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● Income from the £19 million taxpayers have invested in films could be more than double that

One of the best investments the govt has made in recent years

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'WHAT we have got to realise is that making films is not just about getting them into cinemas.'

Film Minister David North makes that point quite bluntly.

'There are a couple of hundred films made each year and there is no way they can all get a showing,' he explains.

'But there are also video rights, DVD, pay-per-view, television, airline rights — and these are all worldwide.

'This is where the money is. Every film we are investing in, we are doing so as a 25-year investment.

'The aim of the film industry when it started was to broaden the base of the economy, boost tourism and provide another income for the Island and this it has done.'

The change from offering tax credits to investing in films came early in 1997, which was a fine piece of timing considering Waking Ned arrived just months later.

However, David admits the length of time it takes to reclaim your investment and start making money in the movie world took a few by surprise.

'It's fair to say if I'm being open that I believed in 1997 that we could recoup on some of the films a lot faster than is actually going to be the case,' he reveals.

'But then I am a born optimist. But it is a fact that it is going to take longer.'

In commercial terms, at least as far as the hotel industry is concerned, the last five years has brought in more than 80,000 'bed nights' from film and TV crews and casts.

Up until April this year the government has invested £19 million into films. Although official figures haven't been revealed, it's believed the income — or 'exchequer benefit' — could be more than double that.

He adds: 'Without giving out a figure, I can assure the taxpayers of the Isle of Man that this is one of the best investments government has made in recent times.'

So what of the lack of box office success? Does it damage the Island's reputation within the film trade?

Apparently not.

'It is nice to get a hit but whether or not a film is a success at the box office is almost irrelevant,' says the minister.

'We are now recognised as one of the major players within the British film industry and we have achieved what we set out to do by now working with the likes of Warner Bros, Icon and the other large distributors. Initially, we had to start out

Looking ahead: David (left), development manager Hilary Dugdale and Steve pictured at Cregneash, which doubled as the fictional Irish village in Waking Ned. Backed by vital support from film officer Kim Fletcher and contracts manager Nick Cain, the commission is hoping the next five years can prove as fruitful as the last five (IP)

But in any industry you cannot go in and expect to be an expert straight away.

'The fact that a film fails at the box office has nothing to do with the Isle of Man.

'Several that have failed have been visually magnificent for the Island and producers and directors do not think less of the Island because a film fails. I don't think that even enters their head.

'It doesn't harm Hollywood if it produces a bad film. I think it is immaterial. What really matters is that we help them and Steve gets together a package which suits them and us.

'We do a whole lot more than a normal film commission and Steve is becoming recognised throughout the industry, and not just in Britain.'

David points to the most recent film to come here — Jimmy Spud — as evidence the Island is highly thought of. The team behind the film were the Samuelson brothers, whose most recent films were worldwide hits, Arlington Road and Wilde.

The difficulty with the film industry is that, when you're talking about the low-budget end of the industry, picking a sure-fire hit is near impossible.

ly at the box office and, overall, suffered at the hands of critics.

'It was directed by Jeremy Thomas, the Oscar-winning producer of films like The Last Emperor and had a great cast of Christian Bale, John Hurt and Daniel Benzali.

'All well-known names in the industry. It was nominated in the Un Certain Regard section at the Cannes Film Festival and you would think "great".

'What happened to it? So the answer is nobody can tell you what is going to work.

'You just have to keep your feet on the ground and look at projects commercially and in terms of viability for the Isle of Man.'

David insists that, although films are vitally important, television could prove to be the Island's long-term breadwinner if TV series, which can shoot for several months rather than weeks as with a film, can be attracted regularly.

Sky TV's Space Island One was first to shoot here and last year Warner Bros brought Dark Realms (aka Frightmares) which is set in the US and was made for the US market.

It was quite a coup for the Island and it's

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TAXATION: ECOFIN JURY STILL OUT OVER SAVINGS TAX DIRECTIVE

The EU's fifteen Finance Ministers attending the 17 October EcoFin Council meeting in Luxembourg heard a progress report from the French Presidency on the practical follow-up to the principles agreed at the Feira European Council in June on the long-stalled package of measures to tackle harmful tax competition in the EU. But, according to reports from within the Council, and from the French Finance Minister, Laurent Fabius, little concrete progress was made by the Ministers to secure any crucial agreement on setting up an EU-wide information-exchange programme or withholding tax regime governing taxation of income from savings. Between now and the next EcoFin Council in November, officials will be keeping a brave face on its pledge to secure an EU-wide agreement on outstanding points that will get the ball rolling to secure the long-term goal of an EU open house policy towards savings tax.

