Media Business and Innovation

Paul Clemens Murschetz
Roland Teichmann
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Handbook of State Aid for Film

Finance, Industries and Regulation

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This book is dedicated to my mother
Paul Clemens Murschetz

Foreword

The special power of the early moving image attracted the attention of public authorities. Though early interventions in the film industry were occasionally informed by propaganda or censorship-related aims, from the close of the Second World War these objectives had been largely superseded in favour of goals reflecting the dual economic and cultural nature of film. In post-war Europe, rebuilding infrastructure and fostering national production that could compete with Hollywood's output was a priority.

Early film aid schemes were usually simple in design and involved automatic payments for film production based on a film's box office success. Rapidly, the methods of state intervention diversified to include grants and loans financed by the public purse and awarded on a selective basis. Another approach, adopted notably in France, was that of organising a system of mandatory transfers, so that taxes or levies on one branch (for example on cinema tickets or broadcaster advertising revenue and turnover) were used to finance another (audiovisual production). From the mid-1980s onwards, fiscal measures were added to the range of possibilities available to government. Film production could be financed by incentives delivering tax benefits either to third parties investing in film or directly to the producers themselves. Specialised loan guarantee systems were also developed to help overcome the difficulties that film production, distribution and exhibition companies have in accessing credit. Across all these different types of measures and consistently over time, support has been overwhelmingly aimed at the phase of the creation of the audiovisual work—writing, project development and production—rather than at the succeeding phases of a film's life or at the companies themselves.

The detailed design and the implementation of aid schemes are usually entrusted to specialised bodies whose relationship with central government can vary. These bodies often contribute to the design of policy themselves, rather than acting as uniquely executive agencies, and may also play a regulatory role for the industry. Initially, these structures were established uniquely at the national level, but from the 1980s onwards aid began to be offered at regional and sometimes local government levels. This initially reflected the existence of autonomous regions with cultural and economic competencies, as in Germany, but during the 1990s a second wave of regional funds reflecting decentralised policies made their appearance.

External pressures have also played a role in the way support schemes are designed. By the turn of the last century, state aid to film in Europe was coming under increasing scrutiny for its potential distortion of competition and trading conditions within the single market established under the European Union treaties. The codification of the rules applicable to state aid for film by the European Commission in 2001 and then in 2013 provided much needed clarity on this point whilst also encouraging greater coordination across national boundaries among film funders themselves.

Digital technology, which does not respect national frontiers, has profoundly impacted the way moving images are created, distributed and consumed over the last decade. Film has become just one element in a global content market, and this change in perspective has been accompanied by increasingly global ways of working. At the same time, there is wide recognition of the public value, both economic and cultural, that the creative industries in the largest sense can generate. Ensuring that film policy remains fit for purpose and maximises benefits in such an environment is a considerable challenge. The key to meeting this challenge is a reassessment of how, why and in what context state aid is delivered and how its objectives should best be defined.

As author of a pan-European survey on public funding for film and audiovisual works, I can attest to the keen interest public bodies and policymakers show in quantitative and qualitative studies of the nature of their interventions, both in the interests of bench-marking but also as tools for evaluating performance and designing policy.

By setting state aid for film within the wider context, this volume is a welcome addition to the literature. It reviews the entire spectrum of the film finance ecosystem, from the private to the public spheres, and uses examples from around the globe to illustrate the variety of approaches to finding the perfect mix. It highlights the key concepts and provides the legal and regulatory background necessary to understanding the forces at play. It presents the varied strands of research currently undertaken in this domain and singles out new directions with future potential and analytical tools borrowed from other disciplines that could enrich our perception.

Whether your interest in the film industry is practical or theoretical, you will find in this volume content that deepens your understanding and opens new perspectives on the multiple factors influencing the design of public policy for film in an era of accelerated change.

European Audiovisual Observatory
Strasbourg, France

Susan Newman-Baudais

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With the contributions of its many participants, this book also intends to be a first step to an international network of exchanging information and ideas on policy and research on *State Aid for Film* for the future. All their patience and great support throughout the editorial consultation and production process made this book come true.

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LAND KÄRNTEN
Kultur

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Why Study State Aid for Film? A Necessary Clarification

Paul Clemens Murschetz, Roland Teichmann, and Matthias Karmasin

1 State Aid for Film Is a Contested Terrain

> The economics of film determines its infrastructure—its foundations—and therefore its potential. The politics of film determines its structure, that is: the way it relates to the world (James Monaco, 2009, p. 289)
>
> A movie is risky, but if the illusion of control convinces a manager that the risk can be controlled by putting a star in the movie, or adding special effects, or introducing a story line for broader appeal, or spending heavily on advertising, then we will get just the kind of movies we have today. But, the risks cannot be controlled; they are inherent in the very nature of the business (Arthur De Vany, 2004, p. 270)

Ever since governments have first offered financial support to film media, many countries around the world have tended to introduce similar aid programs to support the development, production, distribution, and exhibition of films and audiovisual works in their countries.

