation of most video screening rooms and video salons into video rental outlets. Consumers were offered more and more pirate video products, and recording two motion picture titles onto a single cassette became ever more popular. At the same time, the Hollywood majors made their first appearance on the Russian market: in 1994 Varus Video became Warner Bros. Studio's representative. Growth in incomes and the fall in the cost of video cassettes both worked to promote a transition to retail trade in cassettes of feature films, and the closure of video rental outlets;[90]
- **1996–1997 – Explosive growth of the VHS retail market.** The growth in the market for licensed products was rapid. By the end of 1996, the country had more than 40 video distributors; the increase in the number

[89] On the History of Video Business in Russia – http://www.close-up.ru/articles/detail.php?AID=7252 (Russian only)
[90] On the History of Video Business in Russia – http://www.close-up.ru/articles/detail.php?AID=7252 (Russian only)

of licensed titles on the video market reached 500% in a single year[91]. A unique practice of selling licences became widespread: in essence it involved the opportunity for any legal entity or individual to purchase (from a company holding video rights) a polygraph set (a cardboard slip box and a front sticker with the title of the film), plus a master-cassette in S–VHS or Betacam, or even a common VHS format for further copying. This practice made the struggle against video piracy in Russia significantly more complicated, since it triggered the advent of an entire network of grey-market factories, distributors and retailers: small volumes of these 'licensed' cassettes camouflaged huge numbers of pirate copies. From 1 January 1997, the introduction of criminal liability for copyright violations precipitated a wave of licensed production. However, in spite of extensive advertising, the glut of sub-licensed copies prevented video distributors from recouping their investment in copyright. In turn, this resulted in another spiral of video piracy, with a new twist: the production of video cassettes simulating licensed products became widespread;[92]

- **1998–2001 – Financial crisis leads to video market consolidation.** The financial crisis of 1998 had a serious impact on the development of licensed video products, reducing the number of companies operating in the market by a factor of 5 (the principal cause being that licensed video cassettes produced with the use of imported components became unaffordable for most citizens: the dollar exchange rate having skyrocketed from RUB 6.2 / USD 1 in August 1998 to RUB 20.7 / USD 1 in December). The video market was overwhelmed by a wave of mutual payment defaults that resulted in the bankruptcies of many video distributors. As a result, the number of titles entering the market during 1999 fell by a factor of almost 3 year-on-year. The formats used also started to change: from 1998 Video-CDs[93] began to flood the market, and in 1999 the first legally digitized film in DVD format was released on the market (*Die Hard 3: Revenge*[94]). DVDs were much more expensive than video cassettes at over 870 roubles per disc, compared with 220 roubles per licensed video cassette[95]. According to Russian State Statistics Agency data, the average monthly nominal salary in Russia in 1998 was only 1,051.50 roubles. This figure shows that licensed video cassettes and discs were simply unaffordable for the majority of the population. Consequently, the old video distribution network was resurrected throughout the country, [96] and it remained in place until 2005. Gradually, with the recovery of the economy and growth in disposable income, sales of licensed videos began to rise;
- **2002–2003 – Rapid growth of pirate multi-film DVD retail market.** A new blow was delivered to the licensed video market in Russia by the

[91] Wikipedia article 'Motion pictures by Russian distributors' http://ru.wikipedia.org/wiki/%D0%A4%D0%B8%D0%BB%D1%8C%D0%BC%D1%8B_%D1%80%D0%BE%D1%81%D1%81%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D1%85_%D0%B4%D0%B8%D1%81%D1%82%D1%80%D0%B8%D0%B1%D1%8C%D1%8E%D1%82%D0%BE%D1%80%D0%BE%D0%B2 (Russian only)
[92] 'On the History of Video Business in Russia' – http://www.close-up.ru/articles/detail.php?AID=7252 (Russian only)
[93] Wikipedia article 'Motion pictures by Russian distributors' http://ru.wikipedia.org/wiki/%D0%A4%D0%B8%D0%BB%D1%8C%D0%BC%D1%8B_%D1%80%D0%BE%D1%81%D1%81%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D1%85_%D0%B4%D0%B8%D1%81%D1%82%D1%80%D0%B8%D0%B1%D1%8C%D1%8E%D1%82%D0%BE%D1%80%D0%BE%D0%B2 (Russian only)
[94] Interview with Andrey Posadsky, President of the Association of DVD Publishers. Online edition of *Kinomehanik* magazine, Issue № 26, 2010.
[95] Victor Nazarov. 'Electronic Adventures', *Dengi* magazine, issue № 47 (351), 28 November 2001.
[96] Victor Nazarov. 'Electronic Adventures', *Dengi* magazine, issue № 47 (351), 28 November 2001.

fast growth in the number of pirate DVDs sold: licensed discs remained imported, since the country had no official pressing plants. At the same time, illegal discs were being manufactured on an extremely large scale – first homemade, and then mass manufactured at military enterprises in the country as these were off-limits for law enforcers (such production lines exist in Russia even now: occasionally, the media reports on their closure in one city or another, but there is no talk of a complete clampdown). Non-licensed DVDs in Russia usually had several motion pictures (two to ten) burned onto a single blank disc, and thus seriously undermined not only licensed DVDs and video cassettes, but even pirate video cassettes that were thus quickly forced off the market;

- **2004–2006 – Legal retail DVD market gets underway as US studios cut prices and reduce release windows to boost sales of licensed content.** The emergence of the first Russian plants pressing licensed DVDs (the first was DVD Club in 2004) brought about a drop in both wholesale and retail prices for licensed discs: while a retail licensed disc could be bought for 600 roubles at the beginning of 2004, in 2005 that figure had already dropped to 300–400 roubles (the price of a pirate disc was around 250 roubles)[97]. At the same time, DVD players were becoming cheaper. While in 2004 the ratio between the formats on the licensed markets was 70% to 30% in favour of video cassettes, in 2005 it had switched to 22% to 78% in favour of DVDs. By 2006, the share of VHS had become negligible[98]. Anti-piracy measures implemented during the same period also played an important role. During the autumn of 2005, Hollywood majors Warner Home Video and Universal Pictures International announced their readiness to place special DVD releases on the Russian market at reduced wholesale prices. In 2006, 20th Century Fox opened a direct representation office in Russia that supported the initiatives of other studios (Universal and Sony Pictures), and the recommended retail price for DVDs dropped to 99 roubles per disc – for example, *Garfield* by 20th Century Fox CIS – while pirate versions of these titles sold for 100 roubles. At the same time, the national representatives of the US studios shrank the window for release to video of new films in distribution (special Russian editions were released just four weeks after the first screening in cinemas)[99]. As a result, sales of licensed DVDs in Russia during 2005 and 2006 grew rapidly, as these measures made the discs much more affordable. This in turn stimulated the expansion of the retail sales network,[100] with growing interest in such products by non-specialized hypermarkets that dedicated additional space to selling video. These included Auchan, Metro, Real, Lenta and O'kei, as well as discounters such as Pyatyorochka, Kopeika, and others. This had a decisive effect on the growth of licensed video sales in Russia during 2007;
- **2007–2008** – **Blu-ray sales commence. Broadband Internet creates a new piracy threat.** The growth in sales of licensed DVDs continued, as pirate DVDs were squeezed by shrinking windows, price reductions, and stricter law enforcement measures. In 2007, the first Russian Blu-ray disc appeared (the pioneer was the VideoService company, which released *Casino Royale* for Sony Pictures in April 2007). In 2008 the first Russian manufacturer of Blu-ray discs appeared: Russian company Lazer Video

[97] According to data from Nevafilm Research.
[98] According to data published by *Videomagazine*.
[99] http://www.tvcenter.ru/all-tv/V-2006-g-prodazhi-licenzionnyh-DVD-v-Rossii-vyrosli-vdvoe-do-42-mln-diskov/ (Russian only)
[100] http://www.tvcenter.ru/all-tv/V-2006-g-prodazhi-licenzionnyh-DVD-v-Rossii-vyrosli-vdvoe-do-42-mln-diskov/ (Russian only)

Multimedia opened a production line for Blu-ray discs at its plant. In a single year the company released 15 films; not only commercially-successful new releases, but also TV series that had never been distributed. On the negative side, the expansion of broadband Internet during the period resulted in the rapid growth of Internet piracy, affecting both licensed and pirate discs, particularly in Moscow and St. Petersburg;

- **2009–2010 – Economic crisis leads to sales downturn and further DVD and Blu-ray price cuts.** Video market sales plummeted with the global economic crisis. The sales downturn in Russia was a result of the general deterioration in consumer spending power, the return of pirate DVD sales through large specialized networks, and the further penetration of broadband Internet. The fall in demand provoked a review of pricing, with a premium now attached to new releases (the average retail price of licensed DVDs of new motion pictures grew from RUB 300 in 2008 to RUB 400 in 2009[101]) while catalogue editions became cheaper (Universal Pictures Russia announced a large-scale markdown of library titles in May)[102]. At the same time, majors were offering Blu-ray discs at an average of RUB 800, although changes were also in the pipeline here: in June 2009, 20th Century Fox CIS offered releases from its library at RUB 450, generating violent reactions from other players in the Blu-ray market. In autumn 2009, most of the major companies began to lower purchase prices and to offer special deals to retail customers. The lowest prices were established by the distributors CP Digital and Flagman Trade (RUB 312 and 350 per Blu-ray disc respectively). Prices for West Video, Lizard Cinema Trade and Paradise Video were lowered to around RUB 500–600 per disc. The trend towards reducing the price of the new format was also observed among Russian representatives of the majors; following 20th Century Fox CIS, Videoservice (which releases Sony Pictures films in Russia) dropped its prices to RUB 1000 per disc. However, Universal Pictures Russia and the Walt Disney Company CIS left prices at their previous level (RUB 1,200–1,400)[103]. Meanwhile, in 2009, there were already two factories duplicating Blu-ray discs – DVD Club and Lazer Video Multimedia, with the latter also carrying out mastering of discs in the new format.
- **2011–first half of 2012 – Physical video market (DVD and Blu-ray) shrinks.** In 2011, the Russian video market began to decline: the majority of the factories producing the media closed down (according to data from the beginning of 2012, just three factories remained operational in Russia), and distributors started to leave the market. In the summer of 2011, Universal Pictures Russia announced its departure from the Russian video market; within the past two years, certain independent video distributors have also ceased operations. Brand-name retail sales points began to close. For example, in mid-2011, Soyuz stopped developing its eponymous chain of multimedia shops. The company plans to close down nearly all of the 50 stores which were in operation in 2010, except the hypermarket in Moscow.[104] One by one, retail sales points belonging to other video distributors (Pervaya Videokompaniya [First Video Company], Lenfilm Video, and so on) have also been closed. However, prices for video products continue to rise. According to Nevafilm Research's price monitoring on ozon.ru, over the first six months of 2012, the average

[101] According to data from Nevafilm Research.
[102] http://www.uprpress.ru/
[103] According to data from *Video Market Bulletin*.
[104] 'Suppliers Demolish Soyuz', *Kommersant* № 160(4701), 30 August 2011

price for all films in DVD format in Russia was RUB 175, while Blu-ray discs cost RUB 594. Russian films on DVD cost a bit more than foreign films (RUB 183 compared to RUB 173), while they are less expensive on Blu-ray (RUB 555 compared to RUB 601). The highest prices, reaching RUB 1,979, are for 3D Blu-ray discs. Thus, the main catalyst behind rising prices on the Russian video market remains the growing popularity of the Blu-ray format.

Household DVD and Blu-ray equipment

The number of households with DVD players in Russia increased dramatically after 2004, but growth began to decelerate as early as 2007, due to gradual market saturation. At this stage, according to data from *Screen Digest*, more than half of all households with TV sets had DVD players as well. The trend in penetration of DVD players was affected by their falling prices, which made the players affordable for the mass consumer and prompted a drop in the price of licensed discs as well. According to calculations by *Screen Digest*, the number of devices capable of playing Blu-ray discs is on the rise; meanwhile, the number of households with DVD players is not decreasing. And, while in 2007 and 2008 the Blu-ray format was predominantly marketed via Blu-ray enabled games consoles, since 2009, dedicated Blu-ray players/recorders have become popular. As a result, the total size of the physical media home video market in Russia was approximately 37.2 million households in 2011.

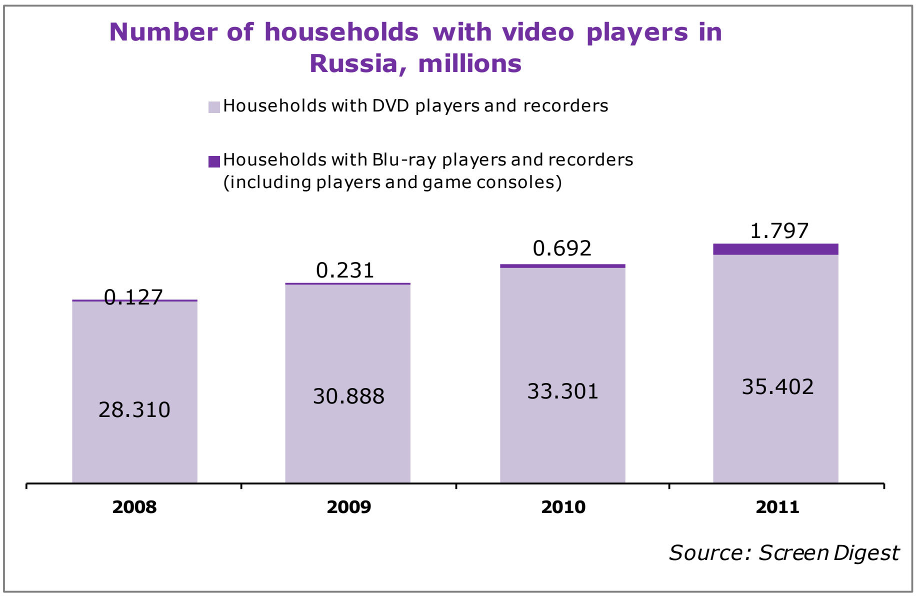


Figure 61. Number of households with video players in Russia, millions

In 2011, more than 70% of households with televisions also had DVD players. The figure for Blu-ray players was less than 4%, but the penetration of Blu-ray players in households with high-definition televisions was considerably higher, at nearly 12%. Thus, consumers accustomed to high-quality picture and sound are more likely to use the Blu-ray format for viewing video.

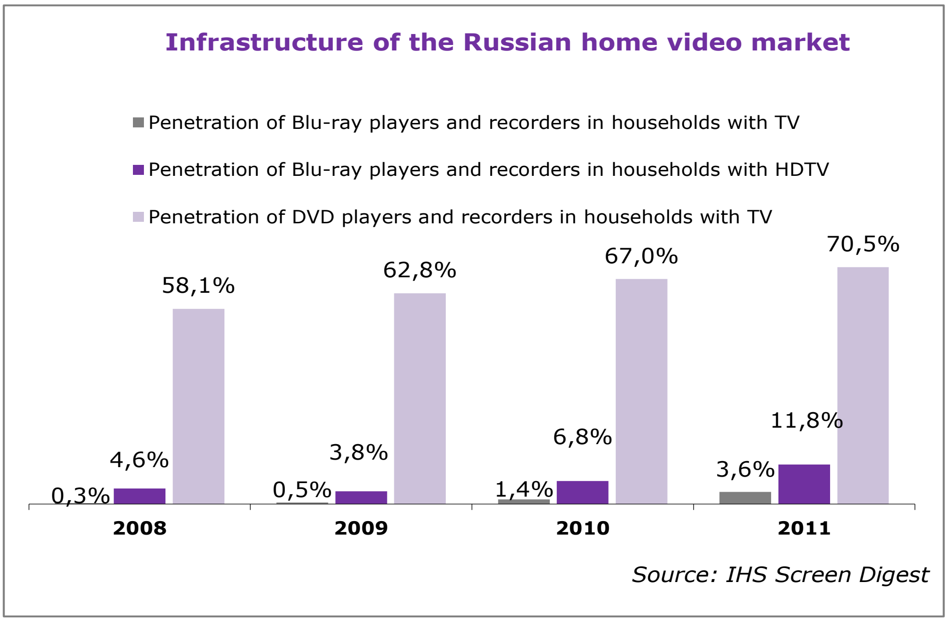


Figure 62. Infrastructure of the Russian home video market

In addition to DVD and Blu-ray players plugged into TV sets, there are also specialized portable sets and computer drives. Including such devices in the figures significantly increases the number of households that have a capability to view DVDs, but no detailed assessment of the size of that market in Russia has ever been conducted.

Analysis of DVD and Blu-ray releases

Analysis of video releases carried out by *Videomagazine* and *Video Market Bulletin*[105] reveals that in 2011, the number of DVD releases fell by 19% (after a 37% increase the previous year). Since 2007, films have also been released in Russia in Blu-ray format: the first such release was Sony Pictures' *Casino Royale*, released in April 2007 by VideoService. The number of releases in that format is gradually increasing. The number of releases in Blu-ray format in 2011 increased by 34% over the 2010 figure. Blu-ray 3D already accounts for 6% (or 27 releases) of the total number of Blu-ray releases.

The first half of 2012 saw the release of 1,202 DVD titles and 356 Blu-ray titles,[106] according to data from *Booker's Bulletin*. These figures are similar to those for the first half of 2011, and exceed those of the previous (financial crisis) years. Thus, despite a decrease in sales, Russia's home video market remains afloat.

[105]Lists of video releases in the Russian market were traditionally published by *Videomagazine*. In spring 2008, the Metropolitan EPA company began to track video releases in its electronic publication, *Video Market Bulletin*. Comparative analysis of these two sources indicated that the lists of releases show some discrepancies, both in terms of the number of titles and the publishing companies listed therein – since the data in the lists is published based on the information provided by the video distributors themselves. Nevafilm Research estimates a 30% discrepancy between the lists of releases in *Videomagazine* and *Video Market Bulletin*. This index was used to adjust the data on the number of video releases to the Russian market in 2009.

[106] Between the end of 2011 and the beginning of 2012, both industry publications (*Videomagazine* and *Video Market Bulletin*) shut down. Since mid-2012, the list of video releases on the Russian market has been compiled by Nevafilm Research in conjunction with *Booker's Bulletin*.

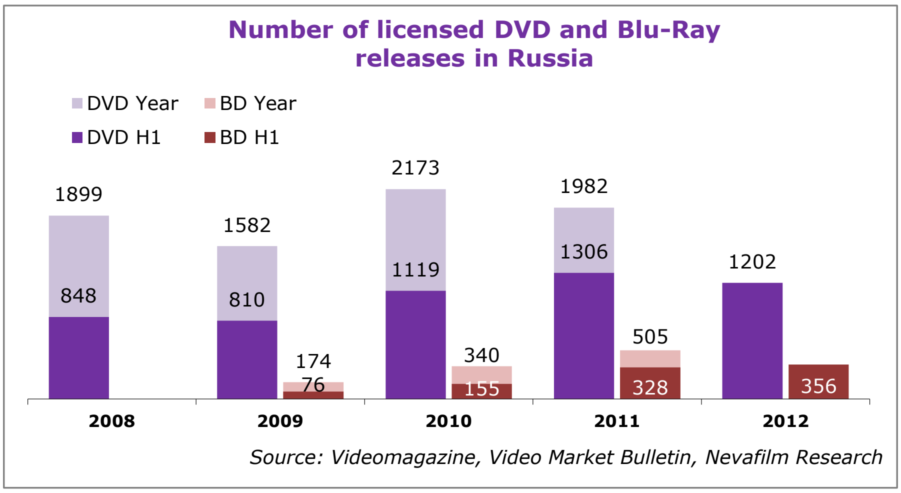


Figure 63. Number of licensed DVD and Blu-ray releases in Russia

Analysis of data on releases by Russian video distributors between 2008 and the first half of 2012 shows that the national market for licensed DVD sales is dominated by releases from film distribution catalogues, while the Blu-ray market is dominated by new releases. It should be noted that a new film release refers to a full-length film or animation which finished production in the current or previous year (including those which were not released in Russian cinemas, or so-called 'potential distribution pictures'); the rest of the year's releases are referred to as catalogue releases. Whereas in 2008–2010 the share of new films released on DVD was approximately 30%, recently that percentage has shrunk slightly, falling to 26% in the first half of 2012.

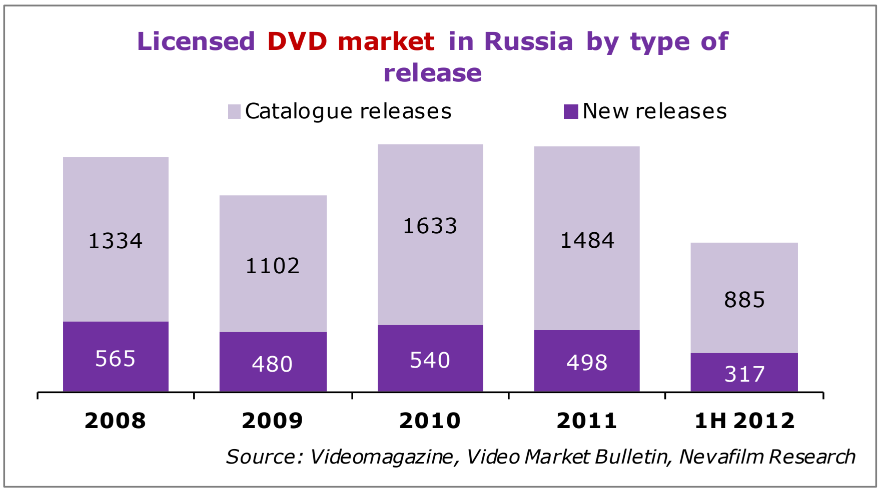


Figure 64. Licensed DVD market in Russia by type of release

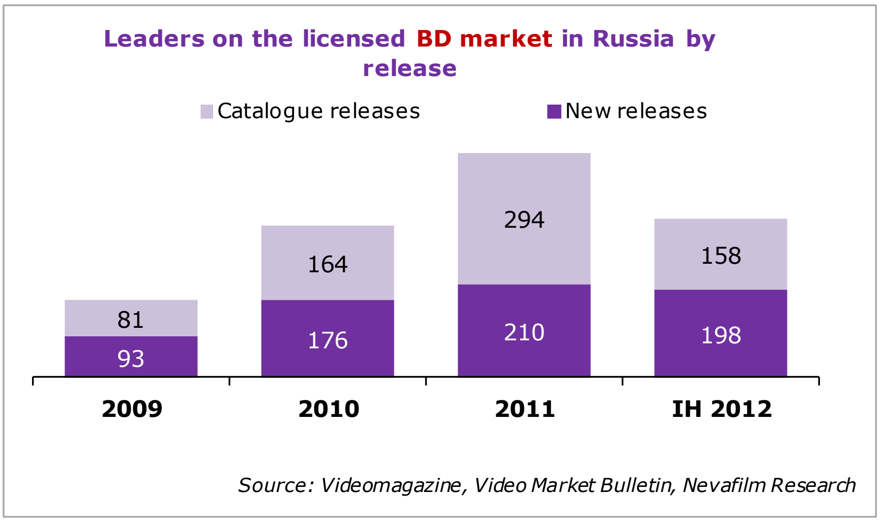


Figure 65. Licensed BD market in Russia by type of release technology

Among the types of video products released on DVD and Blu-ray, feature films dominate (60-66% and 74-84% respectively in the period 2010 to H1 2012). Television drama series make up 8–12% of the market; animation remains at 16%. The share of documentary films and series, including educational and entertainment programmes, fell from 16% in 2010 to 6% in the second half of 2012. Thus, the structure of the Russian licensed home video market is heavily focused on feature films.