(Luxembourg, 17 October 2000 - European Report - 225/12)(MJ)

The Finance Council heard a progress report from the Presidency on the practical follow-up to the principles agreed at the 19-20 June Feira European Council on the long-stalled package of measures to tackle harmful tax competition within the EU. The package comprises the European Commission's May 1998 proposal to ensure a minimum degree of effective taxation of cross-border interest on savings paid from one Member State to individuals resident in another Member State (see European Report N° 2317); a Code of Conduct for business taxation (whereby Member States will refrain from introducing any new harmful tax measures and will amend any laws or practices that are deemed to be harmful in respect of the principles of the Code - see European Report N° 2273) and the March 1998 proposal for a Directive to eliminate withholding taxes on payments of interest and royalties made between directly associated companies of different Member States (see European Report N° 2297).

Back in June, EU leaders had agreed that the savings taxation Directive should ensure that all citizens resident in an EU Member State should pay the tax due on all their savings income by means of exchange of information between tax authorities, but that for an interim period for seven years following the entry into force of the Directive, Austria and Luxembourg could apply a withholding tax to income from savings held by residents of other EU Member States at a rate yet to be decided. This 'interim measure' is what has been reported as having reached a broad agreement, although the pressure is really mounting on the Presidency to secure it before the end of the year - which, in turn, will allow Luxembourg and Austria to apply the withholding tax.

The withholding tax itself is simply a rate which is applied to a larger proportion which is returned, according to the French Presidency's proposal, to the Member State's tax authority of the saver where he/she resides. But the problem is that only some Member States will have to introduce a tax on savings for non-residents (where there wasn't one previously applied), but that they also cannot agree on the rate for a withholding tax to be applied on the revenue that it would subsequently draw in itself - or whether a further measure of 'topping up' the withholding tax could be applied. German savers, for example, are concerned that the much-spoken-of 10% tax that Luxembourg would introduce (as it presently has a zero-taxation policy on savings), would not finish there; under one proposal from the Presidency, the German authorities could then apply a further 35% to bring it up to the conventional 45% applied in the Federal Republic. France's Finance Minister, who was chairing the EcoFin Council, was coy though about realistically securing any agreement before November; and his officials are even more reluctant to speak of the bold plans which would also require agreement from other key financial centres like Switzerland and Liechtenstein by the Feira agreed deadline of November 2002. He simply concluded at the press conference held in Luxembourg: *"We've reached agreement. It's been a good EcoFin Council."*

Grandfathering. The Ministers did tackle the prickly subject of 'grandfathering' - a jargon term for backdating any withholding tax measure - but with no firm agreement. The November Council will have to agree from which date the tax would apply, with some Member States suggesting from the time of adopting the interim measure, i.e. December of this year. The Council also noted that Belgium, Greece and Portugal were also given the opportunity of deciding before the end of the year whether they want to opt to do go ahead with the withholding tax option.

Finer points taxing Ministers. The Feira Summit also concluded that the substantial content of the proposed taxation of savings Directive should be agreed on by the end of this year, the Presidency insists. But

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this would require agreement to be reached at the 27 November Finance Council, where the case of those Member States opting to apply a withholding tax, the share of revenue to be transferred to the investor's Member State and the level of withholding tax to be applied would be agreed; also the definition of interest (e.g. whether income from investment funds falls within the scope of the Directive); the paying agent method; the definition and identification of the beneficial owner; and which particular methods for information exchange should be applied. This could uniquely involve the authorities themselves or - as the UK delegation have proposed - a certificate could be issued to savers exempting them from being *initially* taxed by the first Member State where the account is held, allowing them to declare savings themselves to the tax authority where they reside.

FINANCE/JUSTICE AND HOME AFFAIRS COUNCIL: MINISTERS LAUNCH ALL-OUT ASSAULT ON MONEY-LAUNDERING

EU Ministers for Finance, Justice and Home Affairs outlined on 17 October a combined, comprehensive campaign against the laundering of proceeds of crime, drug trading and other illegal activities. They have bound the Member States and the European Commission to pushing through a series of measures, which tackle money-laundering from all angles - administrative, judicial, police, financial institutions and external relations. Presiding French Justice Minister, Elisabeth Guigou, said the overall goal of the measures was "to get rid of the dead-end situation where criminals enjoy the full benefits of free movement, while judges and police authorities do not".

(19 October 2000 - European Report - 228/1)(BB)

The Ministers devoted the morning of the Council to their respective portfolios (see previous issue of European Report), before joining up for the "jumbo" EcoFin/JHA session in the afternoon. Self-proclaimed architect and front-person of the joint Council was **Elisabeth Guigou**, who suggested the idea originally to the German EU Presidency in 1998. At the post-Council press conference, she argued that a joint Council was necessary to establish a common strategy on money-laundering between the financial institutions and the law enforcement authorities. European Justice and Home Affairs Commissioner, **António Vitorino**, added that EU external policy was also being integrated into the campaign. Each of these dimensions features in the eleven-point Conclusions adopted by the Council, which come exactly one year after the EU Special Justice and Home Affairs Summit in Tampere.