In Europe, *State aid for film* has undergone different phases: from establishing automatic film aid mechanisms (1950–1957) to the development of selective film aid schemes (1959–1981), the first wave of regional aid development (1980s) the emergence of broader aid for audiovisual production (1980s), and the search for a

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new balance between cultural and economic objectives as a fifth phase (Lange & Westcott, 2004, p. 17).[1]

Today, the policy practice of handing out film subsidies is ever more challenged. While state authorities continue to subsidize their film as a genuine cultural asset worthy of political protection, they seem to slip into the horns of a fundamental dilemma: On the one side, their schemes represent the vision to strengthen artistic talent and creativity, safeguard cultural diversity, foster cultural integration, and improve the economic wealth of the film industry and its stakeholders at large (European Commission, 2014).[2] On the other side, however, they face a legitimacy crisis as their schemes are perceived as being inefficiently allocated, unfairly distributed, and bureaucratically organized, and, worse so, they are said to help little to adapt to future changes needed to get film media adapt to changing market needs. Not surprisingly, research into film subsidies is no less challenging as subsidies are a controversial means to regulate film media markets and seem to have an in-built bias toward failure in that they:

- May unduly endanger artistic freedom and expression
- Do not correct the fundamental problem of market failure in the industry[3]
- Are considered as economically ineffective as "free markets" work better[4]
- Are a waste of taxpayers' money as costs exceed benefits to consumers and producers
- Are considered to be politically charged as far as they require consent across opposing political forces backed up by a solid and impartial method of selecting projects and channeling the money to them
- Cannot create long-term sustainability but instead create dependence on the handouts of the state
- Do not improve the working conditions of producers, filmmakers, and other creative staff
- Do neither incentivize consumption of audiences nor improve their satisfaction with the films funded

[1] See also De Vinck (2011).

[2] If one lays aside any definitional problems, "State aid for film," at a very fundamental level, refers to direct cash grants in aid to filmmakers, film distributors, and cinemas, as well as to indirect tax incentives and rebates to filmmakers.

[3] By contrast, we suggest that "market failure" explanations can go some way in explaining observed regime variety and hence efficacy and certainly take us beyond superficial ideas of the "nanny state" or its converse, but cannot predict a substantial proportion of observed negative effects of film subsidy offerings and its paradoxes. For market failure vs. government failure controversies, see Cowen and Crampton (2002), Dal Bó (2006).

[4] Traditional theorists of the "free-market" school believe in some variation of the "efficient market hypothesis," essentially a conviction that prices not only reflect all current information but also adjust immediately as new information comes in.

Indeed, as it seems, many schemes need a systematic overhaul. They are perceived as being erratic, contradictory, overworked, and obtuse. What is needed are simpler rules, more transparent application and assessment procedures, clearer selection criteria, more effective instruments, better informed policy, and more direct contact between policy, administration, and beneficiaries.

But slowly, why do these biases between ideation, purposing, and policy transfers exist? Why is it so difficult to support film? Certainly, perhaps because not only are film producers and their industries facing a variety of profound challenges that come to severely threaten their long-established ecosystems, but also are the current challenges to political governance in film economics more prominent than ever before.

2 Understanding Industry Challenges Is Key

Digitization, convergence, intensified competition, and audience fragmentation are all shaping current film media ecosystems, while legacy film producers do not only feel the squeeze of increasing competition for revenues but also see their role as facilitators of cultural expression diminishing. Meanwhile, the financing model of traditional audiovisual media is under pressure as a result of a change in the way in which film is developed, produced, packaged, and distributed, and audiences for online platforms, digital formats, and mobile content are rather dramatically growing (European Commission, 2014; Gubbins, 2012). This is crucial as the promotion of public interest in film as a medium of communication, as an art form and in the development of an informed and critical film audience, is critically endangered. Few observers can imagine public film policies veering off in a wholly new direction, but the pressures of change from outside the schemes mentioned above together with ongoing deficits have forced many governments under study to consider reform.

First if not foremost, one has to question whether public support can mitigate trends of cultural globalization and the dominance of the American film industry: Obviously, as scholars in film industry studies have long pointed out, a discussion of national cultural policies shows that film policy contributes to the success of national film industries but does not enable them to challenge US dominance. Hollywood majors such as *Warner Brothers* and *Walt Disney* have internationalized their businesses through corporate integration (Lee & Jin, 2017; McDonald & Wasko, 2007; Miller, 2016).[5]

Whether by design or not, the global film industry shows healthy projections for the coming years, as the global box office revenue is forecast to increase from about USD38 billion in 2016 to nearly USD50 billion in 2020. The USA is the third

[5]Supposedly, Hollywood's hunger for integration and maximization of global box office receipts has led to changes in the content of Hollywood film toward "deculturized," transnational films, a trend that is also evident in other countries (Crane, 2013).