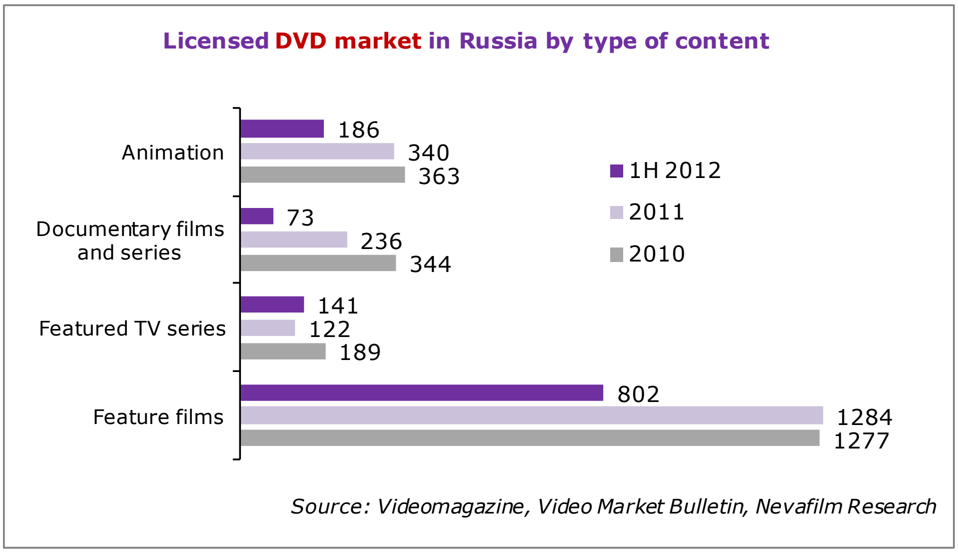


Figure 66. Licensed DVD market in Russia by type of content

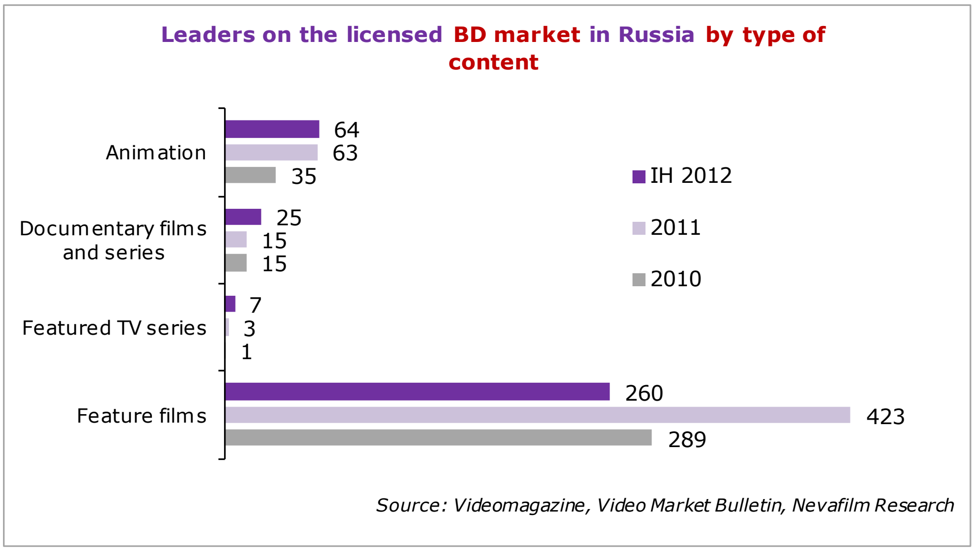


Figure 67. Licensed BD market in Russia by type of content

In 2012, the unquestionable leader in the release of feature films on DVD in Russia was Noviy Disk [New Disk], which is also the main provider of animation on licensed DVD (second place in the ranking of distributors putting out animated films and animation series on video is divided between Soyuz Video and Misteriya Zvuka [Mystery of Sound]). TV series in Russia were released on video primarily by the distributors Flagman Trade and Noviy Disk. Soyuz Video is the most active in releasing documentaries.

DVD and Blu-ray releases by origin of titles

The number of Russian releases in the first half of 2012 came to 223 titles on DVD (19% of the total number of video releases) and 28 on Blu-ray (8% of the total number of these releases, or almost as many as in 2011). In Q2 2012, just two Russian films were released on BD.

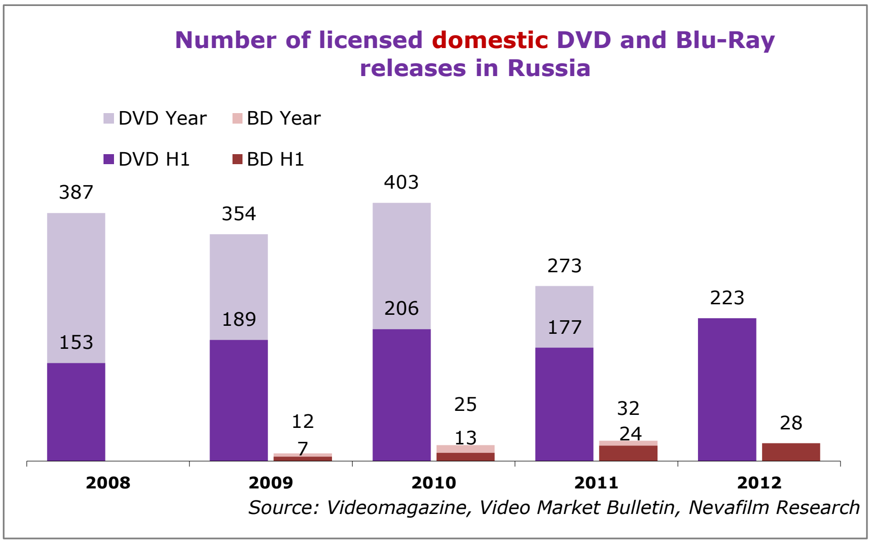


Figure 68. Number of licensed domestic DVD and Blu-ray releases in Russia

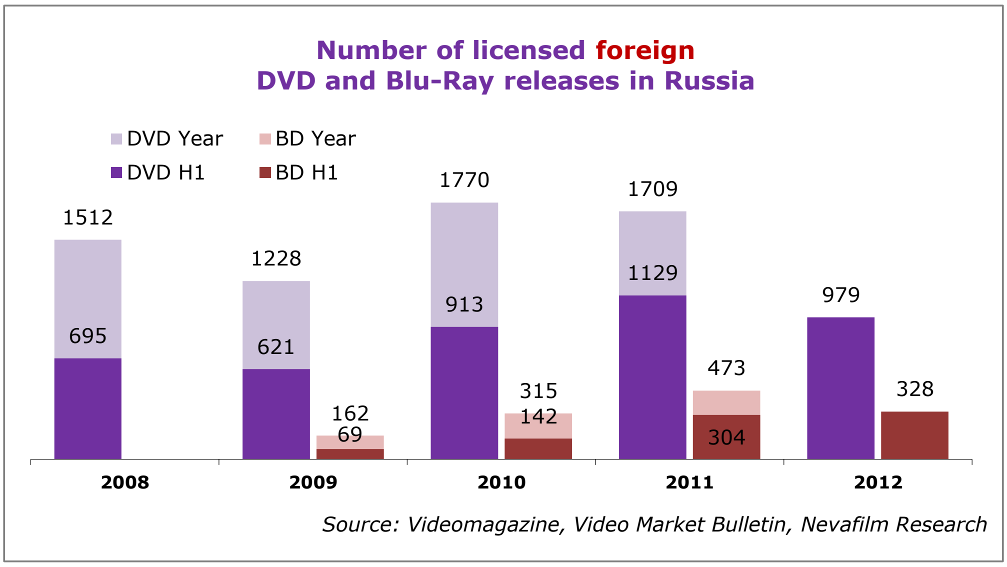


Figure 69. Number of licensed foreign DVD and Blu-ray releases in Russia

Among foreign releases, North American titles predominate, but the share of European countries is also significant. However the share of productions from other countries, including Asia (excluding co-productions) is relatively low and continues to fall.

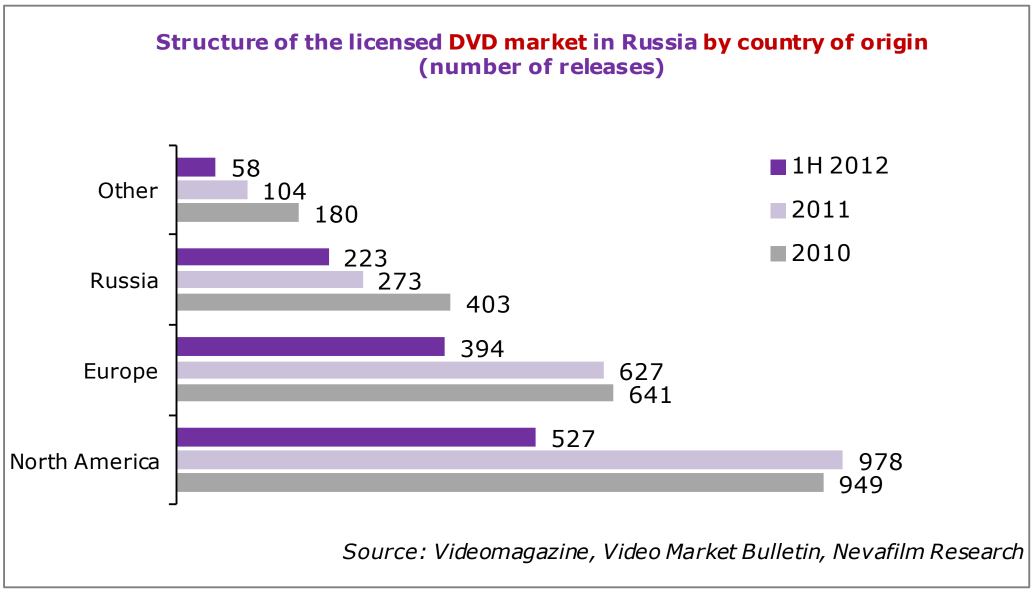


Figure 70. Structure of the licensed DVD market in Russia by country of origin (number of releases)

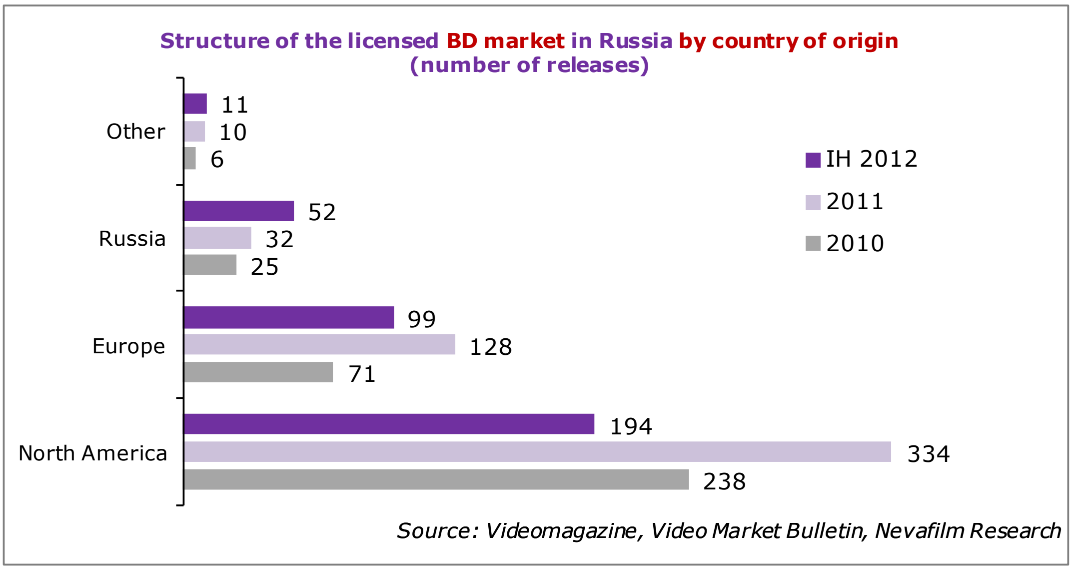


Figure 71. Structure of the licensed BD market in Russia by country of origin (number of releases)

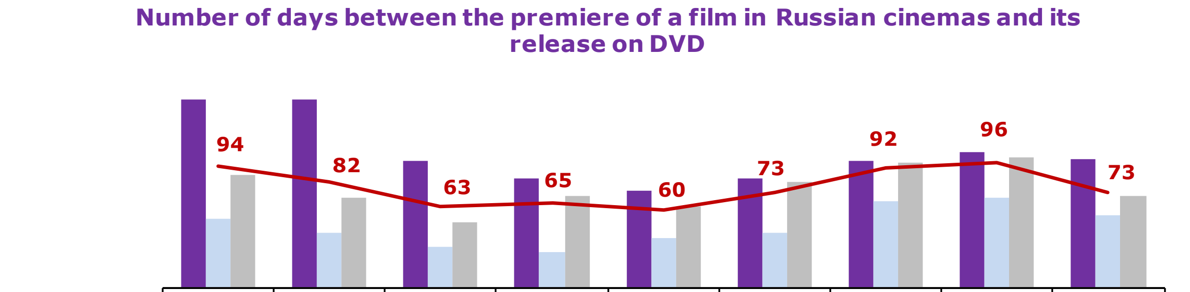
Slight recovery in the video release window

A steady reduction in the period between the film's première in cinemas and its release on video is part of efforts by rights holders and distributors to combat video piracy. In 2009, this was particularly characteristic of releases from the major Hollywood studios:[107] almost all of the major studios created special release formats in Russia for popular new releases. These 'featureless' versions did not typically include extra material, had only one audio track, had titles overlapping the image, and so on. They were sold at a reduced rate and were designed to compete with pirate copies. In 2011–2012, the situation changed, and Hollywood representatives stopped using short windows on the Russian video market.[108] The only major studio that has kept a four-week window after film distribution is Sony Pictures (official Russian distributor: VideoService). Now the average window for films from Hollywood studios to the Russian video market is 99 days.

In the first half of 2012, Russian films had the shortest window to release (56 days). Domestic producers, like representatives of the major studios, reduced this period steadily until 2007, when they reached the current record minimum of 28 days. Since then, the period steadily increased to a maximum of 69 days in 2011.

[107]This includes films released on the Russian market by franchisees of these major studios: 20th Century Fox, Columbia Pictures, Paramount, Warner Bros., Walt Disney Pictures, DreamWorks, and Universal Pictures.

[108]*Video Market Bulletin* No 04 (105), 02 February 2012.

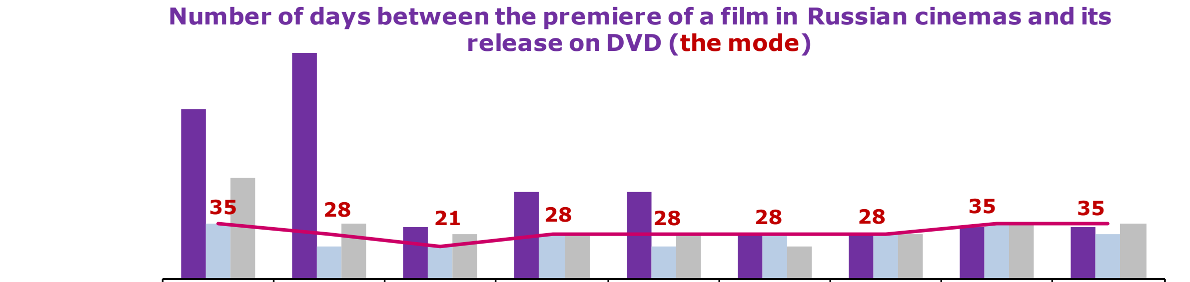


	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
Hollywood	145	145	98	84	75	84	98	104	99
Russia	53	42	31	28	38	42	66	69	56
Others	87	69	51	71	62	81	96	100	70
Average	94	82	63	65	60	73	92	96	73
All estimated releases per year	*157*	*176*	*171*	*195*	*222*	*184*	*309*	*279*	*193*

Source: Videomagazine, Video Market Bulletin, Nevafilm Research

Figure 72. Number of days between the premiere of a film in Russian cinemas and its release on DVD in number of days

Variations in this indicator are due to the number of releases that are released on video after the most popular time window (the mathematical mode) following the première. From 2007 to 2010 inclusive, this indicator stayed at the 28-day mark for all releases, but it increased to 35 days in 2011. This 'fashion' currently remains in place (data as of June 2012). The size of the window has increased for releases of all types: from Russia, other countries, and Hollywood.



	2004	2005	2006	2007	2008	2009	2010	2011	1H 2012
Hollywood	105	140	33	54	54	28	28	33	33
Russia	35	21	21	28	21	28	28	35	28
Others	63	35	28	28	28	21	28	35	35
Average	35	28	21	28	28	28	28	35	35
All estimated releases per year	*157*	*176*	*171*	*195*	*222*	*184*	*309*	*279*	*193*

Source: Videomagazine, Video Market Bulletin, Nevafilm Research

Figure 73. Number of days between the premiere of a film in Russian cinemas and its release on DVD (the mode)

Market volume for licensed DVDs falls gradually over the period 2008 to 2012

Statistics for DVD sales in Russia have been compiled by the industry publication *Videomagazine* since 2003, when the format's market became comparable with that for VHS. The statistics collected cover only the leading players in the market and purely in terms of sales volumes. At the end of 2011, *Videomagazine* was closed down. *Video Market Bulletin*, which evaluated the number of video releases in the country, ceased publication a short time later, as did leading publications in the largest retail stores. Therefore, there are currently no publications in Russia that might analyse the condition of the home video market (by number of releases or sales volumes). Numerous estimates of the average price of DVDs in Russia and of the monetary value of the market appear in the media and in various studies. However, the various estimates vary so widely that it is practically impossible to reliably estimate the turnover of the country's licensed video market[109]. Furthermore, estimates of the size of the licensed market are also influenced by sales of unlicensed video production.

In this situation, we must rely on foreign research. According to estimates by researchers from *Screen Digest*, the volume of DVD retail sales fell by 11% in 2011 in Russia, while wholesale shipments declined by just 6%. At the same time, Blu-ray sales volumes continued to grow at a high pace: wholesale shipments rose by 35%, and retail sales increased by 38%. Experts estimate total 2011 sales volumes at 79 million discs wholesale and 63 million discs retail; it follows that viewers purchased 10% fewer discs in 2011 than in 2010.

In 2012, analysts at *Screen Digest* expect the volume of Russia's retail video market to decrease by 9%: they estimate that Russian consumers will buy no more than 55 million discs over the year. The relatively brisk increase in Blu-ray sales volumes (by 22%) will not compensate for these losses, since these sales volumes are quite small: consumers are expected to buy only 2.5 million high-definition discs.

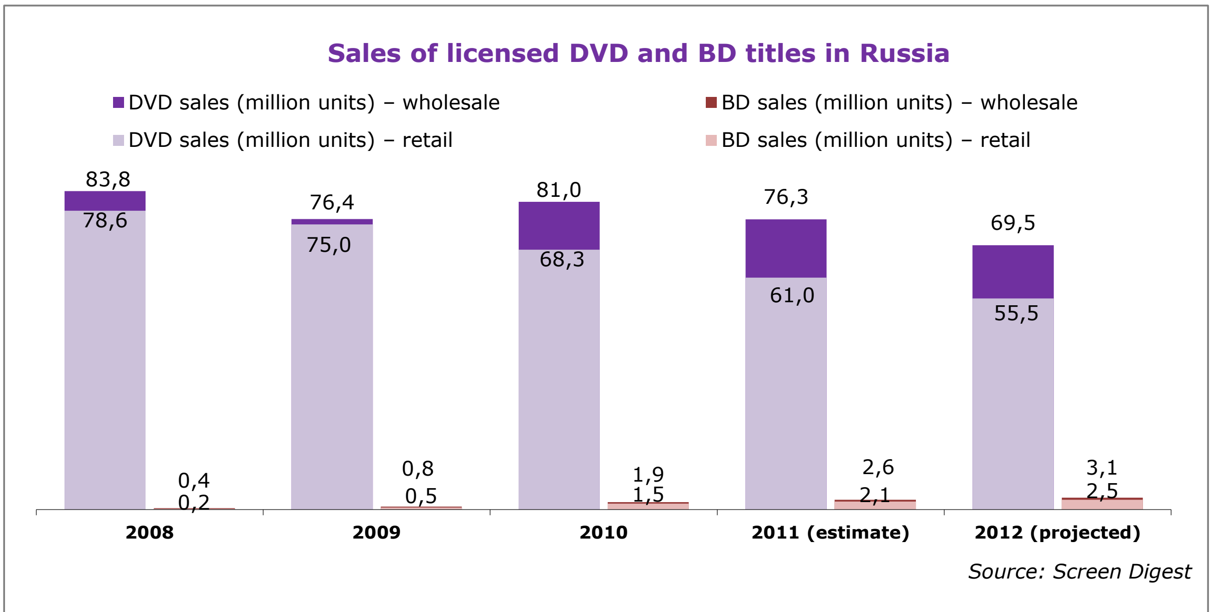


Figure 74. Sales of licensed DVD and BD titles in Russia

[109]Even *Screen Digest*, which publishes estimates of the global volume of video sales, declines to offer a monetary estimate of 'grey' market turnover ('World Video Spending Stabilizes', November 2008, issue number 446).

According to estimates by *Video Market Bulletin* and Nevafilm Research based on data obtained from six retail chains, the top four best-selling DVDs in Russia in 2011 were all from Twentieth Century Fox CIS, with *Rio* in top position. In terms of revenue, however, *Pirates of the Caribbean: On Stranger Tides* from Walt Disney Company CIS led the pack. Six of the ten films appear in both rankings.

Overall, as in many other countries, there was a continuing, though slowing, downward trend in sales of physical media. The growth in Blu-ray sales (up to 200% in certain chains) failed to compensate for the slowdown in DVD sales.

The problem of the lack of availability of data on the physical media home video market in Russia is becoming quite severe, as film consumers are continuing to use those media. According to the results of a Russia-wide survey of cinemagoers in December 2011 conducted by Nevafilm Research, approximately 20% of respondents were using video discs (DVD and/or Blu-ray), which, among those surveyed at cinemas and on the Internet, exceeds the number of people who watch full-length films on free television (17–18%).

