

Russian Cinema

An Economic Overview

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It certainly appeared that 2008 was a record-breaking year for the Russian film industry. Awash with money from the commodity boom, co-producers and individual investors alike were willing and able to finance local, Russian-language

productions, and distributors could rely on revenue streams from television and DVD sales to support their business models. By year end, Russia and the Confederation of Independent States (CIS) had generated a staggering 830 million US-Dollar in box office receipts, an increase of 47 percent from 2007's box office and well in excess of the already heady 25 to 30 percent annual growth of preceding years.

Challenges in the Russian Market

Yet a closer examination of the Russian market reveals that the film industry has

faced significant challenges, which have only been exacerbated by the current global recession. Demographic research indicates that about 60 percent of Russians do not pay to see films in a cinema, because there are not any cinemas nearby in which to see them. According to the Russian Ministry of Culture, there are about 1850 cinema screens in Russia, which makes the ratio between the number of cinema screens and the domestic population one cinema screen for every 80,000 people. What is more, of the approximately 250 films produced in Russia in 2008, only about one third of them were released theatrically, of → p.7

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which just five or six accounted for almost 75 percent of the local share of the overall box office. Of the nearly 180 Russian production companies, there are only twelve that are capable of guarantying a film's theatrical release. The core domestic audience for a Russian theatrical release consists of about five million individuals, aged 15 to 30, who live in the country's large urban centers and attend approximately 0.375 films per month.

Market for Russian films

Most Russian films do not have a viable market outside of Russia, the CIS, and Ukraine and are thus seldom released abroad. With film attendance in Russia and other CIS states dropping, DVD sales estimated to be 30 percent below last year's levels, and major Russian television channels displaying strong reluctance to co-produce local films, industry watchers estimate that the production of local films will fall by approximately 70 percent in 2009. Under such circumstances, the expansion of the Russian film industry will depend upon access to theatrical exhibition for a significantly greater portion of the Russian population. The ability of distributors to successfully finance and expand exhibition venues will need to be driven by the production of profitable local-language films that tell a compelling story and have cultural relevance and appeal to Russian and international audiences alike. In the

short to medium term, Russian films will therefore need to generate the bulk of their revenues from domestic theatrical releases. Since few Russian films generate more than twelve million US-Dollar in the domestic box office, local productions with a budget in excess of six million US-Dollar may, at least in the short term, face a structural challenge in that the domestic theatrical market is simply unable to provide the level of box office support necessary for the film to be profitable. In the medium to long term, an expansion in the Russian theatrical market will improve the economic model that drives film production. Although the economic crisis has slowed the construction of new cinemas outside of population centers, the fact remains that there is a need to build more cinemas outside of large urban centers (i.e., towns of 400,000). The penetration of cinemas into such markets will give distributors access to portions of the population who simply cannot go to see films because there are no cinemas in which to see them, and this in turn will increase domestic theatrical gross receipts.

Revenue models

For the present, as the North American and Western European film markets face pressures to develop new revenue models that account for new media, digital distribution and other developments, the Russian film market faces the challenge of developing a revenue model that is robust in

the first place. The production of films with greater international appeal, on budgets that are within the constraints imposed by the size of the domestic Russian market, together with the expansion, over the medium to long term, of the Russian theatrical market, will be crucial to the Russian film market's ability to meet this challenge. ■



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