largest film market in the world in terms of tickets sold per year, only behind China and India (https://www.statista.com/topics/964/film/). Cinema screens increased by 8% worldwide in 2016 to nearly 164,000, due in large part to continued double-digit growth in the Asia Pacific region (+18%). The number of digital screens (+17%) and premium large format screens (+11%) also saw double-digit growth globally. Today, 95% of the world's cinema screens are digital (MPAA, 2016).[6]

It is also well known that there are other organizational reasons for the supremacy of Hollywood cinema worldwide. Miller (2001) identified these in "superior production values, cartel conduct, cultural imperialism manufacturing the transfer of taste rather than technology or investment~~,~~ and American sign-value as the epicentre of transcendental modernity—fixing social and individual problems via love, sex and commodities" (p. 146). The market power of the Hollywood majors in feature film markets is also well attributed by the argot of scholars of the political economy of the media. For example, Colin Hoskins, McFadyen, and Finn (1997, pp. 61–2) see "a degree of concentration in the feature film distribution industry and (. . .) an economies-of scale barrier to the entry of new competitors" and make a point for the crucial question "whether this structure has remained workably competitive; whether film distribution remains a contestable market."

As it stands, the European film industry, by contrast, is characterized by some unique characteristics: First, the EU is one of the largest film producers in the world. In 2016, its film industry produced 1336 feature films, compared to 817 in the USA, 1255 in India, and 588 in China. However, as Richeri (2016) claims, "the place of the European film industry and market is different because Europe has a lot of problems to deal with: industry and market fragmentation, little cooperation among member states, lacking distribution of European film outside national markets and too large box office share of Hollywood films" (p. 312, *Abstract*).

It is true that the objective of protecting and promoting Europe's cultural diversity through audiovisual works can only be achieved if these works are seen by audiences. Aid to production alone risks stimulating the supply of audiovisual content without ensuring that the resulting audiovisual work is properly distributed and promoted. It is therefore appropriate that aid may cover all aspects of film creation, from story concept to delivery to the audience.

By contrast, American state governments, for the better part of two centuries, have employed targeted tax incentives to promote local economic development. Rising competition, both domestic and foreign, has driven the proliferation of

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[6]The global film industry shows healthy projections for the coming years, as the global box office revenue is forecast to increase from about USD38 billion in 2016 to nearly USD50 billion in 2020. The US is the third largest film market in the world in terms of tickets sold per year, only behind China and India (https://www.statista.com/topics/964/film/). By comparison, the EU had 991.4 million admissions in 2016, a gross box office (GBO) of 7,04 billion euros, and 1740 feature films produced; the figures for India are 2.015 million, GBO of USD1.5 billion, and 1.903 films produced; for the USA, 1.195 million admissions, GBO of USD10.280 million, and 789 films produced; and for China, 1.370 million admissions, GBO of USD6.6 billion, and 944 films produced) (European Audiovisual Observatory, 2017a, 2017b).

programs such as enterprise zones, tax increment financing, and hiring incentives (Thom, 2016). Following a 10-month investigation in 2012, the *New York Times* estimated the number of targeted programs at nearly 1900 with an annual cost of over USD80 billion.[7] In the USA, however, the spread of targeted incentives has occurred despite doubts regarding their efficacy.[8]

Still, the European film sector suffers from an apparent disconnection between supply and demand, as the USA is the largest presence in Europe's audiovisual markets. In terms of cinema admissions, US films typically account for 60–65% of the market, versus 25–30% for European films.[9]

The causes for this imbalance are varied and complex, but one major weakness is obvious: the European market for European films is fragmented along linguistic and cultural lines, and the market players are predominantly small to medium sized. While this positively reflects in a culturally diverse output, it represents a significant challenge for access to finance and markets. The audiovisual sector is a high-risk, prototype industry, so the integrated nature of the major US studios and their large domestic market and their much higher production and marketing budgets are very difficult for these small European players to challenge. The linguistic and cultural differences add to this and limit the cross-border circulation of European audiovisual works within Europe even further.

3 State Support to Film in Europe Is Pivotal

In the European film sector, the *European Commission* adopted a new "Communication *on State aid for films and other audiovisual works*" on 16 November 2013.[10] This new "Cinema Communication" provides an updated set of rules for assessing whether European member States' audiovisual support schemes comply with EU rules on State aid.[11] It gives clarity to market players on the criteria that the Commission will apply when examining notifications by member States. On 17 June 2014, the Commission declared certain categories of aid compatible with the internal market in application of Articles 107 (3) (d) and 108 of the Treaty on the Functioning of the European Union.

[7]See http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html

[8]Tax incentives have also been the target of legal challenges over the Dormant Commerce Clause and claims of taxpayer injury (e.g., *Cuno v. DaimlerChrysler*).

[9]See *European Audiovisual Observatory*. Lumiere Database.

[10]*Communication from the Commission on State aid for films and other audiovisual works*, OJ C 332 of 15 November 2013, p. 1.

[11]*European Audiovisual Observatory* (2014). The new Cinema Communication. IRIS plus 2014–1.