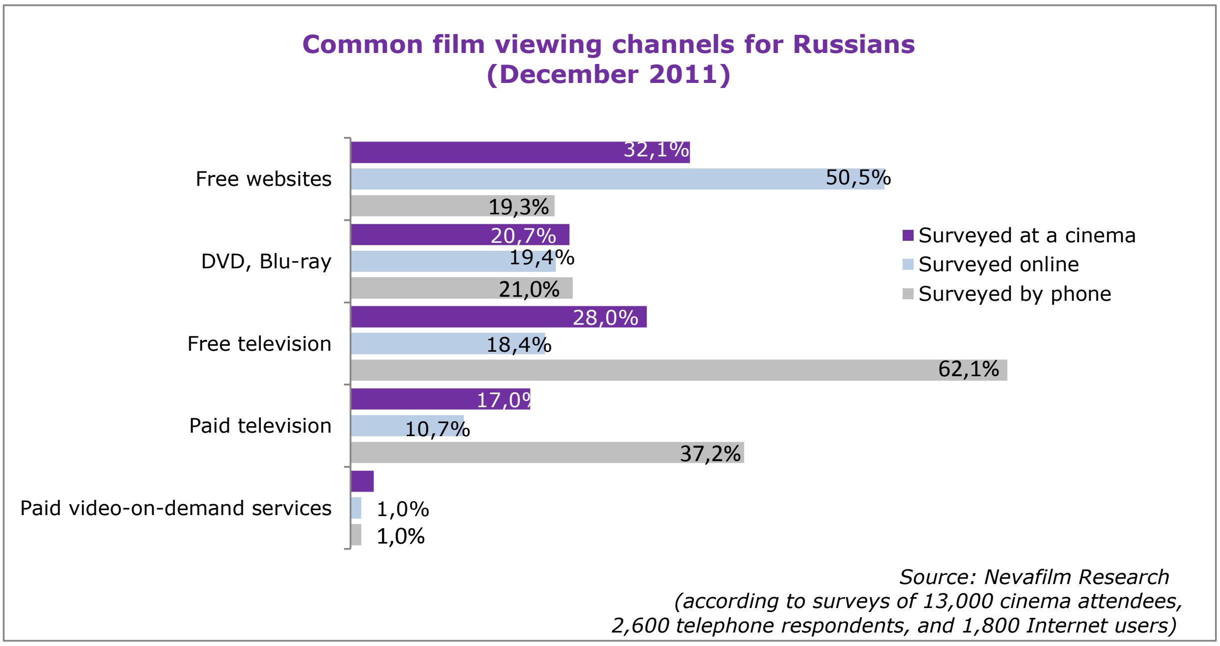


Figure 75. Common film viewing channels for Russians (December 2011)

3.5.2 Principal players

Leaders in the licensed video market in Russia

Overall, the Russian licensed video market had fewer than 20 players as of mid-2012, including:

- representatives of the Hollywood majors (20th Century Fox CIS, which has been in the market since 2004; Walt Disney Company CIS, which has been in the market since January 2009; VideoService, which has been in the market since 1992, representing the interests of Sony Pictures since 1997, and representing Walt Disney Pictures between 2002 and 2008; Noviy Disk, which has been representing Paramount since 2012 in the Russian market; and CP Digital, which has been representing Warner since 2011);

- independent video distributors offering a wide range of domestic and foreign releases (CD Land, DVD Magic, Lizard Cinema Trade, Neoclassica, New Dream Media, Ruscico, West Video, Volga, Carmen Video (Carmen Film), Misteriya Zvuka [Mystery of Sound], Monolit, Paradise Video (Paradise Media), Premium Film, Cinema Prestige, Soyuz Video, and Flagman Trade).

It should be noted that Universal Pictures Russia left the market in the summer of 2011. The rights to distribute the major's video content marketing Russia were transferred to 20th Century Fox CIS as part of a three-year agreement.[110]

As for the countries of origin of the titles released, Russian video distributors operating in the Russian video market in 2012 may be split into the following groups: one company works with Russian video content; nine handle foreign films exclusively, while 11 handle both foreign and Russian films.

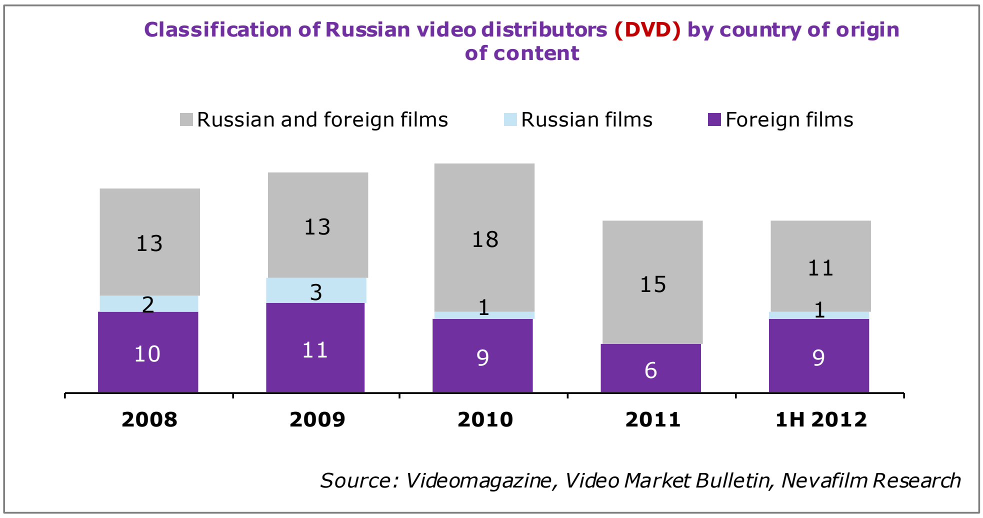


Figure 76. Classification of Russian video distributors (DVD) by country of origin of content

Among distributors releasing Blu-ray discs onto the Russian market, six companies deal exclusively with foreign releases, while one company deals with Russian releases only. The majority (nine distribution companies) specialize, as they do in the DVD market, in mixed releases of both Russian and foreign origin.

[110] '20th Century Fox CIS and UPIE Announce Strategic Partnership in Russia', *Video Market Bulletin* № 14(72), 2 June 2011

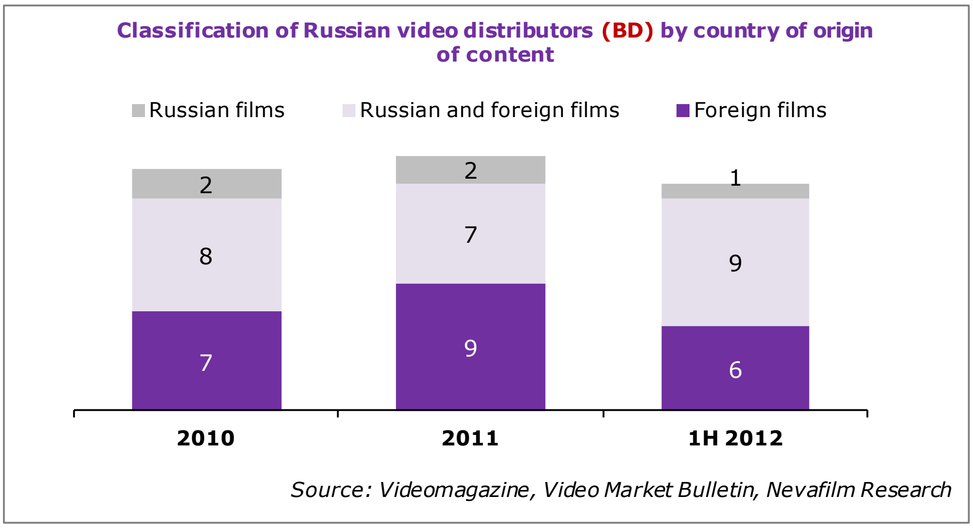


Figure 77. Classification of Russian video distributors (BD) by country of origin of content

Noviy Disk remains the leader in the market by number of DVD releases for the third year in a row. As in 2011, second place in the first half of 2012 went to CP Digital. These companies also lead in terms of the number of feature films released on video. Flagman Trade returned to third place in the ranking of total number of releases in the first half of 2012, displacing Walt Disney Company CIS, which had been in third place in 2011. This occurred largely due to the reduction in the activities of Walt Disney Company CIS in the Russian video market (in the summer of 2011, the company announced it would be cutting the number of departments promoting video products).

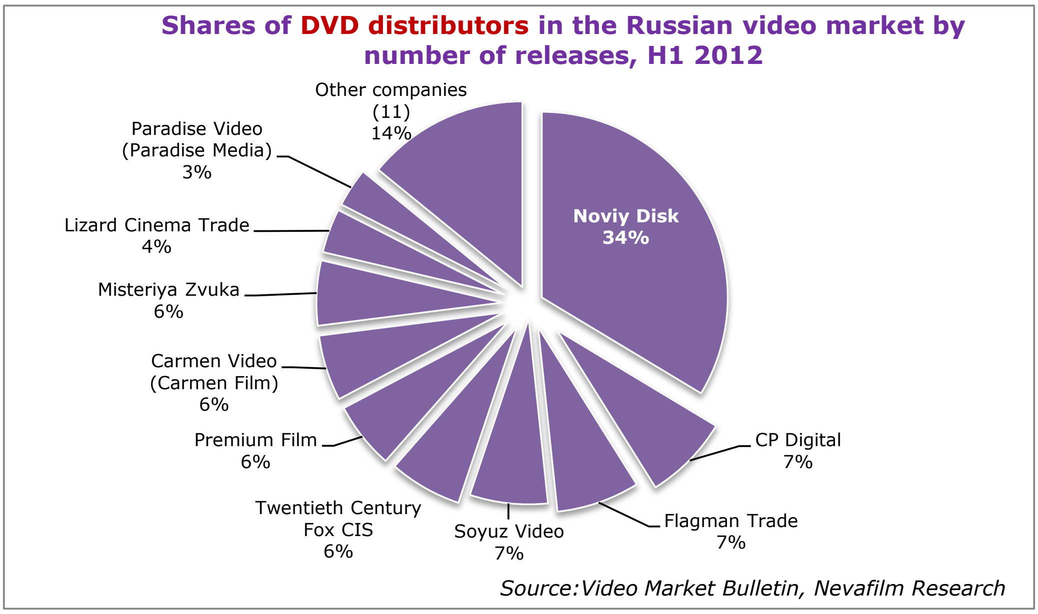


Figure 78. Shares of DVD distributors in the Russian video market by number of releases, H1 2012

In terms of genre categories of DVD releases, the leading Russian distributors were divided thus: Flagman Trade, Noviy Disk, and Misteriya Zvuka lead in releases of TV series on video. The latter two distributors also lead in the release of animated films and cartoon series on video. The third leader in animation is Soyuz Video, which is also the leader in documentary releases. DVD Magic came in second place in documentary film and series released on video, for the third year running.

Table 34. Rating of players in the Russian DVD distribution market by number of releases in H1 2012

Rank	Distributor	Released in 1st half 2012					
		feature films	featured TV series	documentary films and series	animated films	Total	Distributor's share
1	Noviy Disk	321	37	10	78	**446**	20.5%
2	CP Digital	88	1	2	8	**99**	4.6%
3	Flagman Trade	37	47	1	11	**96**	4.4%
4	Soyuz Video	29	2	35	24	**90**	4.1%
5	20th Century Fox CIS	77	0	1	6	**84**	3.9%
6	Premium Film	60	6	2	9	**77**	3.5%
7	Carmen Video (Carmen Film)	70	3	3	0	**76**	3.5%
8	Misteriya Zvuka	37	11	4	23	**75**	3.5%
9	Lizard Cinema Trade	40	9	1	1	**51**	2.3%
10	Paradise Video (Paradise Media)	29	10	0	6	**45**	2.1%
11	Walt Disney Company CIS	15	2	1	17	**35**	1.6%
12	Cinema Prestige	26	3	0	0	**29**	1.3%
13	Volga	23	2	2	1	**28**	1.3%
14	New Dream Media	18	1	0	7	**26**	1.2%
15	VideoService	19	0	1	1	**21**	1.0%
16	West Video	19	0	0	0	**19**	0.9%
17	DVD Magic	0	0	12	0	**12**	0.6%
18	Monolit	3	9	0	0	**12**	0.6%
19	Ruscico	3	0	1	0	**4**	0.2%
20	CD Land	1	0	0	0	**1**	0.1%
21	Neoclassica	1	0	0	0	**1**	0.1%
Total		**916**	**143**	**76**	**192**	**1,202**	

Source: Video Market Bulletin, Nevafilm Research

Catalogue releases predominate in the video libraries of distribution companies like DVD Magic, Neoclassica, Cinema Prestige, and Soyuz Video. All four of these distributors had a share of catalogue releases that exceeded 85% in the first half of 2012. On the other hand, Monolit, CD Land, and Premium Film generally distribute new film and television show releases. It should be noted that the share of companies that mainly distribute catalogue releases has fallen from 64% in 2010 to 52% in the first half of 2012. Thus, an increasing number of video distributors are relying on new films.

In the first half of 2012, Noviy Disk, Premium Film, and 20th Century Fox CIS were the leaders in Blu-ray releases; their combined share makes up more than 50% of total releases. These same companies lead feature film releases to video. VideoService and Walt Disney Company CIS round off the top five companies in Blu-ray film releases (according to results for the first half of 2012). The top positions in this segment of the market therefore belong to independent companies.

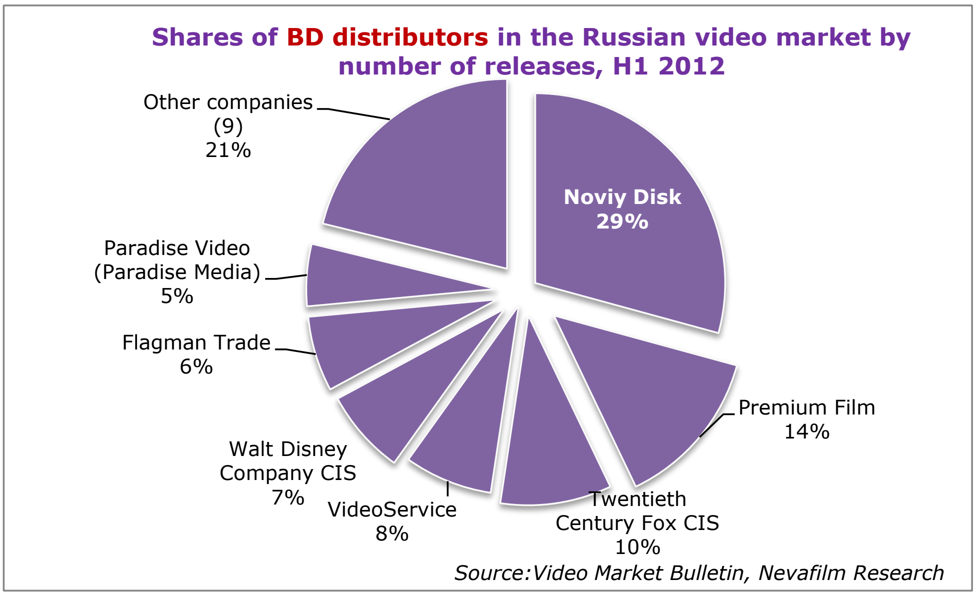


Figure 79. Shares of BD distributors in the Russian video market by number of releases, H1 2012

Just four companies release TV drama series on Blu-ray in Russia: Flagman Trade (the only player in this genre until 2012), Premium Film, Carmen Video, and Misteriya Zvuka. The leader in distribution of documentary films and series on both Blu-ray and DVD is Soyuz Video. Second place is occupied by 20th Century Fox CIS. Animation in Blu-ray format is largely distributed by Noviy Disk and Walt Disney Company CIS.

Table 35. Ranking of players in the Russian Blu-ray distribution market by number of releases in 1st half 2012

Rank	Distributor	Released in 1st half 2012					
		feature films	featured TV series	documentary films and series	animated films	Total	Distributor's share
1	Noviy Disk	80	0	0	25	**105**	30.9%
2	Premium Film	42	1	2	4	**49**	14.4%
3	20th Century Fox CIS	26	0	7	1	**34**	10.0%

Rank	Distributor	Released in 1st half 2012					
		feature films	featured TV series	documentary films and series	animated films	Total	Distributor's share
4	VideoService	23	0	2	2	**27**	7.9%
5	Walt Disney Company CIS	8	0	1	17	**26**	7.6%
6	Flagman Trade	14	4	1	4	**23**	6.8%
7	Paradise Video (Paradise Media)	15	0	0	4	**19**	5.6%
8	Carmen Film	14	1	0	0	**15**	4.4%
9	Soyuz Video	6	0	9	0	**15**	4.4%
10	CP Digital	10	0	0	2	**12**	3.5%
11	Lizard Cinema Trade	10	0	0	2	**12**	3.5%
12	Misteriya Zvuka	6	1	2	2	**11**	3.2%
13	West Video	5	0	0	0	**5**	1.5%
14	Volga	2	0	0	1	**3**	0.9%
15	Ruscico	2	0	0	0	**2**	0.6%
16	CD Land	1	0	0	0	**1**	0.3%
Total		**264**	**7**	**24**	**64**	**356**	

Source: Video Market Bulletin, Nevafilm Research

The opposite trend is seen in relation to catalogue and new releases in the Blu-ray segment, unlike the DVD segment. In 2010, more than 70% of companies had releases in that format, which were generally new films. Five out of 17 distributors did not have any catalogue releases on Blu-ray. For the first half of 2012, of the 16 companies, only two are specializing exclusively in new films. The remainder have released at least one catalogue film on Blu-ray. For five distributors (32%), catalogue releases make up more than half of their total video library. This indicates the active development of the Blu-ray media market and a significant expansion of its repertoire.

3.5.3 Trends and predictions for the development of the Russian video market: the challenge of non-physical distribution

The Russian home video market has therefore been developing dynamically since the 1990s. The major watershed moments in its development were the 1998 default, the piracy explosion in 2002–2003, and the 2008–2009 global economic crisis. Over the past two years, the video market has started to decline gradually. The main reason for this has been the active development of non-physical distribution of video content, the widespread presence of the Internet, and, as a result, an upsurge in video piracy. Signs of market decline include not only a reduction in sales volumes, but also a fall in the number of active distributors (in part, the departure of the representatives of majors from the market), the closure of video media production factories, and the fact that industry periodicals have closed their doors (*Video Market Bulletin* and

Videomagazine). Increasingly frequently, industry insiders are concerned about the decline of the industry with the transition to non-physical distribution.

At the same time, notwithstanding the decline in the DVD industry, the Blu-ray market is continuing to develop: the number of Blu-ray players is on the rise in Russia. In parallel, there is an increase in the number of Blu-ray releases by Russian distributors. The number of DVD releases is gradually falling.

Feature films retain the lead as the most common type of video product released. On the Russian market, there is a predominance of catalogue releases that are increasingly frequently being released not only on DVD, but also on Blu-ray, which indicates the strengthening of the latter's position. North American and European films lead the field in terms of the number of video releases.

In recent years, Russian distributors have gradually been increasing the length of the window between cinema and video releases. Until 2010, the opposite policy was carried out; short windows were used to battle video piracy. The current trend of increasing the period of time between the cinema and video premières is largely dictated by the practice of the Hollywood majors, and is viewed by market players as rather contradictory in nature. For example, large retail chains see the increase in window to release as a factor that negatively affects demand for video products, reasoning that when discs are released in a short window, viewer interest in them has not weakened, as a result of theatrical marketing campaigns. Considering the overall decrease in sales, this factor may lead to an even more significant deterioration in the industry's situation.

The modern Russian market for licensed video has about 20 video distributors, including representatives of both Hollywood and independent publishers. As a result, there are a few ways in which video content is distributed in Russia: films from major Hollywood studios are distributed via exclusive representatives. The rights for other content are bought up by independent video distributors. Some companies even sell the rights to video distribution through brokers (with sublicensing).

In addition, Russia still boasts a robust video retail network. Licensed discs can be purchased in practically any large store, including speciality stores but also grocery stores and bookstores, or even from the comfort of one's home, via the Internet. However, the general tendency towards a decline in the market is also affecting the wider distribution network: individual video distributors' stores and even entire retail chains are closing down.

3.6 Video on demand services in Russia

3.6.1 Structure of the VoD market

Origins

The video-on-demand market in Russia began with pay-TV networks providing a service that allowed users to pay for viewing a film that was then broadcast to them. With the development of duplex communication channels, increasingly interactive services began to be more widespread, and PPV services began to be replaced by more and more classic VoD services. Below is a chronology of these events.

- **2005 – First pay video-on-demand services.** Sistema Mass-Media, a subsidiary of Sistema, launches the Stream-TV service, using IPTV over ADSL technology and based on the PPV (pay-per-view) business model.
- **2006** In September, the Stream-TV service changes into a classic VoD service (in 2010, Comstar, which manages the service, moves to the MTS mobile network). In November, another major Moscow pay-television operator providing digital TV and Internet access services – ComCor-TV, a subsidiary of Renova Media – offers its subscribers a service allowing them to order films by phone through its subsidiary Akado Home Cinema. At the same time as the VoD prototypes begin to appear, Internet stores also start opening, providing the opportunity to download films to PCs for a fee. The first project isGetmovies.ru, an online licensed video store, which offers users a collection of Soviet films based on a pay per view business model.
- **2007 – Increase in the number of players.** Russia's largest cable and IPTV operators begin to offer classic VoD services to their clients: in the spring, Catalogue Video opens on the Corbina network (in mid-2009, the company is purchased by VimpelCom); in September, VideoteQa is launched on the QWERTY cable network. In addition, VoD services are being developed by regional cable networks owned by the Svyazinvest holding. VoD on the Internet is also offered by Video24.ru, which receives the rights to the video libraries of Central Partnership and EA Cinema. At the same time, plans for the Rambler web portal to open their Kinozal [Cinema] service– another pay-per-film download service – became public.
- **2008** – **First free services on the Internet and satellite PPV.** In September, free-of-charge Internet VoD services gain a boost with the launch of 'Rambler. Kinozal'. This service forms part of a new media strategy based on increasing advertising (banners, pop-up windows, and so on). The previous business model is changed, and users are able to download films via the domain for free (the site initially offers episodes of shows from the TV channel TNT, such as Nasha Russia and Dom-2. At the same time, Kinodrom, a non-interactive PPV service, is launched by satellite TV company NTV Plus. Initially, viewers are offered two channels ('Cinema Flights') each broadcasting a single film continuously for a 24-hour period.
- **2009** – **Market pioneers are replaced by new players.** StarBlazer, a satellite Internet provider that is part of the Race Communications group, begins commercial operation of a service, which is similar to a PPV service: the Satellite Film service is made available to owners of dishes tuned to Intelsat 904 and Express-AM33 satellites (which cover nearly all of Russia) and connected to the computers onto which the

operator downloads six films a day for viewers to choose from. New start-ups are appearing on the Internet, offering users the chance to purchase legal film content (Video.ru [from Digital Video Network – DVN] and Omlet.ru [MTS]), while one of the market's pioneers, Video24.ru, closes down. In the area of free VoD on the Internet, changes are also occurring: the 'Rambler. Kinozal' project comes to an end, but new players step in to take its place. The Uravo group launches CCCP-tv.ru, which, upon opening and up until the end of the year, offers Soviet television broadcasts, as well as a catalogue of feature-length films. At the end of the year, the company opens the direct site Uravo.tv, offering free access to its catalogue of feature-length films, from the first foreign and pre-revolutionary Russian silent films to both Russian and foreign films made in the 21st century. Technoinvest begins to offer free VoD services to users of its Tvigle.ru site after signing its first contract with Lenfilm Video.