Non-co-operative countries and dependent territories. The Conclusions refer specifically to the Financial Action Task Force's black list of money-laundering and tax havens published in June 2000 (see European Report N°s 2512 and 2513). While no EU Member State featured on the FATF list, some not-so-distant neighbours were mentioned, such as Liechtenstein, Monaco, Jersey and Russia. The EU Council of Ministers has now grafted the FATF recommendations onto its own Conclusions, by inviting Member States *"to pay particular attention to all financial transactions with countries and territories which have been identified as non-co-operative"*.

With this in mind, the Council intends to open negotiations with these countries and dependent territories, with a view to forging anti-money-laundering agreements. Such agreements would be part of both Common Foreign and Security Policy (TEU Article 24), and justice and home affairs (TEU Article 38). If by June 2001, the black-listed countries have not introduced the required reforms, the Member States will implement the sanctions recommended by the FATF. These range from reporting all transactions with financial institutions from these countries to the competent intelligence unit, to restricting all financial transactions with the non-co-operative country concerned. The tough line adopted by the Council may well spur the blacklisted countries into action. For example Liechtenstein, in the immediate aftermath of the publication of the blacklists, vowed on 19 July to abolish anonymous bank accounts (see European Report N° 2520).

Financial institution transparency. The Council Conclusions also tackled the money-laundering problems caused by **shell companies** and other non-transparent entities such as **trusts, trust funds and foundations**. They asked the Commission to come forward with proposals on this issue by June 2001, which aim in particular at easier identification of the beneficiaries of such entities. The conclusions also endorse the two French Presidency anti-money-laundering initiatives, one a **draft Convention**, the other a draft **Framework Decision**. Minister Guigou expects the French Presidency to push through the Framework Decision before the end of 2000, although she conceded that adopting the Convention would take longer (see previous issue of European Report for more details).

More administrative co-operation. Another conclusion calls on Member States to set up *"centralised, multidisciplinary national bodies that are specifically dedicated to the fight against money-laundering"*. This would complement the analytical and detection work being done by the existing financial intelligence units (FIUs), set up as part of the 1997 Action Plan to combat organised crime. This ties in with the Council's adoption, earlier in the day, of a **Decision on increasing the powers of FIUs.** This Decision will oblige Member States to provide financial intelligence if requested to do so by the relevant authority in other Member States (see European Report N° 2504 for details).

The Commission was also requested by the Council to come forward, before 1 July 2001, with a proposal on **monitoring cross-border cash flows.** This request follows on from *Operation Moneypenny* - a fact-finding mission launched by the Council to assess how Member States monitor money being *physically* transported across borders. As a result of this operation, the Council recommended making it compulsory to declare cross-border transport of money, and granting authorities the right to interrogate and seize money if they see fit (see European Report N° 2525).

Internet crime and e-commerce were also mentioned in the Conclusions. The Council vowed to channel resources into fighting money-laundering in this area, while Commissioner Vitorino announced there would be a Commission Communication on cyber-crime before the end of 2000.

FRANCE ORDERED TO WITHDRAW RENDERING LEVY

The European Commission sent a formal request to France on 17 October to put an end to the discriminatory effects of a levy on the rendering and collection of slaughterhouse waste (slaughter and cutting of animals which are unsuitable for human consumption and the collection and disposal of animal carcasses). In a reasoned opinion (the second stage in infringement proceedings under Article 226 of the EC Treaty), the Commission states that, in its view, this levy is a discriminatory tax measure which is incompatible with the EC Treaty (Article 90) because it is applied to imported meat whereas only French meat producers have access to the public rendering service. If it does not receive a satisfactory reply within two months of receipt of its reasoned opinion the Commission will bring the matter before the Court of Justice.

The French public rendering service has been financed primarily since 1997 by revenue raised by a para-fiscal tax on meat. Following a number of complaints, the Commission has challenged the rules governing the calculation of this tax which it considers to discriminate against meat from other Member States. Although the tax is levied on both French meat and meat from other Member States, French producers have access to the public rendering service, which is, in a sense, "paid for" by the tax, whereas meat producers in other Member States do not as a rule enjoy the advantages of this service, as their meat is prepared for sale in another country before being brought into France.

(17 October 2000 - European Report - 233/12)(LAC)

FINANCIAL SERVICES: COMMISSION HOPES TO STIMULATE RISK CAPITAL MARKET

Despite the progress made in 1999, the EU venture capital market remains small and fragmented, and the gap with the US, particularly in the early stages, remains as large as ever. Several support measures are required, says the European Commission in a Communication it published on this subject on 18 October. In its intermediary report on the implementation of a risk capital action plan, the EU executive calls for faster market integration across the EU, less country-specific constraints and the promotion of the entrepreneurial spirit. The Member States are asked to act as a matter of urgency on three fronts: the easing of quantitative constraints on institutional investment in equity capital, the softening of bankruptcy laws to allow failed entrepreneurs a second chance, while affording adequate protection of creditors' rights and the development of a fiscal framework more conducive to investment and entrepreneurship.

(19 October 2000 - European Report - 227/11)(AF)