The review of the rules in the Cinema Communication of 2012 was extensive and reflected the important role films and other audiovisual works play in Europe at the crossroads of culture and the economy.[12] On the one hand, European audiovisual production is an important source of creativity and cultural diversity—one that contributes to defining European cultural identity. On the other hand, cinema is an industry, which has a European dimension. Its activities, just like those of other sectors, are embedded in the EU Single Market.

While the EU film sector is dependent on state support—whether at subnational, national, or supranational level.—*State aid for film* is said to be necessary in order to ensure such subsidies are in the common interest and a level playing field between all member States is preserved. Likewise, State aid to promote culture is allowed by the *Treaty on the Functioning of the European Union* (TFEU) through a specific derogation (Article 107(3)(d)). Taking into account the particular nature of the audiovisual sector, the *Commission* established specific criteria in the Cinema Communication for assessing the compatibility of audiovisual support. These criteria aim to achieve a balance among economic, cultural, and legal concerns.[13] By tackling a number of recent sector evolutions and support trends, the new Cinema Communication ensures continued legal certainty, to the advantage of member States, sector professionals, and—ultimately—European audiences.

In all, audiovisual works, particularly films, play an important role in shaping European identities. They reflect the cultural diversity of the different traditions and histories of the States and regions within Europe and abroad. Being hybrid in nature, audiovisual works are both economic goods, offering important opportunities for the creation of wealth and employment, and cultural goods which mirror and shape our societies. Consequently, the film industry is today labeled as a "cultural industry" (Hesmondhalgh, 2005, 2012) and said to belong to the "creative industries" (Caves, 2000; Flew, 2013), a paradigmatic shift that epitomizes that film is to be associated not only with the arts and culture and the social and cultural norms that shape and are shaped by film media but also with economic and institutional structures and hence all issues surrounding the performance of state support.

Still, those who question the value of continued state subsidies to film not only criticize their political ramifications but consider subsidies misappropriated as they slip into filmmakers' pockets with no obvious return. Ending up as backdoor subsidies with no clear benefits, only artificially keeping alive those who are already economically weak, they do little to balance the structural inequalities of the market. As a result of these criticisms, regulators are increasingly shying away from their programs as concerns over the economic efficiency get the upper hand. In

[12]Communication from the Commission on certain legal aspects relating to cinematographic and other audiovisual works, COM/2001/0534 final, OJ C 43 of 16 February 2002, p. 6.

[13]*European Union* (2014). State aid rules for films and other audiovisual works. Competition policy brief. KD-AK-14-013-EN-N, https://doi.org/10.2763/73881

any case, more control is needed so that subsidized film can be persuaded to adjust to more competitive economic environments.

From the policy perspective, State aid(s) to the audiovisual industry are allowed and designed as part of the internal and external policies of the European Union aimed at enforcing the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. The Convention notes that the fact that a film is commercial does not prevent it from being cultural. But being a cultural activity also does not exclude its commercial character. Thus, the State aid rules apply to financial support for the sector.

4 State Aid for Film Is an "Unruly" Research Field

We start exploring key issues that apply to all researchers who seek a generalized and systematic understanding of public support to film. Theoretical focus is on economic theory, policy analysis, and corporate-level strategic positioning of media firms.

However, we first have to concede that the field of *State aid for film* is "unruly" and complex and entrenched by many disciplines such as law, economy, film and media studies, and business administration also. Moreover, the field in itself is complex.

First, subsidies are a notoriously difficult concept to grasp. They only seem to become more tangible when referring to their main purpose: "Subsidies are provided to promote media industries, support political activities, spur cultural development, meet the needs of minority linguistic and ethnic groups, assist religious and other organizations sanctioned by states, and reward political allies" (Picard, 2008, p. 4891).

In Europe, public funding for film includes direct cash subsidies, fiscal incentives, mandatory obligations for broadcasters to invest in film and audiovisual production, and guarantee facilities (i.e., facilitation of access to finance) are the main funding sources. Other funding sources may come from private equity, loan capital, or shareholder equity.

The issues surrounding the management of film funding are, however, far from straightforward, and the underlying economics are highly complex. Frankly, it is difficult to deconstruct these many interrelated phenomena. But it is precisely for that reason that we should not throw down the gauntlet, however. We need more and better research to study the phenomena involved. Truly, we consider intellectual laziness and disinclination to investigate the complex issues involved as myopic and fatal.

In economic theory, films exhibit increasing returns to scale, high fixed and sunk costs, and significant economies of scope. This means that film industries in general tend toward concentration since cost savings achieved by a certain volume of films produced (economies of scale), between different films produced within one company active in more than one market or across more steps of production (economies of scope), or between networks of different suppliers and audiences (economies of networking) lead to a distortion of fair competition with overall welfare losses for the viewing public. This also means that setting prices equal to marginal cost will generally not recoup sufficient revenue to cover the fixed and start-up costs of a film production. And the standard economic recommendation to set prices at marginal cost will fail to cover total costs, thus requiring a subsidy, albeit not necessarily from the public purse (on film financing and "movie economics," see Chisholm, Fernández-Blanco, Ravid, & Walls, 2015; De Vany, 2004, 2006; La Torre, 2014; Litman, 2000; Moul, 2005; Throsby, 2001, 2010; Vogel, 2014).