- **2010 – Sharp increase in the number of players.** The year marks a real boom in new VoD services, first and foremost on the Russian Internet, based on the advertising business model (free to users). Digital Access (Ivi.ru) begins operation on 26 February 2010, with a catalogue of shows from Central Partnership, Amedia, Soyuzmultfilm, and 2V Studio. In April, it concludes an agreement with Channel One. Also in April, TVZavr launches TVZavr.ru in collaboration with Central Partnership, and in June, Zoomby.ru is set up, having won the rights to libraries of programmes and serials from TV channels and distributors (Central Partnership, Amedia, Kino bez Granits, Top Film, VGTRK, Ren-TV, Channel 5, CTC Media, TVZ, Zvezda, TNT, Muz-TV, and Moya Planeta). By the end of the year, Russian TV channels are also going online independently: CTC Media launches Videomore.ru, a combination of a social network and a regular video service (CTC representatives call their site a 'social television network'), where users can watch the company's broadcasts and serials for free. The All-Russian State Television and Radio Broadcasting Company (VGTRK) announces similar plans for the following year. Tricolor-TV, Russia's largest satellite TV operator, launches a PPV service, initially made up of four themed channels showing films on a repeating schedule, and which viewers can access by paying RUB 10 for each film. In the pay VoD sphere on the Internet, an agreement is concluded between the Videolyubitel (Video Lover) platform for viewing and downloading films online (representing the interests of popular Russian social networks VKontakte, Moy.mir@mail.ru, and Mir Tesen) and Video.ru (providing legal pay content). This is an attempt to offer users a legal alternative to pirated video, as the posting of pirated content on popular social networks is already becoming one of the biggest problems for Russian rights holders. In addition, VoD services on the Internet are provided by certain operators of non-broadcast television, duplicating the service of the main network (Stream TV and VideoteQa) or providing a wider range of services (VoD instead of PPV on Kinodrom from NTV Plus). New pay VoD services for the Internet are heavily promoted, such as Innova's multifunctional Ayyo.ru website, which has amassed a large library of Disney and Paramount films, and is in negotiations with Warner Bros., Universal, and Sony Pictures. A new, promising area for the development of VoD services debuts on other platforms: in the summer, a free video operator, built on the basis of the Tvigle.ru social network, launches an iOS application, and the RuTube service begins showing short clips to owners of Sony Bravia Monolith televisions. This integration is possible due to new Over the Top (OTT) signal delivery technology, which allows content to be delivered to a user on any device, and which has great potential for VoD services.

- **2011 – Inflow of major investment.** This trend in taking advantage of new channels for delivering content to users is quickly picked up by other VoD operators whose interest lies first and foremost in mobile devices (smartphones and tablets; the absence of iTunes in Russia is compensated for by the AppStore, on which films by Russian producers are made available in the form of applications), as well as in television sets with Smart-TV functions (the first manufacturers being Samsung, Philips, LG, Panasonic, and Sony) and players (BBK Popcorn TV). The first services integrated into fixed home devices are Stream-Interactive, Omlet.ru, Tvigle.ru, Ivi.ru, and Zoomby.ru. Russian pay TV operators conclude agreements that allow connection to their networks not only with the equipment acquired from the service providers, but also via the users' own equipment: VimpelCom provides its IPTV channels to Xbox owners and Rostelecom goes for a similar strategy. Satellite TV operator NTV Plus includes its services in IPTV operators' packages. The mobile phone operators Beeline and MTS (under the Videoprokat and Home TV by MTS brands respectively) now begin offering VoD services by cable, and MTS offers subscribers the use of the local Videosvoboda network. Their new Vidimax VoD service, also launched in 2011, delivers content through a special TV adapter and over the Internet. At the same time, mobile communications operators start offering their subscribers the opportunity to sign up for IPTV services using OTT technology: mobile TV becomes accessible on the MTS network, while the Beeline and Megafon networks have already provided access for several years – approximately 1.1 million people are already actively using the service.
- Finally, at the end of the year and after many missteps, a next-generation mobile connection begins operation in Russia: the LTE network is introduced by Novosibirsk's Yota (from Scartel, which has until now been developing Internet access via a mobile WiMax network). The remaining claimants to the LTE frequency (Megafon, VimpelCom, MTS, and Rostelecom) sign agreements with Scartel on the use of its frequencies to develop the LTE network in Russia. At the same time, Russian Railways' trunk-line operator Transtelecom announces plans to provide WiMax services in distant, hard-to-access regions.
- With regard to the VoD services themselves, large investments are being made: the ranks of pay VoD service providers are joined by trava.ru from Megafon, and Yota Play from Yota, the 3G and 4G Internet provider, as well as by a video service owned by Gazprom-Media holding, with a package that has both films from foreign rights holders such as Sony Pictures, Walt Disney, Warner Bros., and Lionsgate, and content from the holding's TV channels (TNT and NTV). The main business model of Now.ru is paid subscription, but viewers are also able to pay for downloads, and for a single viewing. Contracts with Hollywood majors to provide content are also concluded by MTS (the Omlet.ru paid Internet service), Scartel (the paid Yota Play service, also accessible on the operator's mobile network), and

Tvigle.ru (on which the serials of FOX International are shown on the basis of an advertising business model).

- The list of international players on the market is also growing: until this time, the only official foreign VoD service in Russia has been the pay site Mubi.com. In the summer of 2011, the localized Kinozal service is launched by YouTube (based on the video libraries of Soviet film studios) and in addition, the first Ukrainian Internet VoD service enters the Russian market. Called Megogo.net, it operates on the advertising business model.
- VoD services are becoming more active in promoting themselves both on and off the Internet. Commercials are broadcast on television and on Web pages where VoD operators provide applications for various social networks (vk.com, Odnoklassniki, Moy Mir, Facebook, and Twitter), and also put links to their libraries on the pages of Kinopoisk.ru, the most popular film site on the Russian Internet. The first agreement of this type is concluded by MTS. Large investments lead to increased aggressiveness from VoD market players with operators trying to obtain exclusive rights to content. They also lead to a narrowing of the gap between a film's cinema or DVD premiere and its showing on demand (the first to agree to simultaneous showings were Now.ru and Russian World Studios).
- **2012 – Convergence of pay and free services.** At the beginning of the year, ivi.ru signs a contract with the major studios. The provider has to depart somewhat from the idea of providing users with free content. Cinematic hits will now be accessible by subscription, and new releases will be paid for separately as part of the new ivi+ service. The company also becomes the first to interrupt content showings with advertising clips (which have previously only been shown at the beginning of films). Tvigle.ru continues to purchase premiering foreign television serials, having closed an exclusive deal with the BBC. In September, free service TVZavr announces that it is planning to launch a pay service. The Stream video portal (which had previously been operating under the Omlet.ru brand, until 55% of the content service was bought back from MTS by Sistema in mid-2012) concludes an agreement with Miramax and 20th Century Fox.

  The number of players in the Internet VoD market continues to grow: in this year, Russia's largest communications operator, Rostelecom, launches its paid service, Zabava.ru, which shows PPV films. A similar portal (but free-of-charge to users) opens at the end of October under the management of one of Rostelecom's main competitors, Russian Railways' Transtelecom: during the operation of the beta version of the Okno.ru service, users have access to content from partner sites. Another service that had long been in the testing stage opened to the public in the autumn: ayyo.ru was not only the first to ask users to pay as much as they thought they should for a film, but also to offer them the opportunity to give a film viewing as a gift to friends.

  Finally, another trend arose on the VoD market in the autumn: segmentation of operators' offers. Two Internet services simultaneously released children's versions of their sites and mobile applications. These versions protect children from adult content (in line with the recently adopted amendments to the 'Law on the Protection of

Children from Information Harmful to Their Health and Development' [111]). These two sites are the free deti.ivi.ru and the subscription-based stream.ru/kids.

- The first start-ups, which have largely sold music (Fidel.ru and Yota Music), begin to close down. The border between paid and free services is gradually disappearing as nearly all paid services have some free content, while services which have previously operated strictly on the advertising model are starting pay sections for premium content. It should be noted that in the current year, Russia's largest film company, Central Partnership, has begun to sell its films on iTunes (previously, the studio's films had been accessible in the form of applications from the AppStore) and in Cinecliq applications on Facebook. At the same time, the Russian branch of Disney has joined the ranks of rights holders which sell content in the country through the AppStore. It is also expected that an Apple music store may officially open in Russia by the New Year. The majority of Internet platforms for film have their own applications for iOS and Android, as well as for social networks, TVs, and Internet video players. There is an ongoing and active advertising campaign for services on the Web: now on Kinopoisk, after the description of each film, there are links to the services through which the film may be seen (either for a charge or for free).

Current conditions

By 2012, a VoD market landscape had developed in Russia, which covered the following:

- Various technologies for the delivery of content to viewers (using IPTV and satellite channels, and the Internet via computers, tablet devices, mobile phones, gaming consoles and mobile connections).
- Download, download to own, and streaming services.
- Various business models (customer payment per unit or subscription, or paid for by advertisers and free of charge to the customer).

By mid-2012, the VoD market had already grown to include approximately 60 operators of various formats using a number of different technologies to deliver services. Most of these companies were Internet service providers (48%) and cable television providers (IPTV – 21%); companies incorporating AppStore services (and those of other application stores for smartphones and tablet devices) have been the market's fastest-growing segment.

[111] See Protection of children

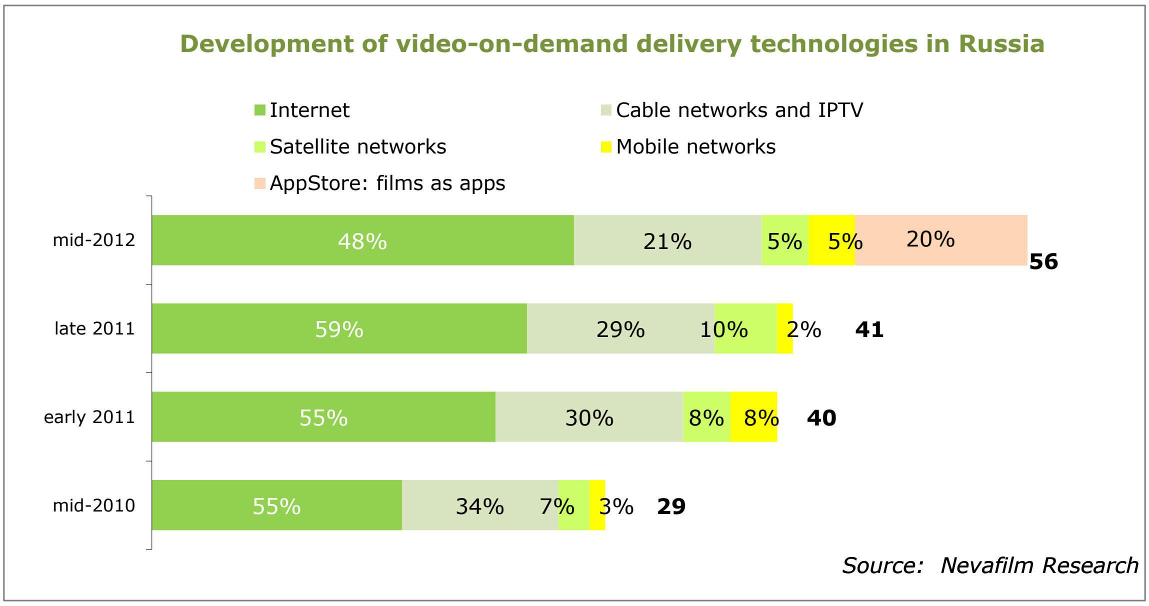


Figure 80. Development of video-on-demand delivery technologies in Russia

The Internet's domination of the VoD market is due to the fact that this technology allows user feedback to be provided more easily; it also provides the opportunity to monetize content, whether it is paid for, or free of charge for the viewer. In 2011–2012, the number of VoD services on the Russian Internet operating on advertising business models and direct sales exceeded the number of IPTV operators offering similar paid services to network subscribers.

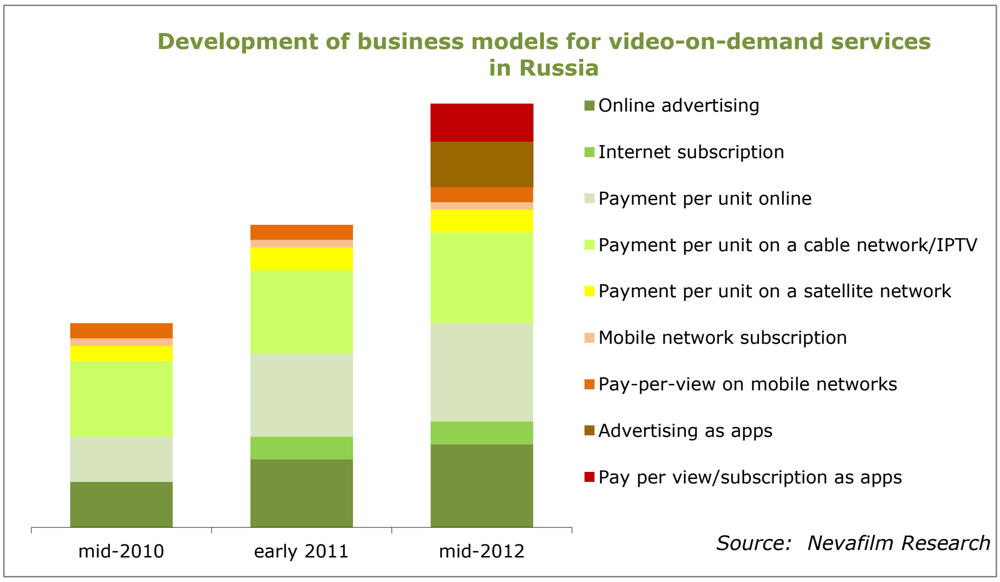


Figure 81. Development of business models for video-on-demand services in Russia

Nevertheless, it is precisely Internet VoD services that are the most difficult to develop in Russia. This is firstly because broadband access to the Web is not yet sufficiently developed in the country. Secondly, there is a high level of competition between legal services, pirate sites, and torrent and fileshare networks. As a result, the development of the technical capabilities to reach a large audience is being hampered by that audience's access to sources of pirated film content.

Broadband market penetration

According to research data by the Public Opinion Foundation (*Internet Penetration in Russia*, Summer 2012), by mid-2012, the monthly Internet audience in Russia had reached 59.4 million users (51%), with average daily users at 45.1 million (39%).

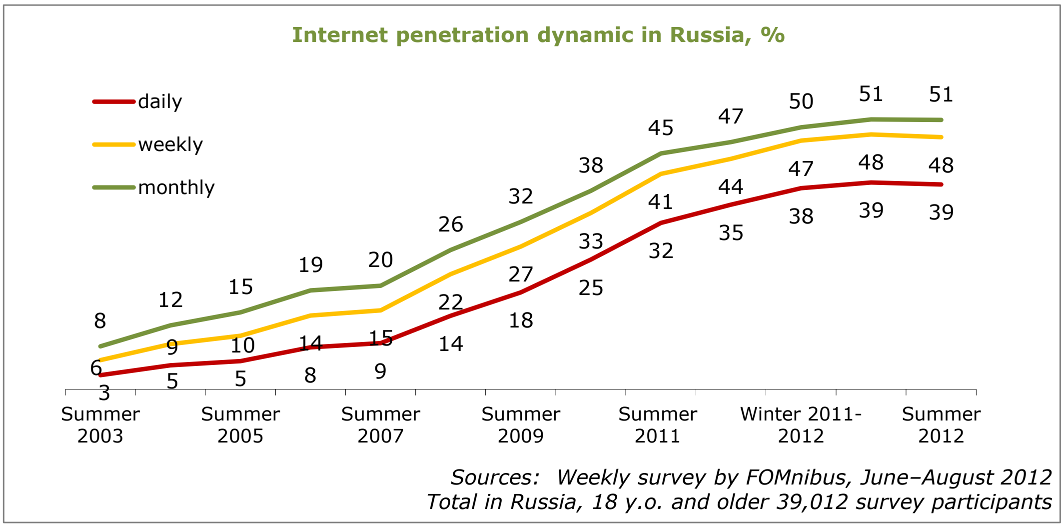


Figure 82. Internet penetration in Russia, %

However, the distribution of broadband access in the country is not even. This is especially notable in small cities and towns, where the penetration level does not exceed 40–50%, whereas that figure is more than 70% in Moscow and St. Petersburg.

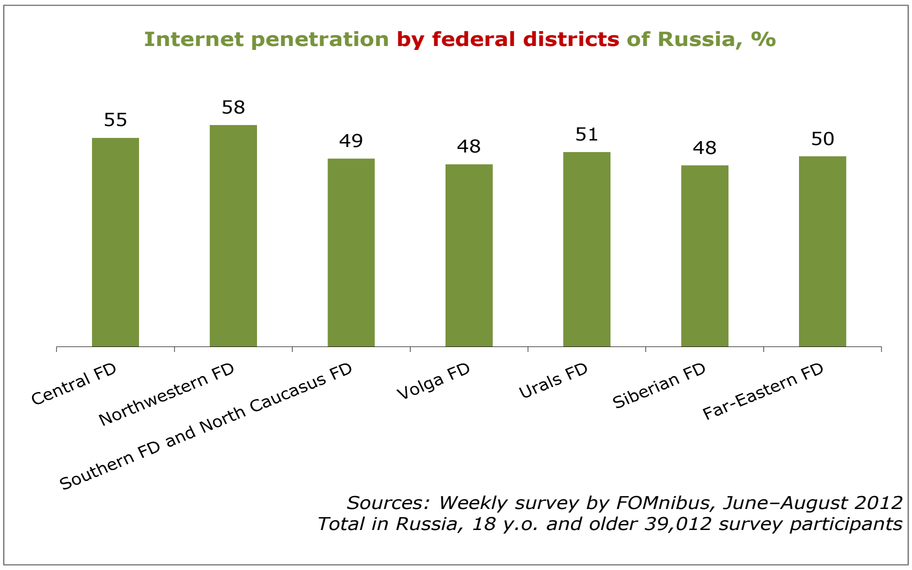


Figure 83. Internet penetration by federal districts of Russia, %

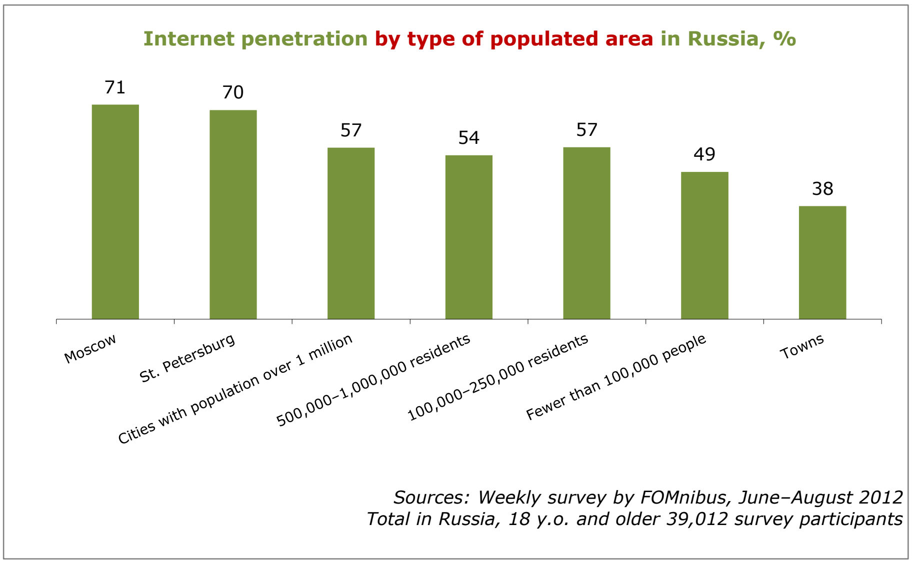


Figure 84. Internet penetration by type of populated area in Russia, %

Pay TV market penetration

With regard to the second-most-widespread technology (pay TV operators' networks), according to estimates by J'son & Partners Consulting, in 2011 in Russia there were 28.6 million households connected to cable, satellite, and IPTV technology, or 52%, which is comparable to the number of residents with broadband access.

Among pay TV services, cable networks are in the majority at 63% of providers, while IPTV, although a fast-growing segment of the market, is offered by only 5% of companies.

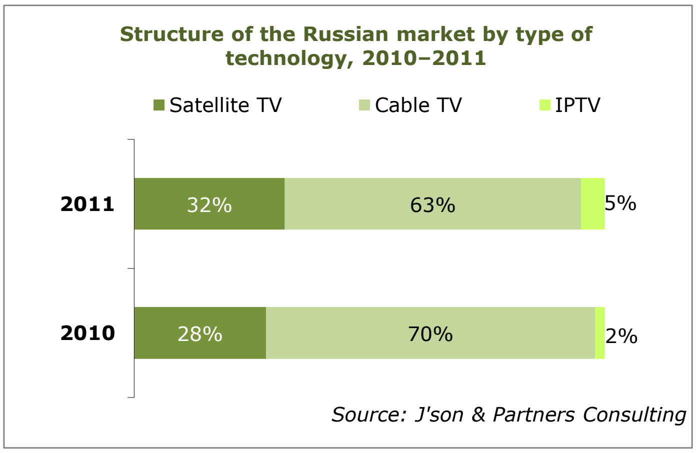


Figure 85. Structure of the Russian market by type of technology, 2010–2011

The Central Federal District, where the majority of the population of Russia lives, is the leading federal district in terms of pay TV services. As J'son & Partners Consulting researchers note, at the end of 2011, the highest level of pay TV penetration was in the Northwestern Federal District (72.6%), whereas the lowest were in the North Caucasus (29%) and Far East (27%) Federal Districts.

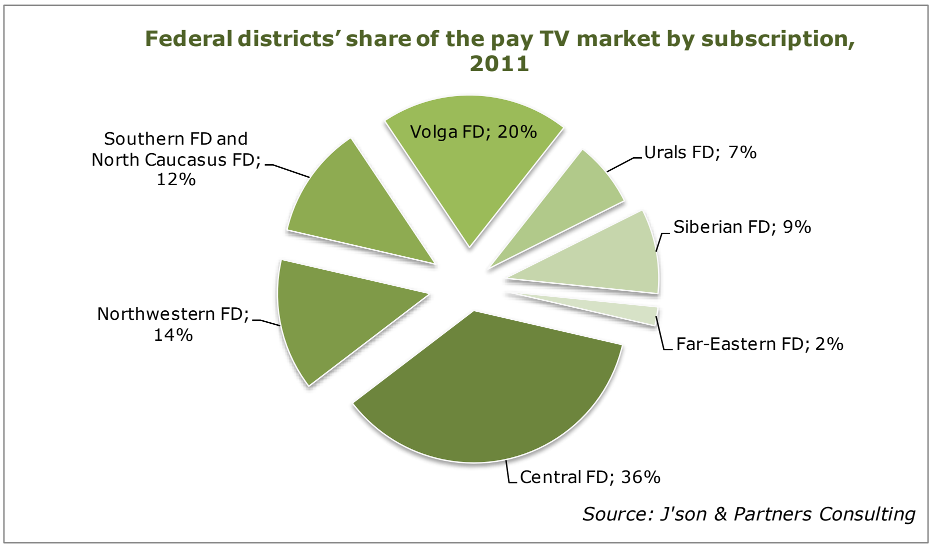


Figure 86. Federal districts' share of the pay TV market by subscription, 2011

3.6.2 Video on demand market players in Russia

Video on demand operators on cable and IPTV networks

On the whole, it is fairly difficult to create a ranking of operators of cable, satellite, and IPTV networks offering VoD and PPV services today, as information on the number of their members and the users of these services is not always accessible. We have created a ranking on the basis of information available on websites or official announcements made by the companies themselves. Eight of the 12 cable or Internet VoD operators are federal subdivisions of Rostelecom. Still, the company has only the third-largest number of subscribers with access to VoD services (which are available only to IPTV customers). The market leader is Tricolor-TV, which reached 11 million subscribers in August, and offers pay-per-view services under the name Kinozaly. MTS Cable Television remains in second place.

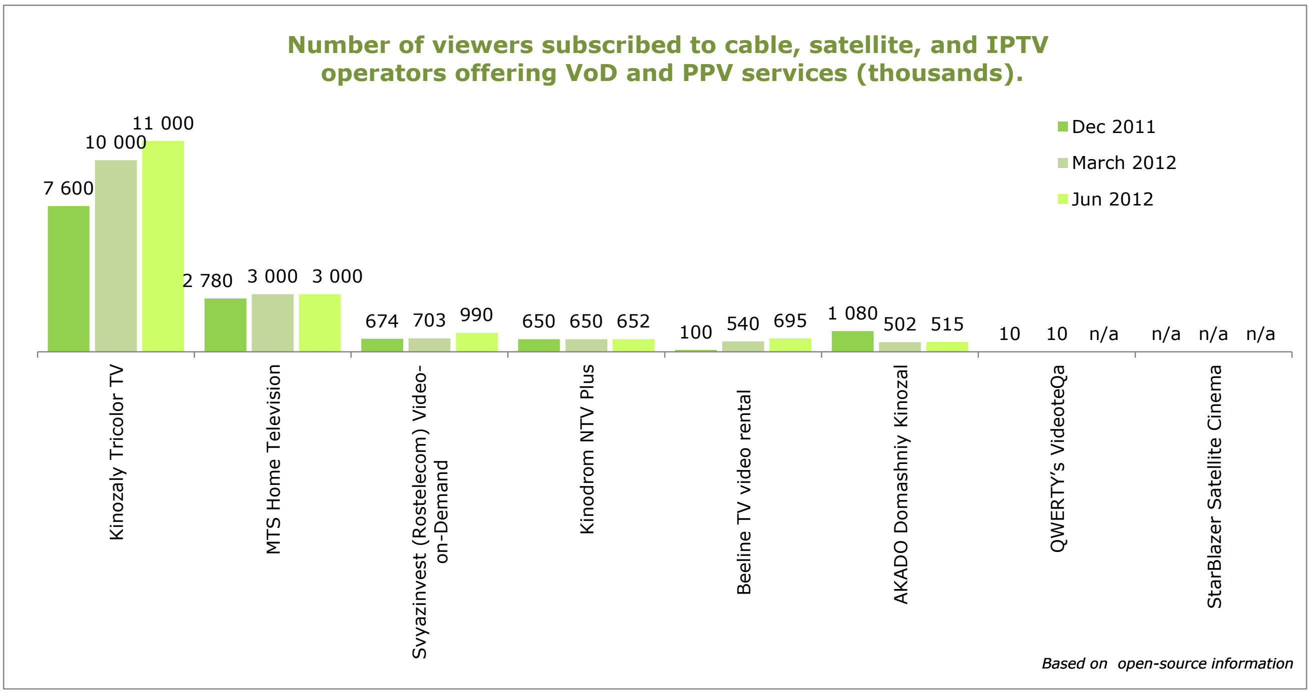


Figure 87. Number of viewers subscribed to cable, satellite, and IPTV operators offering VoD and PPV services (thousands)

Table 36. VoD services on pay TV networks

Title	Year of service launch	Owner	Geographical coverage	Operator's basic service	Type of VoD	Business model
MTS Home Television (http://www.mts.ru/internet/mts_stream/)	2005	COMSTAR United Telesystems	Russian Federation	Mobile connection, broadband access, IPTV	VoD	Subscription
AKADO Home Movie Theatre (http://cinema.akado.ru)	2006	AKADO	Central Federal District (Moscow, Moscow Region)	Internet, IPTV, digital telephony	VoD	pay per view
VideoteQa QWERTY (http://www.qwerty.ru)	2007	Central Telegraph	Central Federal District (Moscow, Moscow Region)	Internet, IPTV	VoD	pay per view
Beeline TV video rental (http://www.tv.beeline.ru)	2009	VimpelCom	Central Federal District (Moscow, Moscow Region), North-West Federal District (St. Petersburg)	Mobile connection, broadband access, IPTV	VoD	pay per view
Rostelecom Video Rental***** (previously Video on Demand Avangard TV) www.rt.ru	2007	Svyazinvest	Northwestern Federal District	IPTV, Internet	VoD	pay per view
Rostelecom Video Rental (previously Virtual Movie Theatre, Utel TV Video on Demand) www.rt.ru	2007	Svyazinvest	Urals Federal District	IPTV, Internet	VoD	pay per view
Rostelecom Video Rental (previously Disel TV Video on Demand) www.rt.ru	2008	Svyazinvest	Southern Federal District, North Caucasian Federal District	IPTV, Internet	VoD	pay per view
Rostelecom Video Rental (previously Twist Video on Demand) www.rt.ru	2008	Svyazinvest	Siberian Federal District, Far Eastern Federal District	IPTV, Internet	VoD	pay per view
Rostelecom Video Rental (previously Domolnik TV Video on Demand) www.rt.ru	2009	Svyazinvest	Central Federal District	IPTV, Internet	VoD	pay per view
Rostelecom Video Rental (previously Tvi Video on Demand) www.rt.ru	2009	Svyazinvest	Far Eastern Federal District	IPTV, Internet	VoD	pay per view
Kinozaly Tricolor-TV (http://kino.tricolor.tv/kino/)		National Satellite Company	Russian Federation	Satellite TV	PPV	Subscription
Dom.ru Video Library (http://www.domru.ru)	2009	ER-Telecom Holding	Central Federal District, Volga Federal District, Northwestern Federal District, Urals Federal	IPTV	VoD	Subscription

Title	Year of service launch	Owner	Geographical coverage	Operator's basic service	Type of VoD	Business model
			District, Siberian Federal District			
Kinodrom NTV-Plus (http://www.kinodrom.ntvplus.ru)	2008	Gazprom Media Holding	Russian Federation, Ukraine	Satellite TV	PPV	pay per view
StarBlazer satellite film channel (http://www.starblazer.ru)	2009	Race Communications	within the zone covered by Intersat 904 and Express AM33 satellites	Satellite-based Internet	PPV	pay per view

** in the summer of 2012, VoD services by regional operators who were part of Rostelecom were merged into a combined, general service called Video Rental, provided throughout Russia.*

Video on demand operators on the Russian Internet

Qualitative evaluation of the audiences of specific Internet content, as well as of the volume of downloads/views by users, is extremely difficult in Russia due to the inaccessibility of this information. Nevertheless, it is possible to create a ranking of legal services: according to data by LiveInternet, the leading positions in the market are occupied by ivi.ru (offering a paid-access catalogue under the name ivi+, in addition to its free film content), tvigle.ru, and megogo.ru (both of which use the advertising-based model).

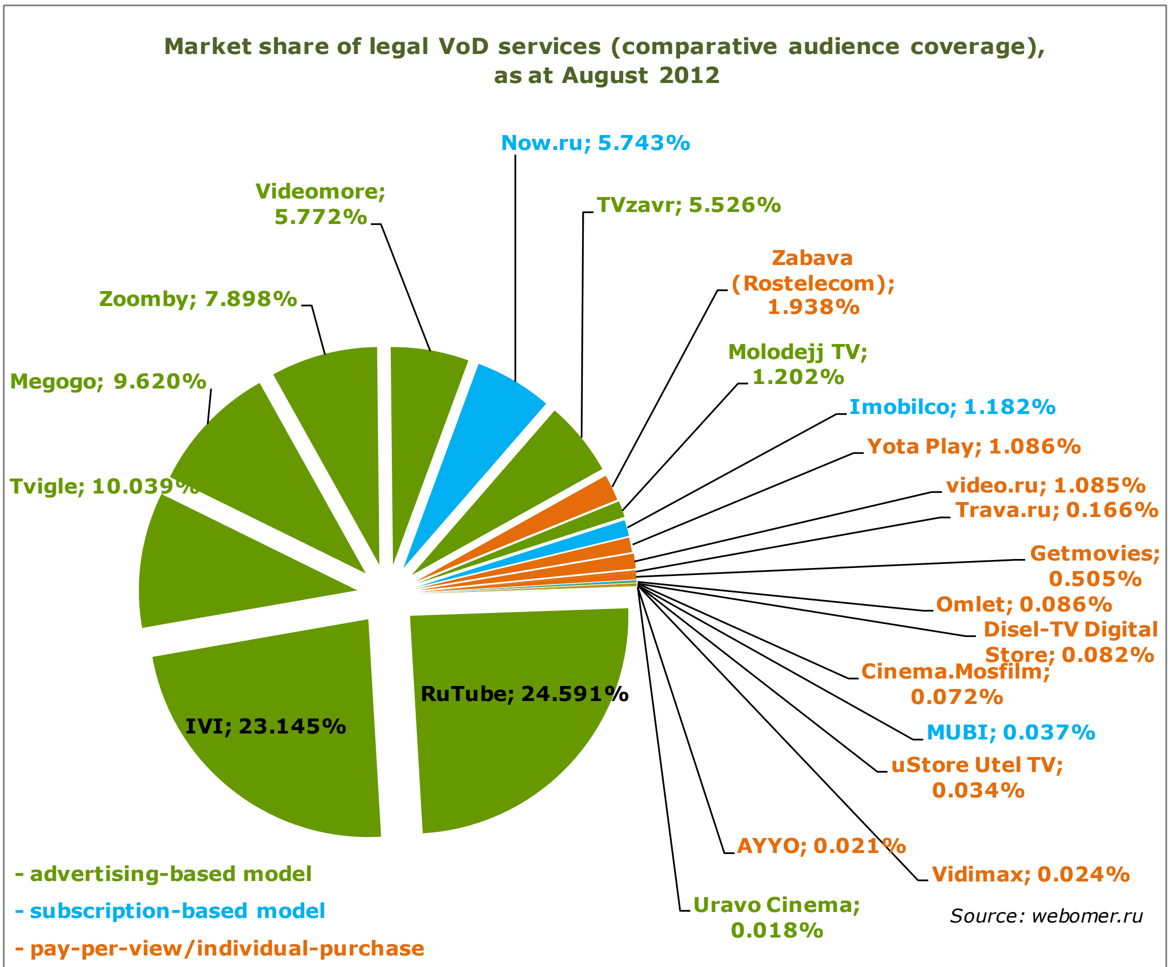


Figure 88. Market share of legal VoD services (comparative audience coverage), as at August 2012

At the same time, Nevafilm Research's survey of Russian Internet users and cinema attendees in December 2011 showed that sites where feature-length films can be viewed online for free are used by at least 42% of Russians, while pay VoD services remain unpopular, used by less than 1% of survey respondents.[112] The most popular of the free online video-on-demand services in terms of mentions[113] were ivi.ru, video.ru, and zoomby.ru. The most popular pay sites were iTunes, omlet.ru, and now.ru.

Table 37. Russian Internet websites for legal viewing of video content, ranked by number of mentions (December 2011)

Website	Share of mentions during survey at cinema	Share of mentions during online survey	Total percentage of mentions during surveys at cinema and online
video.ru	21.6%	3.2%	**19.4%**
ivi.ru	13.0%	18.2%	**13.6%**
zoomby.ru	14.5%	6.1%	**13.5%**
iTunes	12.1%	7.2%	**11.5%**
omlet.ru	11.8%	3.7%	**10.9%**
videomore.ru	8.6%	3.2%	**8.0%**
now.ru	7.1%	3.4%	**6.6%**
trava.ru	4.9%	0.3%	**4.4%**
tvigle.ru	3.7%	3.8%	**3.7%**
tvzavr.ru	3.3%	0.9%	**3.0%**
iMobilco	2.9%	0.2%	**2.6%**

Source: Nevafilm Research

Table 38. VoD services on the Internet and mobile networks

Title	Year of service launch	Owner	Type of VoD	Business model
Tvigle http://www.tvigle.ru	2009	Technoinvest (Allianz ROSNO venture fund)	VoD (streaming), apps for mobile devices	advertising
Getmovies http://www.getmovies.ru	2006	X-Media Digital	VoD (streaming, downloading)	pay-per-view, subscription
IVI+ http://www.ivi.ru/plus	2012	ru-Net Ltd. holding, Prof-Media Holding	VoD service (streaming)	subscription
IVI http://www.ivi.ru	2010	ru-Net Ltd. holding, Prof-Media Holding	VoD service (streaming), apps for mobile devices	advertising

[112]To evaluate survey participants' actual behaviour, they were asked to list where they had watched the last three films they had seen.
[113]Respondents were shown a list of websites and asked to indicate which sites they had used to watch a film on at least one occasion.

Title	Year of service launch	Owner	Type of VoD	Business model
Megogo http://megogo.net/ru	2011	Top Media Distribution Limited	VoD (Streaming)	advertising
MUBI http://mubi.com	2010	-	VoD (Streaming)	pay-per-view
now.ru http://www.now.ru	2010	Gazprom Media Holding	VoD (streaming, downloading)	pay-per-view, subscription
Play http://yotaplay.ru	2011	Scartel	VoD (Streaming)	pay-per-view
RuTube http://rutube.ru/feeds/movies	2011	RuTube	VoD (Streaming)	advertising
Stream (previously omlet.ru) http://stream.ru	2009	Mobile TeleSystems	VoD (downloading, streaming)apps for mobile devices	pay-per-view
TV-to-Go http://www.togo.tv	2005	n/a	mobile telephone VoD service (downloading, streaming)	pay-per-view
TVzavr http://www.tvzavr.ru	2010	Tivizavr	VoD service (streaming),apps for mobile devices	advertising
Uravo http://www.uravo.tv	2009	Uravo	VoD (streaming)	advertising
Video.ru http://www.video.ru	2009	Digital Video Network	VoD service (Downloading, Streaming)	pay-per-view, subscription
Videomore http://videomore.ru	2010	EvereCT-C	VoD (streaming), apps for mobile devices	advertising
Vidimax http://www.vidimax.ru	2011	Vidimax	VoD (streaming), set-top box	pay-per-view
Zoomby http://www.zoomby.ru	2010	VGTRK, Web-TV, WebMediaGroup (WMG)	VoD (Streaming)	advertising
Ayyo http://ayyo.ru	2012	Ayyo	VoD (Streaming)	pay-per-view
Imobilco http://www.imobilco.ru	2011	Imobilco	VoD (Streaming)	pay-per-view, subscription
Zabava http://zabava.ru/	2012	Rostelecom	VoD (Streaming)	pay-per-view, subscription
Kinozal YouTube http://www.youtube.com/movies	2011	-	VoD (Streaming)	advertising
Mobile TV by MTS http://www.mts.ru/internet/mobil_inet_and_tv/mobtv	2010	Mobile TeleSystems	Mobile TV	subscription
Molodejj TV http://molodejj.tv	2010	Yellow, Black and White	VoD (streaming), apps for mobile devices	advertising
Internet Cinema of Mosfilm http://cinema.mosfilm.ru	2010	Mosfilm Film Concern	VoD (streaming), apps for mobile devices	advertising, pay-per-view, subscription
Pulter http://pulter.ru	2010	IPEG	VoD (Streaming)	advertising
Trava.ru http://trava.ru	2009	MegaLabs	VoD (Streaming)	pay-per-view

3.6.3 Trends and predictions for the development of the VoD market

In analysing the development of VoD services in Russia, the entire history of these services can be divided into three stages, which determine the trends and development prospects of this market.

- **Stage 1: 2005–2010.** This was the inception period for the VoD market, with the first experiments in PPV. The market then moved to better serve its audience. At the same time, there was a movement in the market from the paid access business model to the ad-based business model, when viewing became free of charge.
    - A characteristic of this stage was the incorporation and use of more and more new technological platforms (satellite, IPTV networks, Internet, mobile devices) which were gaining in popularity. Technical capabilities were also being improved at this time.
    - The libraries of rights held by VoD operators were small, and the number of rights holders who were prepared to work with them was limited, as the rules for collaboration were only just being created. Many distributors and film producers were afraid to provide rights without a guaranteed income, and wanted large up-front payments, which many new services could not afford.
    - The services were not well known to the Russian audience: their expansion was made difficult by the scant content selection, accessibility difficulties and confusion amongst users, as well as by the high level of video piracy in the country.
    - We consider the end of this stage of development to be the entrance of large TV companies into the market: when the major TV channels launched catch-up TV services on their websites, and the launch of a PPV service by the largest satellite TV operator in Russia, Tricolor-TV, with 10 million subscribers.

  Thus, by the end of the first stage, a sharp increase had occurred in the potential number of VoD service users, and the volume of content accessible to viewers on a legal basis.

- **Stage 2: 2011–2012.** A period of fast market growth, characterized not only by an increase in the number of services, but also in the size of their catalogues.
    - A ranking of the market players is created, and a stable industry 'landscape' is formed: this process is put into motion by the inflow of major investment to the market. Services begin on the Internet run by media holdings such as Gazprom Media (now.ru) and Prof Media (ivi+), which create their catalogues through contracts with several producers, including Hollywood majors.
    - Large investments allow an increase in the services' advertising activities in the media. This leads to improved recognizability of VoD services amongst Russia's population[114] and a new habit of using legal means to watch content.

[114]Although, as of the end of 2011, according to Nevafilm Research data, no more than 4% of Russian citizens were watching films using paid VoD services, we believe that that number has probably increased over the past year.

    - Operators begin to obtain exclusive rights to content, as well as to narrow the gap before being able to offer a film on demand following its cinema or DVD premiere. Premium content is offered at a higher price, while catalogue films often become free of charge even on paid services: the line between paid and free platforms begins to blur.
    - Operators of Internet VoD services search for new technical platforms: through televisions with Smart-TV functions and TV accessories or game consoles; the development of mobile services facilitates the long-awaited launch of the LTE network.

- **Stage 3: 2013–2014.** The third stage of the market's development will begin in the coming years, when strong global players enter the Russian market.
    - By the end of 2012, the iTunes music store should have begun official operations, after which an expansion in the range of accessible content can be expected. Operators of gaming consoles have already opened game sales services through network connections: PlayStation Network has been accessible in Russia since September 2009, as has Xbox Live since autumn 2010; and while it is still not possible to purchase films through the consoles, when Sony and Microsoft enter the market, they will most likely expand supply in their stores. These processes will lead to another re-evaluation of the positions of market players and a change in the makeup of that group.
    - Moreover, it is likely that the worldwide practice of providing VoD services exclusively on a paid basis may begin to dominate on the Russian market, where until now the more prevalent business model has been based on advertising, which has been an effective weapon against free pirated film consumption.

3.7 Video piracy in Russia[115]

3.7.1 Piracy of Physical Media

The market for DVD sales in Russia dates from 1999, and since the discs themselves and the devices that could play them were quite expensive at first, this market was beyond the scope of video pirates working with video cassettes. However, by 2002 the situation had changed dramatically, due to the appearance of Chinese DVD players for sale. Pirates immediately switched to the new format, occupying 97% of the market. At that point, the major DVD publishers created their own association, which focused on fighting against physical piracy of audiovisual materials.[116] In addition, RAPO (a non-profit organization representing the interests of the Hollywood majors) had been actively engaged in the fight against piracy since 1997. The main tasks of these associations were to uncover illegal activity (at all levels of the chain, from production – primarily recording in cinemas – to duplicating and distributing unlicensed discs), and host special training for members of law enforcement agencies to help detect and identify pirated products.

As a result of such anti-piracy measures, and thanks to a toughening of criminal liability for distributing counterfeit goods and more frequent police raids (in conjunction with the beginning of Russia's negotiations to join the WTO), by 2008, distinct progress had been made in the fight against piracy in Russia.[117] In the spring of 2009, the Association of DVD Publishers estimated the share of pirated products on the Russian DVD market to be 75–80% of the total volume of sales.[118] Aventa-Info, which specializes in intellectual property rights, made a similar estimate: according to data from mid-2009, counterfeit audio-visual discs made up around 85% of the total volume of goods on the market.[119] Proceeding from these estimates and the known level of legal sales, it can be concluded that the turnover of the pirated DVD market for 2009 was somewhere between 134–141 million discs.

The appearance of the Blu-ray format was accompanied by the immediate availability of pirated discs. However, according to RAPO data, pirates were not selling genuine Blu-ray discs, but rather two counterfeit versions: BD-R blanks without original menus, or DVD9s printed on ordinary DVDs and playable on computers (where special coders are present) and PlayStation 3 consoles.[120] Counterfeit Blu-ray 3D discs appeared on the market in 2011. They were basically low-quality counterfeit materials taken from the Internet (so-called stereo-pair images) converted into a format compatible with contemporary Blu-ray 3D players. Often, pirates produced films that had not officially been released in 3D format.

In a report from March 2011 on the problem of protecting content in Russia, American copyright holders stated that in the country in 2010, there had been a marked increase in the amount of bootlegs made in cinemas and distributed world-wide via the Internet. As in previous years, law-enforcement agencies continue to focus their efforts on the fight against the illegal distribution of physical media, which has long been losing ground to online video piracy. Sales of counterfeit (pirated) physical media in Russia began to fall earlier than sales of licensed discs, particularly in larger cities. Pirates were the first to

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[115] Chapter prepared with the help of Maxim Kulish from Internet Copyright Management, http://ruprotect.com/en/

[116] Interview with Andrey Posadsky, President of the DVD Publishers' Association. Electronic version of *Kinomehanik* magazine. No. 26, 2010

[117] Roman Dorokhov. 'Pirates Are Hiding', *Vedomosti*, 16 May 2008

[118] Olga Goncharova, Irina Parfentieva. 'Pirates have spun the disks'. *Kommersant*, 19 March 2009

[119] Ivan Petrov. 'No Mark of Quality'. *RBK Daily,* 21 August 2009

[120] 'Russian Anti-Piracy Organization: The Crisis Is Not Disrupting Our Work'. Article on Close-Up Video Association website, 25 March 2009

appreciate the unlimited reach of the Internet. A few years ago, there were several sellers offering counterfeit media next to almost every railway or metro station in Moscow; now, however, there are rarely more than one or two, and occasionally not even one. According to Alexey Kubyshkin, lawyer at the DVD Publishers Association, the pirate market in 2011 fell by 25–30% in Russia as a whole, and by 40–45% in Moscow and Moscow Region. Nonetheless, Kubyshkin put the overall market share of counterfeit discs on the video market at around 50% for Russia as a whole, and approximately 30% in Moscow and Moscow Region.