Another observation made by economists, sociologists, and other analysts alike is that when the market size increases, so do demand uncertainty and the importance of scale economies. As for most cultural industries, consumer tastes for films are unpredictable, and it is difficult to foresee any film's success or failure at the box office (for a review of movie economics, see McKenzie, 2012). Thus, market failure seems to be the rule, not the exemption.

That the movie industry is complex and that it operates under high risk and uncertainty are standard inferences for anyone who has been even a casual observer of, or participant in, the process of financing, making, and marketing films (Hjort, 2012). As Vogel (2014) wryly noticed, "seemingly sure-bet, big-budget films with "bankable" stars flop, low-budget titles with no stars sometimes inexplicably catapult to fame, and some releases perform at the box office inversely to what the most experienced professional critics prognosticate" (pp. 144–5). Yet, amid those paradoxes, public subsidies may help refund the start-up costs, get the film production processes going, create and safeguard jobs, and enhance value in any stage of the industry chain. Film production companies, film studios, film production, screenwriting, pre- and post-production, film festivals, distribution, and the "human factor" involved, i.e., actors, film directors, and other film crew personnel, will thus be helped out.

If films are further said to confer properties of merit goods, in the sense that their provision and use benefit society at large as objective information, high culture, and education are promoted, subsidies are well legitimate (Musgrave, 2008).

Economic theory addressed State aid for film (and audiovisual services) mainly from three angles: welfare economics and public finance, cultural and media economics, and cultural and media policy studies (Frey, 2011; Peacock, 1969, 2006; Towse, 2010). In general, economic theory, state subsidies serve two main purposes: (1) they should reduce a person's or company's cost of producing and bringing a film to market, (2) and, secondly, by reducing the price of producing and delivering the film, they should increase its consumption beyond what competitive market forces would provide for.

For producers, state aid in the form of a subsidy works like a negative tax as they are given (and not taken) by government and, in the most general case, should encourage the production and consumption of a specific good considered worthy being subsidized. In most cases, subsidies are given out to producers (and distributors and, sometimes, consumers) in order to encourage supply but, occasionally, government can offer a cash or in-kind subsidy to the consumer which itself aims at boosting demand in a market.[14]

Once the product is made, producers use distributors to introduce the movie in the theatrical market. Finally, exhibitors are agents that run theaters and place movies on their screens to attract audiences to generate box office revenue. The distributor is thus the product "ennobler," packager, sometimes also finance provider, and marketing specialist. He markets a motion picture, placing it in theaters and advertising and promoting it.

All of these financial resources may cover for any financial commitment needs (Lacy, 1992), add to the organization's survival based on its optimal utilization of both internal and external resources (Pfeffer & Salancik, 1978), optimally balance these financial resources in order to relieve from financial distress (Modigliani & Miller, 1958), or support the capital structure of the media firm in order to leverage any future investment needs (Myers, 2000).

Clearly, films are not economic goods only but also cultural goods which mirror and shape our societies. "Arthouse films," which are typically independent films aimed at a niche market interested mainly in film arts, for example, confer properties of "pure" cultural goods in the sense that their provision and use benefit society at large. The protection of these films has developed in an interplay with the state, which has shouldered its responsibility to safeguard and promote the public service function of film. This higher-level goal may be preserved by government (Frey, 2011).

Film funding, by itself, is involved in all phases of a film's production, from planning and writing and development of the screenplay to production itself including all forms of distribution, mainly theatrical exploitation. Furthermore, a number of measures such as consulting, public relations, awards, etc. are subsidized. Hence, film subsidies follow a public policy purpose in culture which is essential for pluralism (including geographical, linguistic, cultural, and political pluralism) in an open society. Indeed, film matters: It affects us in our daily lives and is full of meanings that are valuable to all of us. And beyond, a mature democracy should have the courage and the understanding to see the "debt" it owes its artists and to continue to support them, because what it gets in return—economically, socially, aesthetically—is greater than that which it dispenses, not only in terms of production of cultural reflection and identity but also in terms of safeguarding a pluralistic discourse beyond information and classical journalism.

[14]Ross argued that to rise welfare of an individual at the lowest possible cost, cash grants are more efficient than subsidies to the consumption of specific commodities (Ross, 1988). Equally, Peltzman (1973) looked into education subsidies and found that an in-kind subsidy, such as below-cost education provided by state universities, replaces more private consumption of the subsidized good than an equivalent money subsidy, such as a scholarship.