3.7.2 Video piracy on the Internet

Alongside this, Russia has seen the development of commercial activity aimed at protecting content from non-sanctioned Internet use. These services began to develop in 2007 (the first on the market was the now-defunct Video24) and are now available through several companies (Internet Copyright Management counts no fewer than 4–5 serious players in this market, including Web Control,[121] Web Sheriff,[122] Russian Shield,[123] and the Association of DVD Publishers). These companies are all involved in actively monitoring the Russian Internet and taking measures to prevent illegal activity, as well as in conducting anti-piracy measures for physical media. All major companies have formed their own internal departments to protect their content from Internet pirates, but they currently recognize that they will not be effective in Russia and the CIS without outside help. Protection of films during the theatrical distribution period has already become the norm. In 2012, as part of the fight against Internet piracy, online video-on-demand services (ivi.ru, megogo.net, now.ru, and others) which invest large sums of money in Internet usage rights have increased their services.

The protection period most distributors have recourse to is one month following the release of a film to cinemas. The protection process consists of the following stages:

- First step: monitoring of Russian-language Internet space.
- Second step: filing demands for deletion of files, closing torrent-distributions and cancelling online-broadcasts.
- Third step: monitoring and deletion of any content that was refreshed.
- Operations with SMS-sites and search results are undertaken separately.

As a result of these actions, pirated copies are removed from the web during the protection period (though the majority of torrents, file archives, and social networks respond to the rights holders' appeals and delete the indicated links and files; no more than 5% of sites refuse to cooperate). For this reason, users wishing to see films in cinemas, once denied the possibility of finding a film on the Internet, will go to the cinema. Users accustomed to viewing films on their computers, meanwhile, will wait for the end of the protection period.

In regard to the role of law enforcement agencies in the fight against Internet piracy, the first steps are being taken only now. Precedents of real punishments have been set, but these have been of a public and formal nature. One could cite high-profile cases, such as torrents.ru in February 2010 or interfilm.ru, being closed down: both sites moved to .org domains and continued functioning (the former at rutracker.org and the latter at bithouse.org).

Interestingly, after these cases in May 2010, hosting providers signed a charter for a secure Internet,[124] which makes provision to counter the

[121] http://www.web-control.ru
[122] http://www.websheriff.ru
[123] http://rsnw.ru
[124] http://hostdeclaration.ru

distribution of illicit information: hosters are prepared to check sites hosted on their servers themselves and to delete illicit publications (including child pornography, bootlegged materials, or exhortations to extremism).[125] On 8 June 2010, the charter was backed by the State Duma of the Russian Federation. At the same time, the activity of protection organizations in Russia is currently quite fragmented – individual commercial companies work only in the interests of their clients, and do not cooperate with one another or with RAPO (which represents the interests of Hollywood majors). This decreases the overall effectiveness of anti-piracy efforts.

Throughout the world in 2011, the attention of rights holders (producers and distributors) on the issue of video piracy and the protection of their product on the Web intensified. Due to their pressure, in January, Google, the world's largest search engine, began to exclude pirate sites from their search results, and in April they began the practice of deleting links to sources of illegal content based solely upon requests from copyright holders, without a court order.

Streaming is gaining popularity with each passing year, thanks to increasingly fast delivery methods and the decreasing cost of Internet access in Russia and abroad. These processes not only play into the hands of pirate sites, but also legal Internet sites that are gaining an audience and have important advantages over illegal resources, such as the possibility of integration with multimedia consoles, personal media devices, and HD televisions with Internet access.

However, as a result of the new 'Law on Police' entering into force, it has now become possible in Russia to block sites offering illegal content without first obtaining the permission of the courts.

One way or another, today in Russia, up to 90% of all rights holders (not only theatrical distributors, but also those who own the rights to video and Internet content) are taking matters into their own hands and protecting their content online using specialist companies or their own security services.

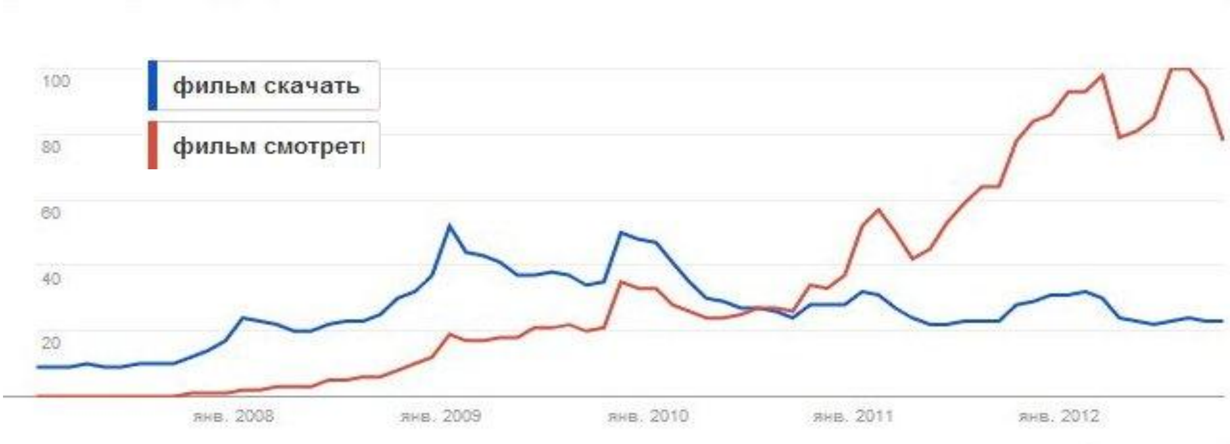
According to the Russian Ministry of Communications and Mass Media, in 2011, Russia had more Internet users than any other country in Europe (70 million people, or 49% of the population), which means that there is a large potential market for Internet sales.

In addition, Internet cable speed is rapidly increasing. Whereas the first stage of the spread of Internet access aimed to attract as many new customers as possible, now providers are gradually moving toward increasing the speed for customers who are already connected. This has an impact upon how viewers choose to watch video content.

According to Google Trends statistics, by autumn 2010, Russian users were searching for 'film online/watch' and 'film download' in equal amounts. At the beginning of 2011, the number of requests for 'film online' or 'watch film' surpassed the number of requests for film downloads; this difference has now become even more substantial. In this respect, Russian Internet users drastically differ from the English-language audience. According to Google Trends data, 'film download' and 'film online' are searched for at more or less the same frequency.

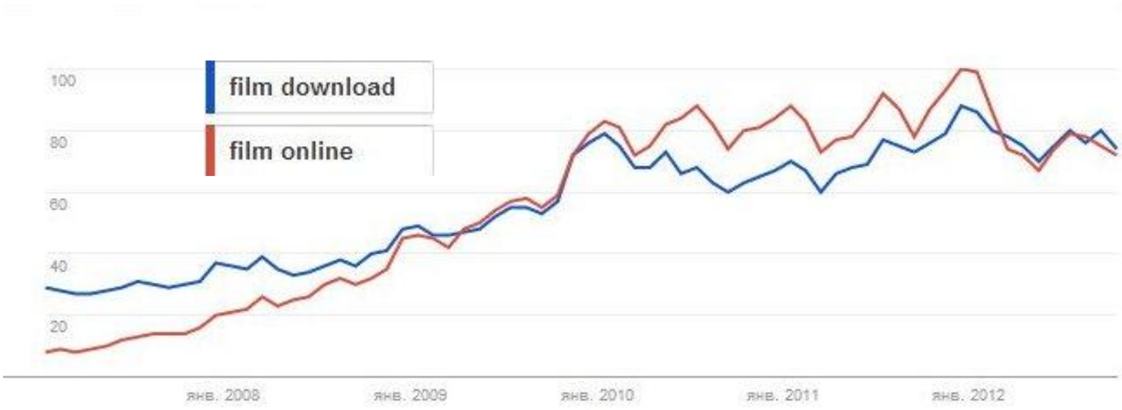
[125] Anastasia Golitsyna, 'Providers against porno'. *Vedomosti*, 25 May 2010

Figure 89. The number of requests on Google for 'film download, film online' in Russian



Source: Google Trends

RU	*EN*
фильм скачать	film download
фильм смотреть	film online
Янв.	Jan



Source: Google Trends

Figure 90. The number of requests on Google for 'film download, film online' in English

According to Internet Copyright Management, the most popular source for streaming content in Russia remains the social networking site VKontakte, which accounts for up to 90% of all illegal viewing of content online. Despite the fact that the management of VKontakte works with law enforcement agencies and provides them with administrative rights to block pirated content placed on the portal, rights holders still go to court from time to time with claims against this most popular social networking site on the Russian Internet. At the same time, during spring–summer 2010, the social networks themselves took a step towards the 'legalisation' of video content on their web pages: social networking sites (vk.com, my.mail.ru, mirtesen.ru) began selling legal content from the video.ru portal in March, backed by a platform developed by Videolyubitel.[126] In July, content from the ivi.ru portal became accessible for free (accompanied by ads)

[126] Alexandr Malakhov. 'Videolyubitel shows up in the networks'. *Kommersant*, 15 March 2010

on social networks (vk.com and my.mail.ru) as a special app.[127] The years 2010–2011 were a period of active development of free, legal online video-on-demand services on social networks, with the goal of fighting Internet piracy. In addition, legal VoD services began to be integrated into mobile devices, video players, and television peripherals.

A survey of Internet users carried out by Nevafilm Research in December 2011 confirms the popularity of VKontakte; streaming through VKontakte is second only to downloading torrents.

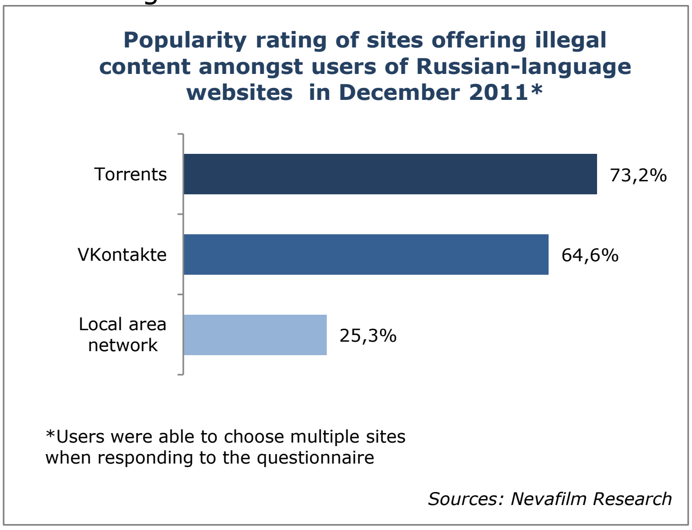


Figure 91. Popularity of sites offering illegal content amongst users of Russian-language websites in December 2011*

As of the end of 2011, more than 80% of video traffic on the Russian Internet involves the viewing of new releases that are actively advertised by film distributors. At the same time, as the quality of connection (speed of Internet access) improves, so does the nature of the demand for quality content. Bootleg cam videos are losing popularity with every passing year, and the proportion of DVD or HD copies on the Russian Internet has grown to 82%.

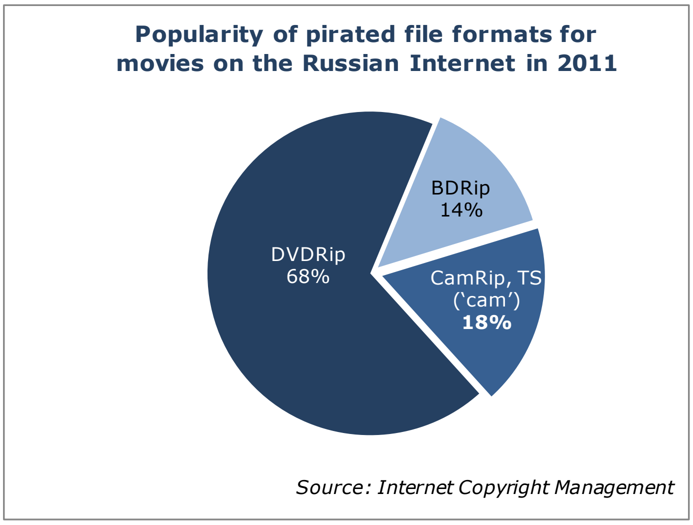


Figure 92. Popularity of pirated file formats for movies on the Russian Internet in 2011

In the past few years, the channels for downloading illegal videos in Russia have changed. File-sharing sites are increasingly losing their audiences or are

[127] Alexandr Malakhov. 'Social networks legalise video'. *Kommersant*, 15 March 2010

starting to offer users the option of streaming films. Such sites are also vulnerable to law-enforcement agencies, which has had an impact on their global popularity. For example, in 2011, one of the largest file hosting sites, Megaupload.com, was shut down. This, on the one hand, became a source of protest from users from all over the world, while on the other, served as an example for copyright protection authorities. Afterwards, various file hosting servers in a number of countries were shut down.

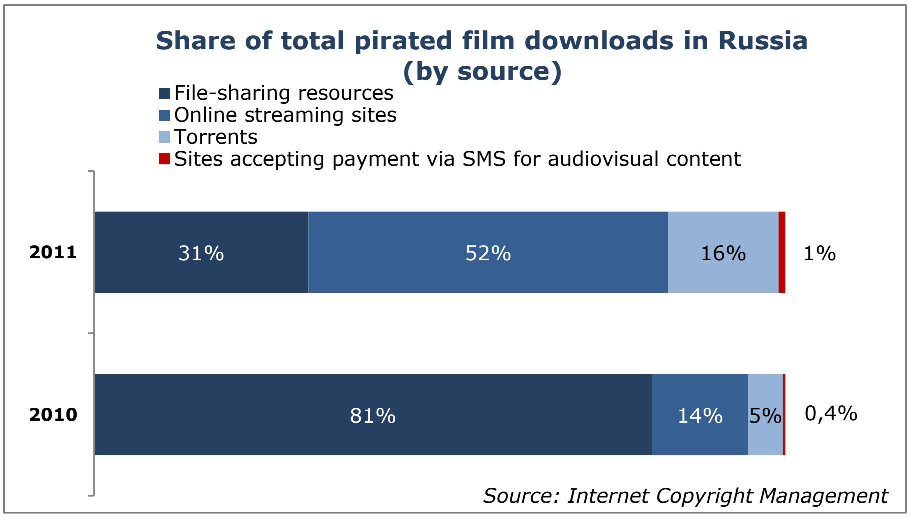


Figure 93. Share of total pirated film downloads in Russia (by source)

As for Russian sites involved in the distribution of pirated videos from 2011 to the beginning on 2012, specialists from Internet Copyright Management have complied several categories of these resources: those which have the distribution of illegal copies of films as their main activity, those on which these copies appear periodically, and sites that are the sources of pirated copies and do not respond to requests from copyright owners regarding illegal content on their site.

Table 39. List of popular sites on which the main activities in 2011 and Q1 2012 was the distribution of illegal copies of films

Website	Yandex Topical Citation Index	Google Page Rank	Position of site on the Million Most Popular Sites ranking on alexa.com
rutracker.org	4,500	6	281
my-hit.ru	850	4	1,262
rutor.org	950	6	1,296
torrentino.com	550	5	2,206
tfile.ru	1,100	4	2,551
kinozal.tv	900	5	2,240
nnm-club.ru	800	5	2,078
fast-torrent.ru	475	5	4,636
zerx.ru	210	3	5,036
torrentszona.com	100	5	22,705

Source: Internet Copyright Management

Table 40. List of popular sites where illegal copies of films periodically appeared in 2011 and Q1 2012

Website	Yandex Topical Citation Index	Google Page Rank	Position of site on the Million Most Popular Sites ranking on alexa.com
vk.com	84,000	7	38
youtube.com	150,000	9	3
rutube.ru	11,000	7	1,613
video.yandex.ru	8,300	7	-
video.mail.ru	5,900	6	-
letitbit.net	8,200	5	355
vip-file.com	3,000	4	6,734
shareflare.net	1,900	4	2,136
rapidshare.com	2,600	6	191
depositfiles.com	14,000	6	187

Source: Internet Copyright Management

Table 41. List of popular sites that did not respond to complaints from copyright holders in 2011 and Q1 2012

Website	Yandex Topical Citation Index	Google Page Rank	Position of site on the Million Most Popular Sites ranking on alexa.com
rutor.org	950	6	1,296
nnm-club.ru	800	5	2,078
my-hit.ru	850	4	1,262
kinozal.tv	900	5	2,240
stepashka.com	200	3	10,320
pirat.ca	190	3	28,113
rapidzona.com	80	2	69,872
free-torrents.org	425	5	11,299
goldenshara.com	80	4	60,331
uniongang.tv	70	4	24,398

Source: Internet Copyright Management

Table 42. List of sites which were a source for the first pirated copies of films in 2011 and Q1 2012

Website	Number of releases*
uniongang.tv	13
relizlab.org	2
rutor.org	2
kikteam.net	1
vk.com	1
pirat.ca	1
thepiratebay.se	1
rutracker.org	1

*Source: Internet Copyright Management (*Number of first pirate copies of films from 40 films that were under the protection of ICM in the given period)*

Thus, the greatest current threat to the Russian film business is Internet piracy and above all, online viewing, the volume of which is increasing with the spread of broadband access. This form of illegal consumption of content affects not only the market for licensed video, but also piracy of physical video media. Nevertheless, the development of legal video-on-demand services should help to eradicate this problem.

Chapter 4.
INTERNATIONAL ASPECTS OF THE RUSSIAN FILM INDUSTRY

4.1. International cooperation at state level

4.1.1 Agreements on film co-production

State support for film co-production projects in the Russian Federation is available for films that have obtained 'national film' status, which allows them to apply for all forms of state support and exempts them from VAT. The following film co-production projects are eligible for 'national film' status:

1. films made in collaboration with countries that have signed international co-production agreements with the Russian Federation;
2. films made in collaboration with states which are party to the European Convention on Cinematographic Co-production (1992). Russia became a party to the Convention in early 1994, which opened the way for tripartite film projects to be produced.
3. films made in collaboration with other countries — in the interest of expanding opportunities for film co-production with countries that do not have international agreements with the Russian Federation and are not members of the European Convention on Cinematographic Co-production, amendments were introduced from 1 May 2010 to Federal Law No. 126-FZ dated 22 August 1996, 'On State Support for Cinema in the Russian Federation', which dealt with the concept of national film status and simplified co-production with other countries.[128]

Table 43. International agreements on cinematographic co-production involving the Russian Federation as at 2012

Country	Date of signing	Document name
France	8 July 1967	Agreement on Co-operation in Cinematography signed between the Government of the USSR and the Government of the Republic of France
	6 February 1992	Agreement between the Government of the Russian Federation and the Government of the Republic of France on Cultural Cooperation
European countries (trilateral film projects)	30 March 1994	European Convention on Cinematographic Co-production (1992).
Canada	5 October 1995	Agreement between the Government of the Russian Federation and the Government of Canada on Relations in the Audio-Visual Sphere
Italy	28 November 2002	Agreement between the Government of the Russian Federation and the Government of the Republic of Italy on Cooperation in Cinematography
Bulgaria	7 July 2004	Agreement between the Government of the Russian Federation and the Government of the Republic of Bulgaria on Cooperation in Cinematography
CIS	1994	Charter on Key Directions and Principles of Cooperation between CIS Member States in Cinematography
	14 November 2008	Agreement on Cinematographic Co-production

[128]See Paragraph 1.1.4 Review of the regulatory acts governing cinematographic activity

Country	Date of signing	Document name
Germany	July 2011	Agreement between the Government of the Russian Federation and the Government of the Federal Republic of Germany on Cooperation in the Audio-Visual Sphere (German-Russian Co-Development Fund)

Source: Ministry of Culture

4.1.2 Russian membership in international organizations

Since 1993, the Russian Federation, represented by the Federal Agency for Press and Mass Media, has been a member of the European Audiovisual Observatory,[129] with a mission from the Council of Europe to improve transparency in the European audiovisual sector by providing information services for professionals.

After years of negotiations with the European Support Fund for Co-production and Distribution of Creative Cinematographic and Audio-Visual Works (EURIMAGES), Russia became an official member on 1 March 2011.

In the 18 months that Russia has been a member of the fund, three projects with majority participation have already received support: *Ya ne vernus [I Won't Come Back]* (director Ilmar Raag, a co-production by Estonia, Finland and Belarus), *Moy Malenkiy [My Little One]* (director Sergey Dvortsevoy, jointly with Germany and Poland) and *Moscow Never Sleeps* (director Johnny O'Reilly, a joint project with Ireland). Four minority projects involving Russia also received support.

In addition, several films have been supported in European distribution, including *Innocent Saturday* by Alexander Mindadze and *Euphoria* by Ivan Vyrypayev (Romanian distribution), *Elena* by Andrey Zvyagintsev (distribution in Hungary and France) and *How I Ended This Summer* by Alexey Popogrebsky (distribution in Hungary and Romania).

Five Russian cinemas have become part of the Eurimages/Europa Cinemas network.[130] Furthermore, the Moscow cinema 35mm has received financial support to invest in digital equipment – this agreement was finalized in November 2012. The fund also receives applications from regional Russian cinemas. In response to these, it checks that these cinemas operate in accordance with the conditions for receiving support from Eurimages.

4.1.3 International Activities of the Ministry of Culture

The responsibilities of the Ministry of Culture include supporting the presentation of Russian films at international film festivals and film fairs, including category A international film festivals, setting up stands and pavilions for Russian films at film fairs, and organizing international fairs and co-production forums within Russia. As part of this effort, Russia has had its own pavilion at Cannes since 2008. Since 2009, the Moscow Business Square forum has been held at the Moscow International Film Festival, initially with support from the Ministry of Culture, and since 2011, with the support of the Russian Cinema Fund.[131]

The Ministry of Culture also oversees Roskino (formerly Sovexportfilm), the export company which handles the promotion of Russian productions in foreign markets and marketing of Russian cinema abroad.

[129] www.obs.coe.int
[130] See Support for co-production and overseas distribution of Russian films
[131] http://mbsquare.com

4.1.4 Activities of Roskino (Sovexportfilm)

In 2011, the government took a decision to reorganize Sovexportfilm, the old state structure which had been responsible for promoting Russian films internationally since Soviet times. In April, Ekaterina Mtsituridze, a Channel 1 film critic and Art Director of the Russian pavilion at Cannes, took over as head of the organization. The company was later renamed Roskino.

The organization still promotes Russian films at international film festivals (Cannes, Venice, Berlin and Toronto), at film fairs (AFM in Los Angeles, EFM in Berlin, Marché du Film and MIPCOM in Cannes) and at awards ceremonies (the Oscars, the Golden Globes, the European Film Academy Awards), supports the distribution of Russian films, and attracts investors and partners interested in working on co-productions with Russia. In 2012, the revamped company had already achieved some success.

In February, Roskino opened a representative office in Los Angeles: the Russian Film Commission USA.

During the course of the year, Roskino stands representing Russian producers were evident at the major international film festivals and markets. Moreover, starting this year, Roskino, with the support of the Ministry of Culture and the Ministry of Foreign Affairs, has become an official partner of film fairs and festivals including the American Film Market (AFM), where a series of conferences for film industry professionals was held; the first Venice International Film Market (VFM); and the London Film Festival.

In addition, for the 34th Moscow International Film Festival, Roskino and the Russian Film Commission USA organized the first international mobile film fair, DOORS (Digital October Official ROSKINO Screenings).

Finally, in November 2012 it was announced that Roskino had signed a contract allowing Russian films to be made available on the world's largest VoD service, Hulu.

4.1.5 International activities of the Cinema Fund

The international department of the Federal Foundation for Social and Economic Support of National Cinematography[132] commenced work on 1 January 2011, and is now acting on behalf of the Russian Federation in three bilateral organizations: the French-Russian Film Academy and the German-Russian Co-Development Fund, which were both launched in the summer of 2011, and the new Russian-Italian Film Academy.

Table 44. Russian participation in international film support org

Country	Date of creation	Name of organization	Representing the foreign partner	Representing Russia
Germany	29 July 2009	Friends of the German-Russian Film Academy	Representatives of state authorities, film institutes, film funds, and film companies from Berlin, Brandenburg, and Saxony.	Cinema Fund

[132] http://rcfnews.com

Country	Date of creation	Name of organization	Representing the foreign partner	Representing Russia
Germany	June 2011	German-Russian Co-Development Fund	Medienboard Berlin-Brandenburg, the German Federal Film Board (FFA), Mitteldeutsche Medienförderung	Cinema Fund
France	11 July 2011	French-Russian Film Academy	CNC (Centre National du Cinéma)	Cinema Fund
Italy	11 November 2012	Russian-Italian Film Academy	The Italian Ministry for Cultural Heritage and Activities, ANICA (the Italian national film industry association), Cinecittà Luce, Centro sperimentale di cinematografia in Rome, Lazio Region, the National Cineteca of Italy, and Cineteca di Bologna	Cinema Fund, Ministry of Culture, Association of Film and TV Producers, Mosfilm, All-Russian State Institute of Cinematography, and Gosfilmofond of Russia (federal film archive).

Sources: Cinema Fund, Nevafilm Research

The fund's partners also include Cinecittà Luce (since 2010), the European Producers Club (since June 2011), the New York Film Academy (since September 2011), and KAZAKHFILM (since September 2012).

This list of partners, as well as the tasks facing the Cinema Fund's International Department, point to a number of key areas of activity for the department:

1. Working within joint film academies and funds
2. International educational activity
3. Representing and supporting Russian producers at international festivals and film fairs
4. Supporting co-production and the distribution of Russian films overseas
5. Attracting foreign film companies to shoot films in Russia

French-Russian Film Academy

In its first year of operation, the academy held a competition for co-productions, as a result of which in November 2011, grants amounting to EUR 40,000 were awarded to the two winners: the 3D film *Lost Rooms* directed by Alexey Popogrebsky and produced by Roman Borisevich, and the animated cartoon *Tout en haut de monde* [*Longway North*] directed by Rémi Chayé and produced by Ron Dyens.

The next contest was announced in October 2012 and the results were announced in November at the latest Honfleur Russian Film Festival.

Additionally, in June, with the support of a EUR 50,000 grant from the French-Russian Film Academy, a three-day educational seminar for 10 Russian and French producers was hosted at the ACE film school in Paris.

German-Russian Co-Development Fund

Close cooperation between Russia and Germany began in 2009, when the Friends of the German-Russian Film Academy association was launched. In June 2011, the German-Russian Co-Development Fund was set up on the basis of this association. The fund began its work in February 2012 when five German-Russian projects were selected to receive development grants as part of the Berlin Film Festival. Four feature films – *The General* (director Bakur Bakuradze), *Stockholm Syndrome* (director Alexey Uchitel), *Jimmy Tadjik* (director Ella Vakkasova), and *Offside* (director Alexander Strizhenov) were each awarded EUR 20,000, and the documentary film *Louvre Under Reconstuction* (director Alexander Sokurov) was awarded EUR 15,000.

In June 2012, a new competition was announced for Russian-German film projects in development. The results were announced in October. Three projects were awarded grants of EUR 20,000: *Dorogoi Hans, Mily Pyotr [Dear Hans, Dear Pyotr]* (directed by Alexander Mindadze), *Antalyagrad [Antalya-City]* (produced by Alexander Rodnyansky, Sergey Melkumov), and *Tovarishchi [Comrades]* (producer Gabriela Tcherniak, director Aleksey Uchitel).

Educational activities

As part of the educational activities of the Russian Cinema Fund's International Department, three projects were conducted overseas in 2011 and 2012.

In August 2011, 10 young Russian screenwriters with experience of working in cinema, television, journalism, and other media, were sent on a course at the New York Film Academy, one of the fund's partners.

The second educational project was the previously mentioned seminar for French and Russian producers in June 2012. And in May, at the Cannes Film Market, the Fund organized a Producers' Workshop for the five Russian producers who had put forward the most promising co-production projects.

In addition to this, the Cinema Fund regularly supports master classes by foreign directors, screenwriters, and producers for young filmmakers in Moscow.

Representation of Russia at film festivals

Like the Ministry of Culture and Roskino, the Cinema Fund represents the Russian Federation at international film festivals and fairs. In 2012, the Fund's stand, bringing together Russian producers and distributors, was officially presented in Berlin, Cannes, and Venice.

Support for co-production and overseas distribution of Russian films

The Russian Cinema Fund does much to develop international cooperation.

At the Cannes Film Market in 2011, new ideas for co-productions between Russia and the international film community were put forward as part of the Producers' Network. This event brought together more than 550 producers from all over the world, and provided a platform for five Russian companies to present their projects.

On 11 November 2011 at the British Film Institute (BFI), the first Russian–British Co-production and Distribution Forum took place. Five Russian producers also presented their projects here. The event was part of the 5th Russian Film Festival in London, organized by the Academia Rossica fund.

In 2012, as part of their work to promote Russian films in the US, as well as to benefit from American film making experience, the Cinema Fund, together with the Kazakhstan Producers' Guild opened an office in Los Angeles.

One of the most important events in developing co-production in Russia is the annual Moscow Co-production Forum, which was held as part of the Moscow International Film Festival. The event was held for the fourth time in 2012, and with the support of the Cinema Fund for the second year running. At the Forum, Russian and international producers presented their co-production projects. This year, more than 100 applications were received from 25 countries, of which 23 projects were chosen to take part in the Forum. The winners were two films: the Russian film *Civilians* (director Sergey Bodrov), and the British film *Competition* (director Peter Greenaway). Each received a grant of EUR 5,000 from the Cinema Fund.

Finally, the novelty of 2012 was the international 'Red Square Screenings' project, organized jointly by the Cinema Fund and the 'Russians Are Coming!' initiative in October. Over the course of four days, 50 Russian films from 2011–2012 were presented at the GUM Cinema, including films from large international and Russian film festivals. The programme included exclusive screenings of the most highly anticipated Russian film projects in the pre- or post-production stage. More than 100 foreign guests were specially invited to discover what was new in Russian cinema. These included distributors and agents, as well as representatives of the major film festivals and fairs. The event's partners, who also presented new films, were the State Agency of Ukraine for Cinematography and KAZAKHFILM.

Attracting Foreign Film Companies to Shoot in Russia

In order to attract foreign film producers to film in Russia, the Cinema Fund's International Department conducts ongoing work on the publication of its annual reference books *Location Guide* and *Co-production Guide*, which are published on the Fund's website and distributed at international festivals and film fairs. In addition, in June 2012 the Fund's American office took part for the first time in the Locations Trade Show in Los Angeles, a large industry exhibition, to present Russia's potential as a film location.

4.2. Co-production (2010–H1 2012)

Between 2010 and the first half of 2012, Russia produced 33 full-length feature films in co-operation with other countries. There were equal numbers of projects with Russian majority and minority participation (six films each, while for 21 films the proportion of investment by Russian and foreign producers is unknown). At the same time, the number of films shot under official international co-production agreements was less (eight) than those which were produced outside these arrangements (14). In the case of 11 films, it was not possible to determine whether they were shot under international agreements.

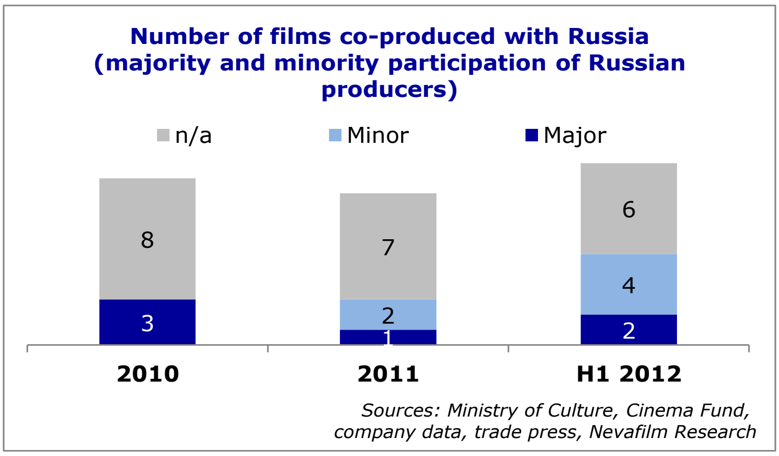


Figure 94. Number of films co-produced with Russia (majority and minority participation of Russian producers)

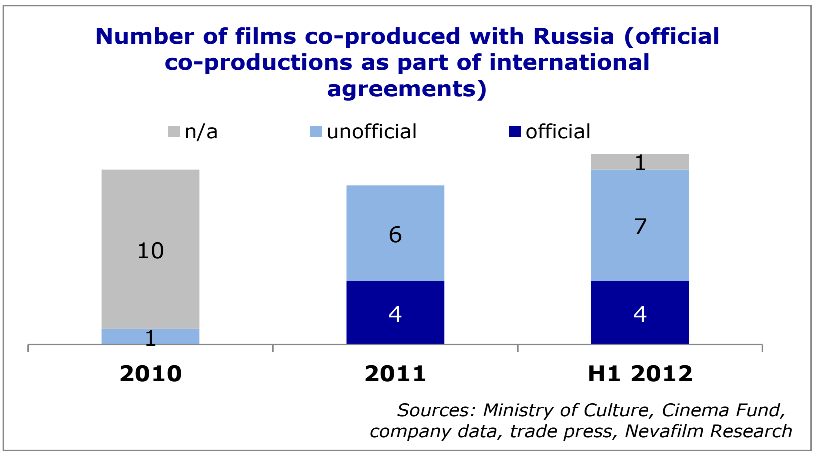


Figure 95. Number of films co-produced with Russia (official co-productions as part of international agreements)

Only 13 out of the 33 films produced in 2010–2012 were distributed in Russia – six in 2010, six in 2011, and so far only one in the first half of 2012. The results of their distribution are not particularly encouraging: in 2010, average box office returns for these films amounted to approximately 40% of investment in their production, and in 2011, approximately one quarter. Nevertheless, the only co-production which appeared in Russian cinemas in 2012 (*8 pervykh svidaniy* [*8 First Dates*]), demonstrated impressive results, taking three times its budget at the box office. However, this alone is not sufficient to extrapolate data for the whole of 2012, as other releases may change the picture.

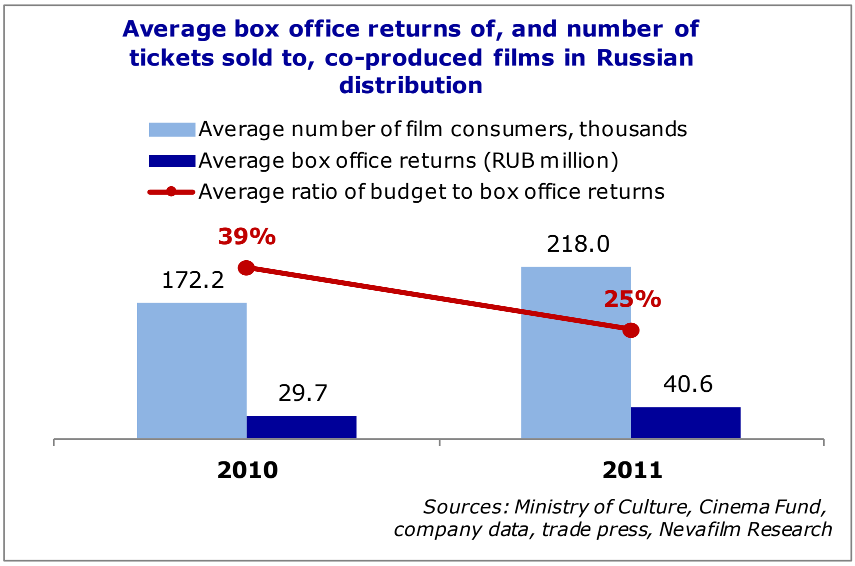


Figure 96. Average box office returns of, and number of tickets sold to, co-produced films in Russian distribution

For the entire period under examination, only one other co-production (*The Irony of Fate*, 2010) managed to achieve box office takings which were higher than the film's budget. However, since film production is a long process, and measures to promote co-productions in Russia only began to be actively implemented in 2011, it is still too early to expect any notable results.

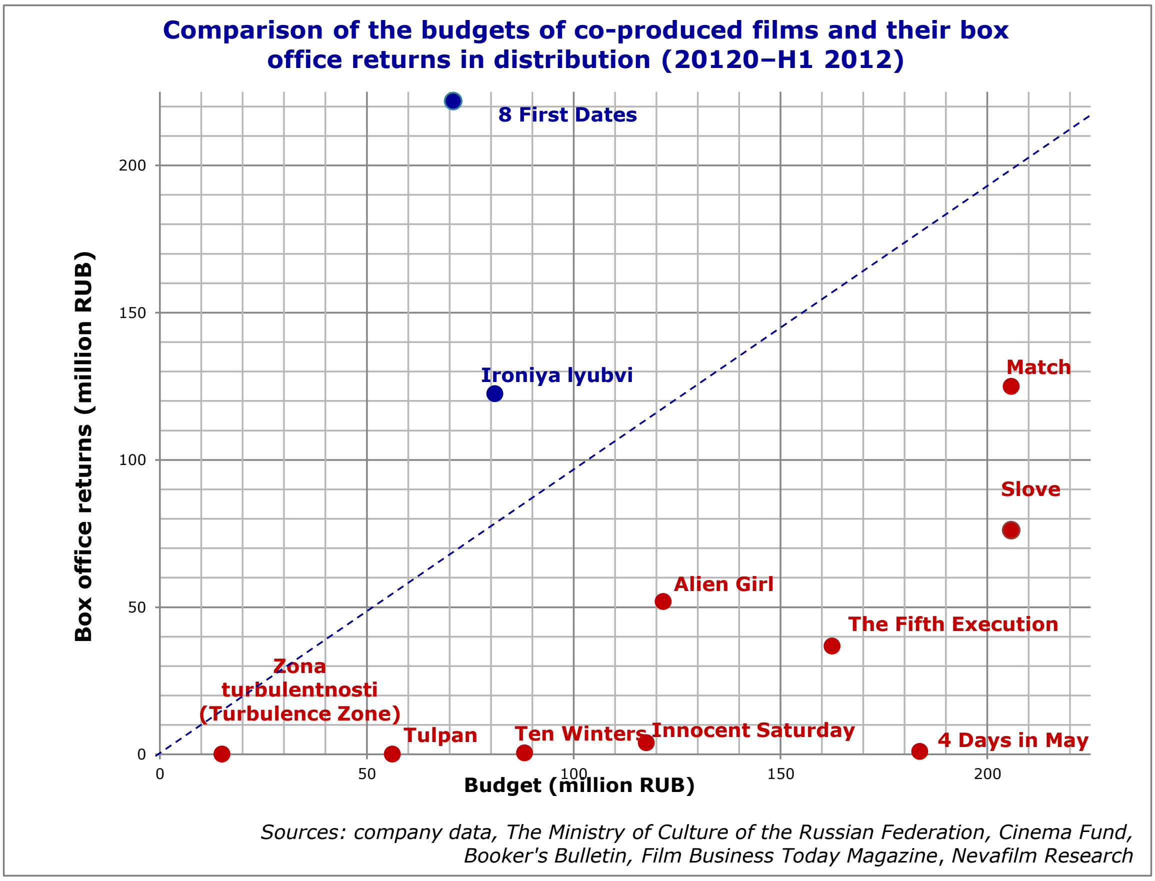


Figure 97. Comparison of the budgets of co-produced films and their box office returns in distribution (2012–H1 2012)

State support for co-productions in Russia

The results of co-productions in distribution, as well as the fact that two thirds of such films never reach distribution, demonstrate that releasing them without any state support is incredibly difficult.

Between 2010 and the first half of 2012, the Ministry of Culture and the Cinema Fund provided support to 13 co-productions. The average amount of state support allotted to co-production projects amounts to about 30–40% of the film's total budget, although in 2011 this proportion fell to 15–20%, before rising significantly in 2012 (to 50–60%).

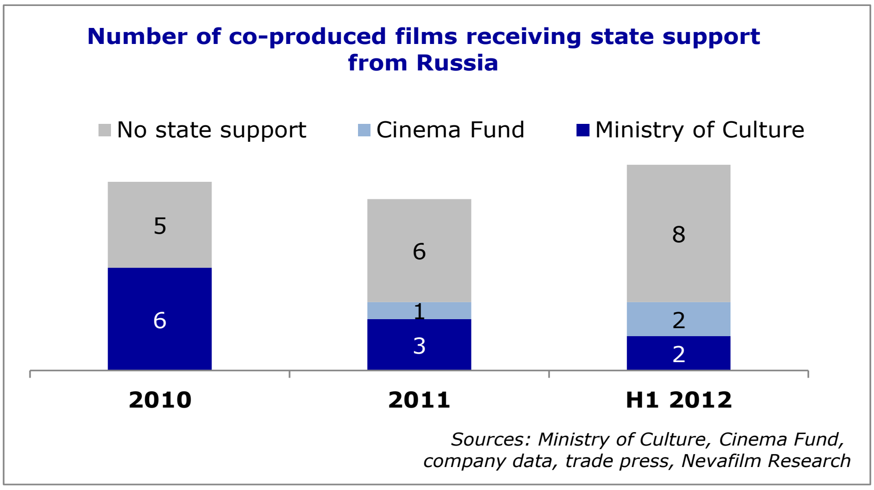


Figure 98. Number of co-produced films receiving state support from Russia

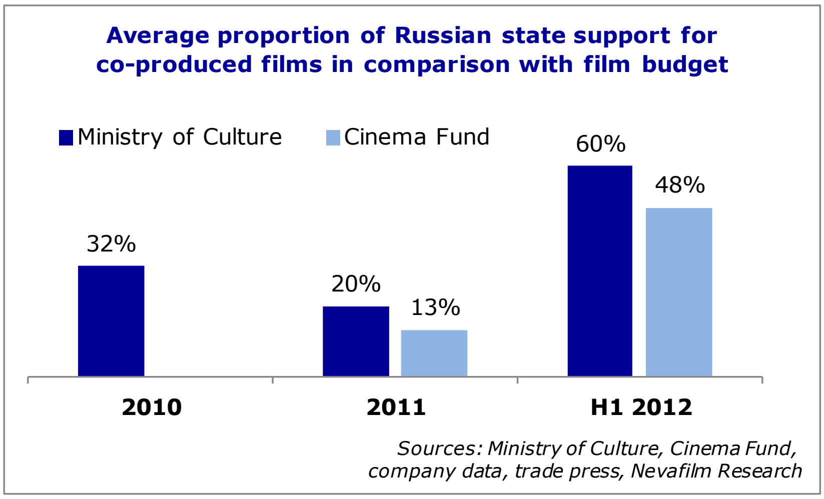


Figure 99. Average proportion of Russian state support for co-produced films in comparison with film budget

Countries cooperating with Russia on co-productions

Overall for the period between 2010 and H1 2012, the countries most actively involved in co-producing films with Russia were Germany (which was involved in the production of eight films), the US (six), Ukraine (five), Kazakhstan (five), France (three), and Georgia, Belarus, the UK, Latvia, the Netherlands, Poland, and Azerbaijan (with two films each).

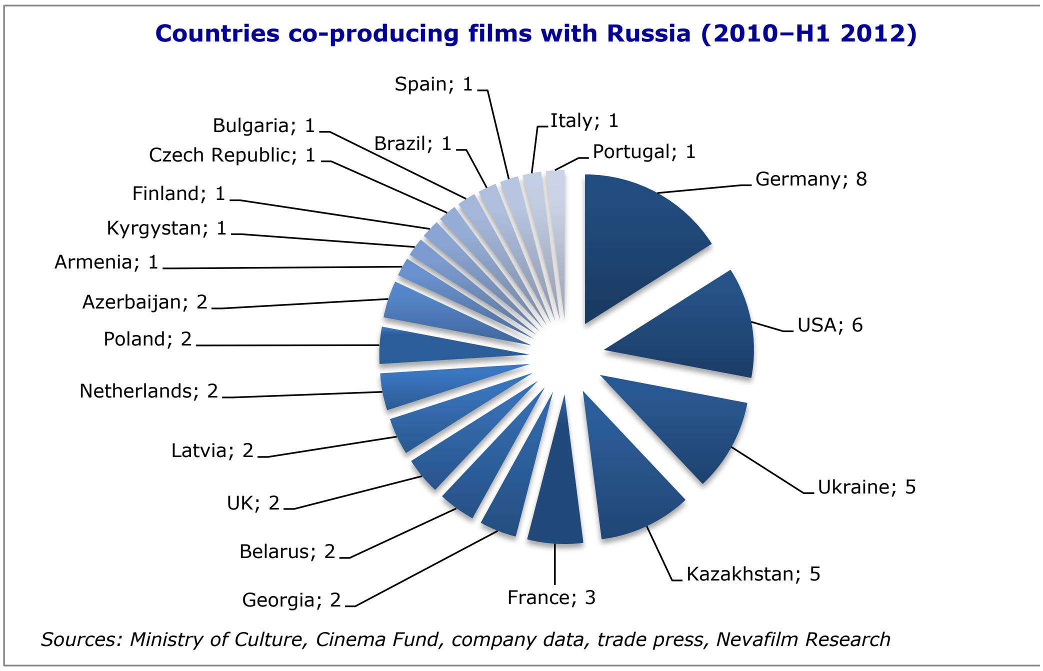


Figure 100. Countries co-producing films with Russia (2010–H1 2012)

The high number of projects with Germany and France can be explained by the start of collaboration within the French–Russian Film Academy and the German–Russian Co-Development Fund (including Friends of the Academy): in 2011, four co-productions with Germany were completed, with another two following in 2012, while out of three co-productions with France, one was completed in 2010, and two in 2012.

Ukraine and Kazakhstan are Russia's two closest neighbours, with long-established traditions of cooperating on co-productions. The US's high standing in the ranking can be explained by the fact that Alexander Rodnyansky, a Russian film producer (Non-Stop Production and AR Films) began to produce American films.