5 "Good" Governance Is Difficult

If we affirm that independence and pluralism in the media are in fact preconditions for democracy to flourish, it is still possible for key elements in government to be committed to media that do not unduly interfere with decisions made by individuals, groups, or media firms regarding social and economic matters. The question how this pluralistic film landscape can be ensured by governmental frameworks is in the center of the debate on the boundaries and possibilities of governance. As laissez-faire under the preconditions of market failure and globalization would lead to a dominance of mainstream film products (and certain regions of production), direct intervention is against the democratic constitutional rules of freedom of art (and expression). However, a positive relationship between the state and media goes beyond pure laissez-faire to nourishing an independent and pluralistic film media landscape. Obviously, a system of "good" governance, in a very general sense, is needed that goes beyond restrictive legal governance and control, but instead is brought to bear on effective techniques or means that film policymakers may use in their attempts to achieve policy goals in the public interest.

This is, of course, a difficult process in that it seeks to implement a system that is both well-targeted, unifying, and boundary-spanning and emphasizes that administration interacts with their environments such that its design, organizational principles, and control parameters are efficient and effective at the same time (Jordan & Turnpenny, 2015; Price, Puppis, & Verhulst, 2013; Rosanvallon, 2016).

As mentioned, the rationale behind the financial supports to cultural sectors such as film is that the culture is a key tool to promote the European single market and to foster social integration through the respect of cultural diversity. In fact, the so-called cultural exception allows member States to grant support to the industry in accordance with the commitment of not distorting competition.

Theoretically, discussions about market failure reflect disputes among scholars of different schools of economic thought, notably between doctrinaire positions of the "free-market school" versus the market-interventionist axis of scholarly reasoning. As it stands, the academic debate about the paradigm of market failure is complex and rather confusing. It originates from the paradigm's hybrid intellectual architecture and results in competing scholarly discourses. Here, two dominant schools fight for scholarly hegemony: On the one hand, the Harvard-MIT-axis of scholarly reasoning in economic theory argues that in case of market failure, government is to intervene in the economy to correct for those and to restore the conditions for welfare optimization (Musgrave, 1959; Musgrave & Peacock, 1958; Samuelson, 1954).[15] Counterarguments on that way of thinking come from the neoclassical '*Chicago school*' of economic thought (Stigler, 1988).[16] Their

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[15]Paul Samuelson (1954) and Richard Musgrave (1959) and others consolidated the market failure paradigm in the 1950s. However, this paradigm was contested since its inception.

[16]The term was coined in the 1950s to refer to economists teaching in the Economics Department at the University of Chicago, such as Frank Knight, Ronald Coase, and Milton Friedman.

fundamental tenet is that competition within a perfect market will lead to efficiency, which is the desirable normative goal of the legal system. According to the Chicago analysis, intervention within the market is justified only when there is a market failure. For them, such failure exists when there are no multiple players on both sides of the market (the problem of monopoly), when these players do not have symmetric and full information relevant to their market activities, when any of the players bypass the market through involuntary actions or when the traded commodity is a public good. The general orientation of the *Chicago school of economics*, however, is that these circumstances are rare and that in the real world there is too much central intervention (Reder, 1982). Media markets would thus have strong tendencies toward failure. Now, these are opposing schools of thought. But is their explanatory power still strong enough today? The *paradigm of market failure* is a doctrine within economics which explains the notion that self-regulated markets reveal structural and behavioral instances that lead to their failure in working efficiently as a result of which corrective government action seems warranted (Bator, 1958; Cowen & Crampton, 2002).[17] Traditions in the *political economy of the media*, by contrast, look into the issue of government control over the media whereby government may seize the media and induce bias such that film would manipulate opinion in favor of government interests. The government may have vested propaganda interests in fostering the film industry: it may want people to see films that will inculcate the values of government. And it may want to spread a more attractive image of the country abroad (Gehlbach & Sonin, 2014; Prat & Strömberg, 2011). In this respect, European and national public funds are intended primarily for small companies—mainly of the cinema sector—with low market share and independent from broadcasters and thus focus in general in the compensation of market failure and to ensure political goals such as regional production, image transfer, and the stimulation of cultural production and quality. The broad scope of media cultures and media systems is also reflected in state aid systems for the film industries.

5.1 Sources of Funding

State aids for film are refunded by supranational, national, federal, and local government budgets, levies, and taxes but also from lottery proceeds. Films productions and other forms of cinematographic expression are, of course, sourced from sales revenues made at the box office, cinema advertising revenues, private investments in production, and sponsoring activities of any kind. Naturally, private

[17] Arthur Cecil Pigou has been called the father of the market failure paradigm. Indeed, he argued that "in any industry, where there is reason to believe that the free play of self-interest will cause an amount of resources to be invested different from the amount that is required in the best interests of the national dividend, there is a prima facie case for public intervention" (1932, p. 331). He suggested that taxes could be used when external diseconomies are present and that the existence of external economies would warrant the use of subsidies.

financing sources from industry, including in-house financing and production-finance-distribution deals with TV companies, TV pre-sales, debt financing, and end-user financing play another key role in refunding film projects. The key issue in this regard is access to these financing sources.