Main companies involved in co-productions in Russia

The most active production companies involved in co-production are CTB (four films in the last three years were filmed with Germany, Kazakhstan, and Finland); AR Films (three films with the US, Ukraine, and Belarus); Interfest (two films with Kazakhstan); Studiya Kvartal-95 (which collaborates with Ukraine); and Studio My (which collaborates with France, the UK, and Kyrgyzstan).

In total, more than 40 Russian producers collaborated with international partners during the period in question, mainly shooting one co-production each.

Table 45. Top five Russian film companies and the number of co-productions

Rank	Company	2010	2011	2012	Overall
1	CTB	1	1	2	**4**
2	AR Films	0	1	2	**3**
3	Interfest	1	0	1	**2**
4	Studiya Kvartal-95	0	0	2	**2**
5	Studio My	1	0	1	**2**

4.3. Overseas distribution of Russian films

International distribution of Russian films

According to data obtained from Russian distributors by *Film Business Today*, since 2006, 48 Russian films have been distributed internationally, but only seven of those were exhibited in cinemas in the US. The most successful of these was *Mongol: The Rise of Genghis Khan* (a co-production between Russia, Germany, and Kazakhstan), which was submitted by Kazakhstan for Oscar consideration and nominated for Best Foreign Language Film. It took over USD 20 million at the box office. In 2011, the most successful film was *Vysotsky. Thank You for Living*, with USD 3 million, while second and third places were taken by the art house productions *Faust* and *Elena* (with USD 0.9 million and USD 0.6 million respectively)

Table 46. Biggest-grossing Russian films in international distribution

Rank (overall)	Rank (year)	Title	Year released	Box office returns in the US (million USD)	Box office returns in other countries (million USD)	Box office returns (million USD)
3	1	*Day Watch*	2006	0.45	6.44	6.89
25	2	*Heaven on Earth*	2006	-	1.19	1.19
31	3	*Svolochi* [*Bastards*]	2006	-	0.87	0.87
41	4	*Ohota na Piranyu [Piranha]*	2006	-	0.52	0.52
42	5	*The Island*	2006	-	0.50	0.50
1	1	*Mongol: The Rise of Genghis Khan*	2007	5.71	14.31	20.02
9	2	*Apocalypse Code*	2007	-	2.55	2.55
14	3	*Neveroyatnye priklyucheniya Rolli 3D* [*The Amazing Adventures of Rolli 3D*]	2007	-	2.38	2.38
16	4	*Skalolazka i poslednii iz sed'moi kolybeli*	2007	-	2.10	2.10
21	5	*Wolfhound*	2007	-	1.55	1.55
27	6	*Zhara [The Heat]*	2007	-	1.10	1.10
28	7	*Boi s tenyu-2 [Shadow Boxing 2. Revenge]*	2007	-	1.08	1.08
29	8	*1612*	2007	-	0.94	0.94
35	9	12	2007	0.13	0.60	0.73
37	10	*The Banishment*	2007	-	0.65	0.65
44	11	*Alexandra*	2007	0.13	0.32	0.45
47	12	*Andersen. Zhizn bez lyubvi [Andersen. A Life without Love]*	2007	-	0.25	0.25
4	1	*The Irony of Fate 2*	2008	-	5.60	5.60
5	2	*Admiral*	2008	-	4.62	4.62
7	3	*My iz buduschego [We Are From the Future]*	2008	-	3.00	3.00
10	4	*The Best Movie*	2008	-	2.50	2.50
13	5	*No Love in the City*	2008	-	2.39	2.39
20	6	*Gitler Kaput! [Hitler's Kaput!]*	2008	-	1.62	1.62
26	7	*Tulpan*	2008	0.16	0.98	1.14
33	8	*Ilya and the Robber*	2008	-	0.79	0.79

Rank (overall)	Rank (year)	Title	Year released	Box office returns in the US (million USD)	Box office returns in other countries (million USD)	Box office returns (million USD)
40	9	*Street Racer*	2008	-	0.60	0.60
2	1	*The Last Station*	2009	6.62	6.93	13.55
17	2	*The Inhabited Island*	2009	-	2.05	2.05
18	3	*High Security Vacation*	2009	-	1.98	1.98
19	4	*Taras Bulba*	2009	-	1.84	1.84
22	5	*Lyubov-morkov 2 [Lovey-Dovey 2]*	2009	-	1.53	1.53
24	6	*Samiy Luchshyi Film 2 [The Best Movie 2]*	2009	-	1.30	1.30
38	7	*Obitaemyy ostrov. Skhvatka [The Inhabited Island: Rebellion]*	2009	-	0.63	0.63
43	8	*Kniga Masterov [The Book of Masters]*	2009	-	0.48	0.48
8	1	*Lyubov v bolshom gorode 2 [No Love in the City 2]*	2010	-	2.64	2.64
11	2	*Hooked*	2010	-	2.40	2.40
12	3	*Chernaya Molniya [Black Lightning]*	2010	-	2.40	2.40
15	4	*Space Dogs*	2010	-	2.34	2.34
23	5	*Nasha Russia. Yaytsa Sudby [Our Russia: The Balls of Fate]*	2010	-	1.50	1.50
32	6	*O chyom govoryat muzhchini [What Men Talk About]*	2010	-	0.80	0.80
34	7	*Utomlennye solntsem 2 [Burnt by the Sun 2]*	2010	-	0.77	0.77
36	8	*Ten Winters*	2010	-	0.72	0.72
45	9	*Kandagar*	2010	-	0.41	0.41
46	10	*How I Ended This Summer*	2010	0.01	0.31	0.32
6	1	*Vysotsky. Thank You for Living*	2011	-	3.04	3.04
30	2	*Faust*	2011	-	0.92	0.92
39	3	*Elena*	2011	-	0.63	0.63
48	4	*Siberia, Monamour*	2011	-	0.22	0.22

Source: Film Business Today Magazine

In all likelihood however, this data on the international distribution of Russian films is incomplete, since it was obtained from film distributors, rather than the producers of these films. It is therefore impossible to draw any clear-cut conclusions on this basis. Nevertheless, they do reflect the current situation in terms of the demand for Russian films worldwide.

In 2012 The European Audiovisual Observatory published a report on the success of European films in 10 non-European markets for the first time.[133] This report is based on data collected by the company Rentrak in North America (US/Canada), Latin America (Argentina, Brazil, Chile, Columbia, Mexico,

[133] M. KANZLER, *Theatrical export of the European films in 2010. Key statistics*, European Audiovisual Observatory, Strasbourg, 2012.

Venezuela), Oceania (Australia, New Zeeland) and South Korea. The data do not indicate a strong presence of Russian films in those markets. During 2009 and 2010, four Russian films were commercially released in the US, two in South Korea, and one each in Mexico, Brazil, Argentina, and New Zealand. No Russian films were released in the other countries.

South Korea was first-placed in terms of admissions for Russian films, followed by the US and Mexico.

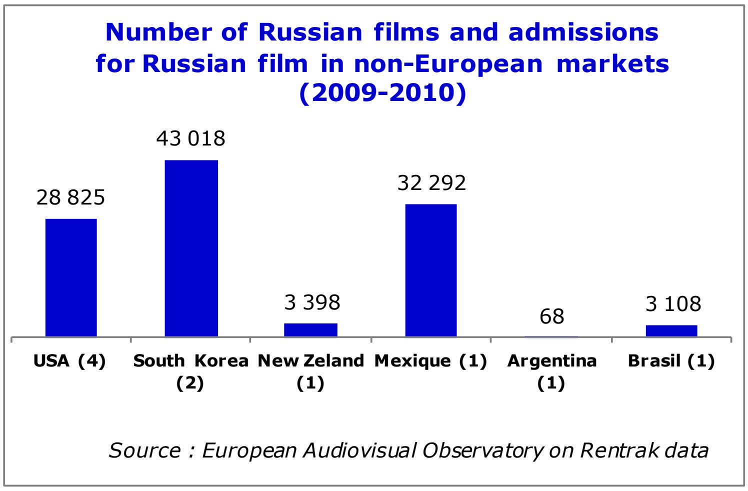


Figure 101. Number of Russian films and admissions for Russian film in non-European markets (2009-2010)

Distribution of Russian films in the EU

According to data from the European Audiovisual Observatory, 221 Russian films were distributed in the 27 countries of the EU during the period 2007–2011 (not including minority co-productions). During the same period, 380 Russian films were released on the national market. In addition, according to the same source, the market share of Russian films in the European Union remains very low, at about 0.05 % of total cinema tickets sold.

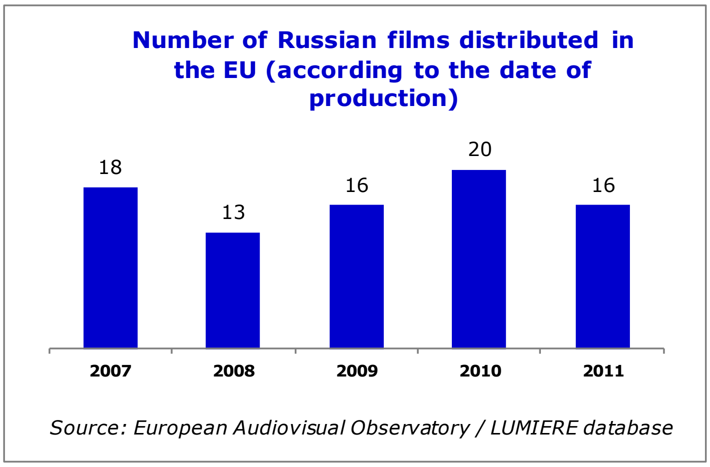


Figure 102. Number of Russian films distributed in the EU (according to the date of production)

The best years for Russian producers in terms of European distribution were 2007 and 2010, mostly due to the successful runs of *Day Watch* and *Space Dogs*, which sold 324,000 and 215,000 tickets respectively. However, this is still incomparable to the triumphant success of *Night Watch* in 2005, which was seen by over 1.7 million people in total. According to our estimates, *Night Watch* collected the equivalent of 39.9% of its Russian admissions on the European market, and that result has yet to be beaten by any Russian blockbuster since, despite enormous box office success at home.

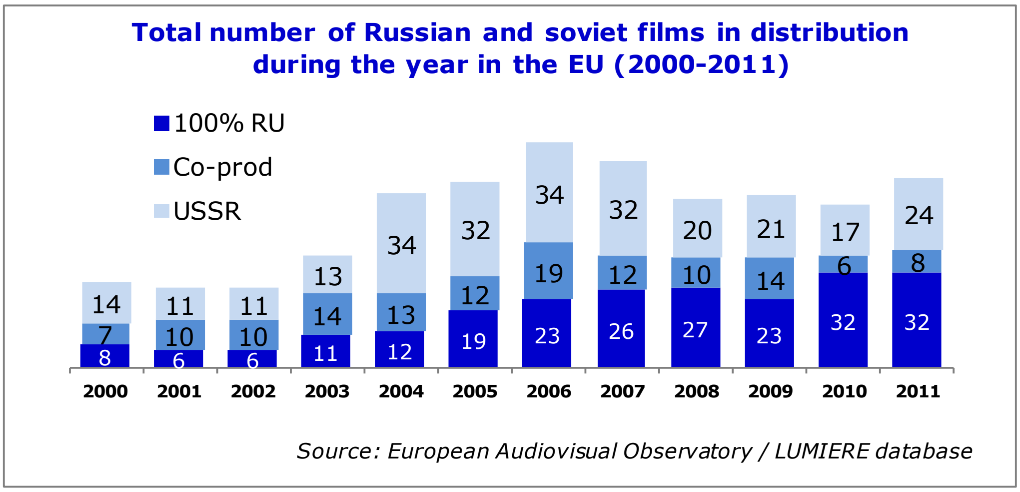


Figure 103. Total number of Russian and soviet films in distribution during the year in the EU (2000-2011)

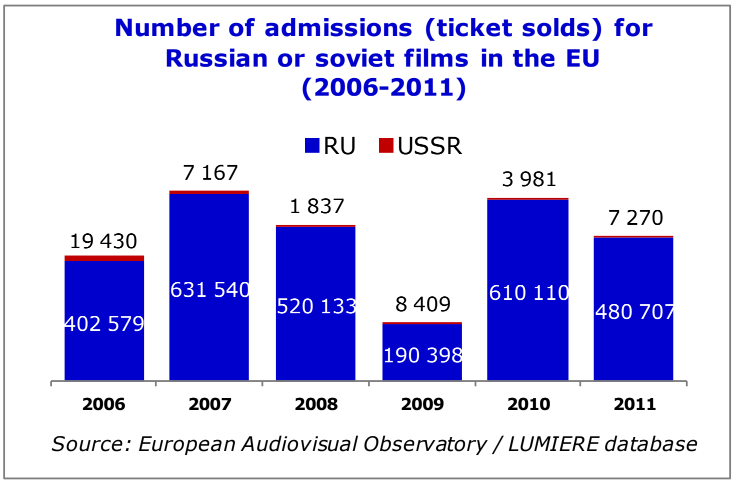


Figure 104. Number of admissions (tickets sold) for Russian or soviet films in the EU (2006-2011)

The main feature of Russian film export is its strong art house orientation: while Russian blockbusters with strong advertising support from the principal federal TV channels enjoy the highest level of demand in the national market, the majority of viewers in Europe are attracted by Russian festival films that were either on limited release in Russia or even went direct to video. This can clearly be seen in the example of Alexander Sokurov's film *Faust*, which was the best Russian film in European distribution in 2011, with the number of tickets sold in Europe equalling 80.5% of the figure in Russia.

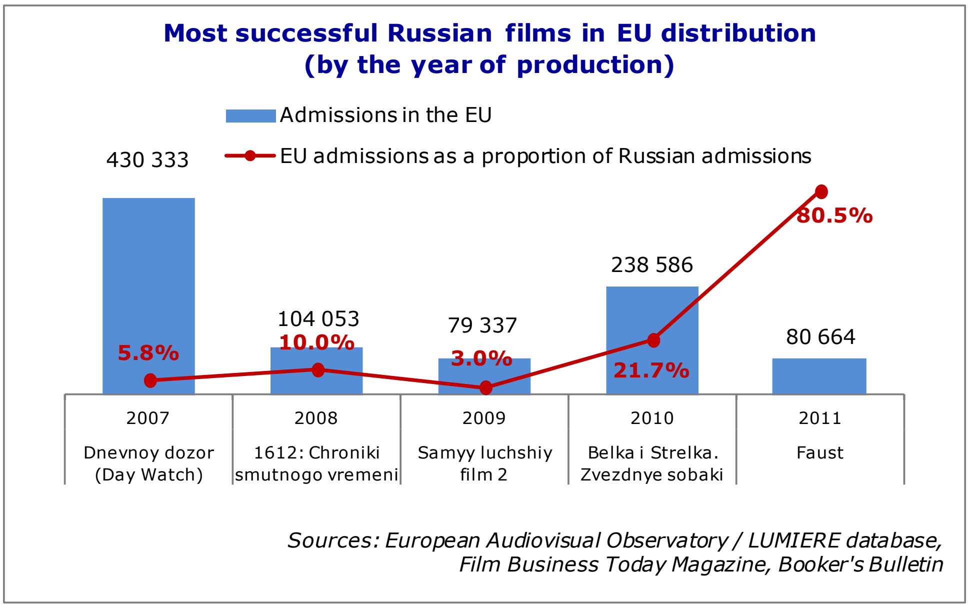


Figure 105. Most successful Russian films in EU distribution (by the year of production)

In the EU, Russian films enjoy the highest level of popularity in France, Latvia, Lithuania, Poland, Italy, and Estonia.

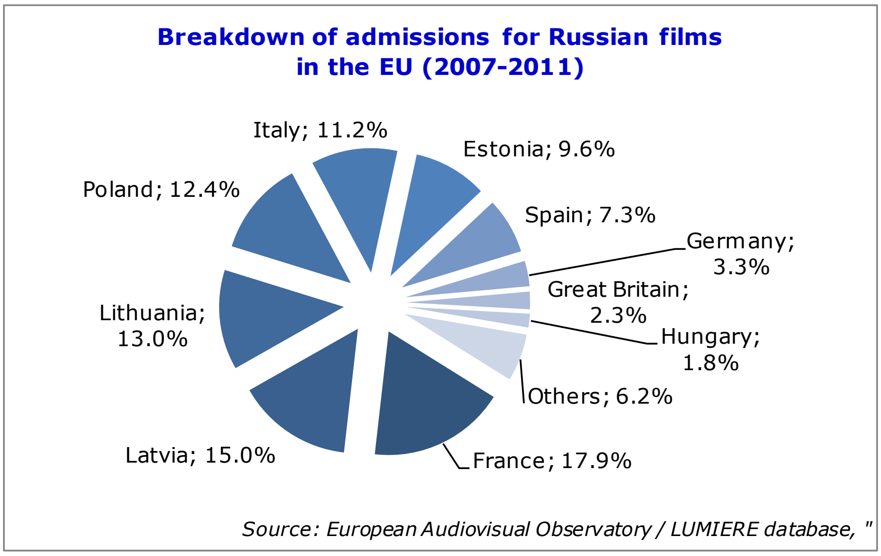


Figure 106. Breakdown of admissions for Russian films in the EU (2007-2011)

4.4. Russia's accession to the WTO: consequences for film

Russia and the WTO

On 22 August 2012, the Russian Federation officially became a full member of the World Trade Organization (WTO). On 23 July, the Russian Government informed the WTO Secretariat that Russia had completed all the internal procedures necessary for accession to the organization, including the ratification of the protocol signed in Geneva on 16 December 2011 on Russia's accession to the Marrakesh Agreement of 15 April 1995, under which the WTO was established. Under the organization's rules, Russia became a member on 22 August, on the thirtieth day following the notification outlined above. Thus, the protocol on Russia's accession to the WTO came into force and Russia became the 156th member of the WTO.

Negotiations on Russia's accession to the WTO began in 1995. However, this only became a full-scale process in 2000, when all aspects of the country's accession to the organization were taken into consideration.

The protection of intellectual property was one of the problematic areas which had long hindered Russia's accession to the WTO. Since 1997, the country has been on the Priority Watch List of the Office of the United States Trade Representative (the list includes a total of 13 countries with the highest levels of piracy). The International Intellectual Property Alliance considers one of the main problems of law enforcement in Russia to be the fact that it is almost entirely focused on the distribution of pirate hard copies, while the greatest threat is Internet piracy. However, in October 2011, the Public Prosecutor instigated proceedings on Internet piracy against the founder of the Interfilm.ru website for a record sum of damages for Russia – RUB 38 billion. This was also to protect the interests of the major international studios 20th Century Fox, Paramount Pictures, Warner Bros, Disney, and Sony Pictures. Steps were also taken against users of unlicensed content. Last autumn, as part of Russia's obligations in acceding to the WTO, the State Duma passed an amendment to part 4 of the Russian Civil Code. Previously it had permitted free playback of audio-visual content for personal use without the need for permission from the rights holder, but the new edition included the condition 'where necessary'.[134] Thus, Russian legislation on safeguarding intellectual property is now in line with the norms of the World Trade Organization.

As a member of the WTO, Russia has an obligation to lower import duties, and to remove barriers preventing companies from accessing the market. This obligation has an effect on the audio-visual and cinematographic industry.

Most favoured nation policy

As part of the establishment of a most favoured nation policy for importing goods into the Russian Federation, the country is required to lower customs duty rates over the period 2014 to 2017. The goods this affects include:

- film (from 20% to 6.5% by 2017);
- DVD players (from 15% to 8% by 2016);
- laser discs (from 15% to 0% by 2015);
- universal digital DVDs (from 15% to 0% by 2016);
- digital video cameras (from 5% to 0% by 2015);
- video recording and playback equipment (from 10% to 5% by 2014);
- film cameras (from 15% to 12.5% by 2016);
- film projectors (from 15 to 7.5% by 2016), etc.

It is worth remembering that as part of measures to support the switch to digital, import duty on digital projectors was reduced to 0% in 2011 and will remain so for five years. Thus, some of Russia's obligations to reduce tariffs have already been carried out. In the future, this will mean that some of the listed goods should either become cheaper or obsolete (film, film cameras, etc.). Therefore, the influence of the WTO on Russian film in this area will not be great in the near future.

The Russian Federation's specific obligations on services

The Russian Federation's obligations in the field of audiovisual and entertainment services and in the organization of cultural and sporting events

[134] see http://www.kommersant.ru/doc/1820345

(including cinema events) presuppose the absence of barriers to accessing this market or restricting national policy in the area of cross-border shipments and foreign consumption. Russia is not adopting obligations for individuals operating in the market, but is introducing a range of restrictions for companies:

- Only legal entities of the Russian Federation may engage in commercial production and cinema distribution of films, and in cinema operation for commercial purposes. Moreover, Russia accepts no further obligations to provide subsidies or other types of state support to foreign companies.
- Only legal entities of the Russian Federation may engage in the provision of film screening services (except those supported by the government at film festivals or other cultural events). Permission also needs to be granted by the local authorities to take into account local construction planning and social and economic development programmes. Access to state subsidies is also restricted. Moreover, the obligations of a free national policy are not determined by time, or the selection of films for specific parts of the population (e.g. for children or ethnic minorities, etc.).[135]

In other words, in the fields of film production, distribution, and screening, there are no significant restrictions on foreign companies in Russia, except that they must function as legal entities in the Russian Federation. They can only apply for state subsidies in the cases laid down by special Russian or international legislation. This means that accession to the WTO will not have any serious consequences for the film industry.

[135] See the list of the Russian federation’s specific responsibilities for services at http://www.wto.ru/ru/news.asp?msg_id=28771

List of Illustrations

List of Tables

OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

Set up in December 1992, the European Audiovisual Observatory's mission is to gather and diffuse information on the audiovisual industry in Europe.

The Observatory is a European public service body comprised of 39 member states and the European Union, represented by the European Commission. It operates within thelegal framework of the Council of Europe and works alongside a number of partner and professional organisations from within the industry and with a network of correspondents.

In addition to contributions to conferences, other major activities are the publication of a Yearbook, newsletters and reports, and the provision of information through the Observatory's Internet site (http://www.obs.coe.int).

The Observatory also makes available four free-access databases, including LUMIERE on admissions to films released in Europe (http://lumiere.obs.coe.int) and KORDA on public support for film and audiovisual works in Europe (http://korda.obs.coe.int).

НЕВАФИЛЬМ
NEVAFILM

Nevafilm was founded in 1992 and has a wide range of experience in the film industry. The group has modern sound and dubbing studios in Moscow and St. Petersburg (***Nevafilm Studios***); is aleader on the Russian market in cinema design, film and digital cinema equipment supply and installation (***Nevafilm Cinemas***); became Russia's first digital cinemalaboratory for digital mastering and comprehensive DCP creation (***Nevafilm Digital***); distributes alternative content for digital screens (***Nevafilm Emotion***); has undertaken independent monitoring of the Russian cinema market in the cinema exhibition domain since 2003, and is a regular partner of international research organizations providing data on the development of the Russian cinema market (***Nevafilm Research***).