5.2 Institutional Framework

Film subsidies are provided within certain legal and institutional frameworks that are shaped by societal expectations to film media subsidies and (political) regulation (De Vinck, 2011).

The legal basis is particularly significant in this situation. Laws have been enacted on the European level (EU State aid law), and they focus on the aspect of protecting competition. In addition, there are national and regional media-subsidization laws for the specific sectors. Other media-subsidization laws on the national and regional level apply to the specific media sectors. They too must comply with the European Union's State aid law and must conform to the legal principles that touch upon media subsidization (freedom of the press, freedom of competition, equal rights, and guarantee of property rights). In addition to classic forms of media regulation such as media-business law (e.g., media-antitrust and media-competition law, merger control, etc.), there are areas of media subsidization with their own regulations: press, broadcasting, film, and business subsidies and subsidies for political parties. Thus, media-subsidization laws can be found in a number of different legal fields.

5.3 Subsidy Types

Media policies have been designed in many European countries to promote media pluralism and diversity. Negative rules on curbing media and cross-media ownership aim at setting limits on media concentration, whereas positive rules such as different forms of direct or indirect public sector support aim at maintaining a healthy and prolific media industry. Along with the interrelationship between different localities and specific historical, cultural, and political perspectives, policy regimes, and technologies/media, however, different countries have developed different film policy regimes. Hence, it comes as a natural feature that the development of film media is not only exclusively based on economic principles but also on sociocultural, political, and democratic frames to preserve the public interest (Bondebjerg, Novrup Redvall, & Higson, 2015).

First, there are different types of support for film policymakers to support the financing of film and audiovisual production (Fontaine, 2015; Talavera Milla, Kanzler, & Fontaine, 2016):

- Direct public support through film funds (covering a wide array of automatic and selective aids to the film and audiovisual industries, covering all stages of the value chain (development, production, distribution and marketing, exploitation), as well as aid to technical industries and research and development)[18]

- Fiscal incentive schemes (e.g., tax credits for production, distribution, exemption from business tax, special VAT rules, special amortization and depreciation rules, measures aimed at investors)
- Investment obligations into film of TV broadcasters and other stakeholders[19]
- Guarantee facilities (facilitation of access to finance, loans guarantees)

On a pan-European level, funding levels have remained fairly stable over the past years, and the fiscal incentive schemes are being used as complementary instruments to support the film and audiovisual sectors. Importantly, contributions from the national/federal government and broadcasting levies were the two main sources of financing for film and audiovisual funds in Europe. Contributions from the administration at all geographical levels have hardly compensated for the steady decline of income from levies on broadcasters. MEDIA, the European Union's support program for the film, television, and new media industries, for example, offers a variety of funding schemes, each targeting different areas of the audiovisual sector, including schemes for producers, distributors, sales agents, organizers of training courses, operators in new digital technologies, operators of video-on-demand (VoD) platforms, and exhibitors and organizers of festivals, markets, and promotional events. It encourages the circulation and promotion of European films with particular emphasis on non-national European films. These actions were continued in the MEDIA subprogram within *Creative Europe*, the new European support program for the cultural and creative sectors. Regarding the scope of aided activities, some States offer aid to activities other than film production. This includes aid to film distribution or to cinemas, for example, to support rural cinemas or "arthouse" cinemas in general or to cover their renovation and modernization, including their transition to digital projection. Other States support audiovisual projects which go beyond the traditional concept of film and TV productions, in particular interactive multimedia products such as transmedia or video games.

[18]Steenblik stressed the importance of direct subsidies but noted that other, indirect subsidies would also play an important role as they would bring regulatory relief to suffering industries: "Many subsidies are indeed provided in that form, as grants or, more generically, direct payments. Grants are the elephants in the subsidy zoo: they are large and highly visible. But there are numerous other subsidy beasts which are better camouflaged, stealthier, and keep closer to the ground" (Steenblik, 1990). Any of these kinds of financial transfers aim at (re)funding the operational activities of companies the market does not efficiently allocate for and, importantly, governments and other stakeholders would have an interest in to be supported.

[19]Rather little is still known about these "mandatory investments" for film. These are compulsory interbranch financial transfers. Organized by public authorities through binding legal agreements, they can take the form of (a) an implementation of a specific tax or levy to finance a national film fund or (b) a legal definition of mandatory investments into film production.

5.4 The Politics of Subsidy

If state aid is politically approved—and policy history and market imperfections are not, in themselves, a sufficient condition for concluding that financial support is warranted—regulators face the obvious choice of publicly financed subsidy approaches, either through direct cash injections, indirect cash advantages, anti-trust policies as means of regulatory state action, or, most likely, a combination of these. When society's goal is to raise the welfare of an individual, household, organization, industry, or society at large, regulatory action may be taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding social and economic matters.[20] Financial subsidies to film, on their part, typically seek to balance the objective of promoting economic competitiveness in the media grid with the wider objective of securing cultural diversity and wider social benefits. Supportive governments then need to organize that the range of films on offer should be broad, varied, and of high quality. The public should have access to films regardless of where they live and irrespective of what platform they want to use. Public film policy via subsidies should support both ambitious and artistic filmmaking as well as foster their commercial opportunities. It would be in the society's best interest if public subsidies strengthened diversity in media and opinion, motivating the production of high-quality content, and supporting its delivery and consumption and across borders and ideologies. Two basic schools of thought have emerged on regulatory policy, namely, *positive theories of regulation* and *normative theories of regulation* (Frey, 2011). Positive theories of regulation examine why regulation occurs. These theories of regulation include theories of market power, interest group theories that describe stakeholders' interests in regulation, and theories of government opportunism that describe why restrictions on government discretion may be necessary for the sector to provide efficient services for customers. In general, the conclusions of these theories are that regulation occurs because (1) the government is interested in overcoming information asymmetries with the operator and in aligning the operator's interest with the government's interest, (2) customers desire protection from market power when competition is non-existent or ineffective, (3) operators desire protection from rivals, or (4) operators desire protection from government opportunism.

Normative theories of regulation generally conclude that regulators should encourage competition where feasible, minimize the costs of information asymmetries by obtaining information and providing operators with incentives to improve their performance, provide for price structures that improve economic efficiency, and establish regulatory processes that provide for regulation under the

[20]In economic theory, the first fundamental theorem of welfare economics describes an idealized system of equilibrium conditions to efficiently coordinate economic activity (Pareto, 1971/1927). Markets that do not achieve this Pareto-optimality are said to result in market failure.

law and independence, transparency, predictability, legitimacy, and credibility for the regulatory system (See footnote 8).

5.5 Policy Designs and Objectives

When it comes to policy design, effective governance plans for supporting a whole industry will first have to identify the big picture when aiming to resolve an ailing or otherwise to be supported industry, all the way from setting clear and realistic objectives to measuring subsidy-impacted industry performance and output. Naturally, effectively designing these schemes is a very difficult task (Jordan & Turnpenny, 2015). While it is notoriously difficult to strike this balance in an ever-changing and highly dynamic media environment, policymakers may need to conciliate between the following motives—among others—behind public film policy and the subsidy rationale that emanates from them (Baldwin, Cave, & Lodge, 2010):

- Curbing the market power of dominant firms (e.g., by handing over subsidies to “weaker” newspapers)
- Enabling market access for new entrants (e.g., of nonprofit or not-for-profit organizations)
- Relieving financial distress to keep companies alive
- Supporting market exit (e.g., of failing companies)
- Supporting a political purpose (which need not be in the public interest)
- Supporting a national/regional/local culture and its linguistic representations
- Enabling growth and innovation plans of a media company
- Improving journalistic quality for general public benefit
- Encouraging political discourse and the formation of public opinion
- Protecting vulnerable values and groups in society (e.g., linguistic plurality and ethnic diversity)
- Strengthening of the national industry and offering incentives for newspapers not to relocate
- Safeguarding political plausibility and civic support

5.6 Subsidy Effects

Clearly, evidencing the *economic impact* of film subsidies has recently become a first-order rationale for governance and state intervention, if not their raison d’etre in times when film culture is considered as belonging to the “creative industries” (*Hesmondhalgh,* 2012).

Although creating benefits from subsidies to culture is far from being a new academic proposition (Heilbrun & Gray, 2001; Throsby, 2001; Towse, 2010), the effects debate warrants much closer study from the perspective of media policy and governance research.[21] Why should government subsidize film? What are the effects of these subsidies? And is a focus on narrow economic benefits of subsidies to film sufficient? Does it not need bigger picture that includes the effects of culture as well? Certainly, effective governance plans for supporting a whole industry will first have to identify the key drivers when aiming to resolve an ailing or otherwise to be supported industry, all the way from setting clear and realistic objectives to measuring subsidy-impacted industry performance and output.

Still, in Europe, film and cinema is conceived more as an art form than as a business. And this is why we believe that one-sided arguments exclusively employing economic effects ignore an extremely important area: film production has cultural value, and the wider effects to culture and society effects *must* be considered equally when evaluating the overall effects of subsidies to film and film production.[22]

Hence, the economic effect, which can easily be counted and quantified, has become a sole yardstick for legitimizing state aid for film to the industry. However, is evidencing film subsidies on purely economic reasons sufficient for legitimating film funding as such? Publicly funded film is under more pressure than ever to quantify the social benefits it brings, as would be done for schools and hospitals. But isn't the crucial role of art to challenge the way society is run? Again, we wish to stress that when film funding seeks legitimation for its action and yardsticks for the success of its work, an integral approach revealing both economic *and* cultural impacts is much more useful. This involves tools for informing, monitoring, and controlling subsidy effects on each side of the equation, hence the design of an "evaluation toolkit" for State aid for film. To our knowledge, such a unifying toolkit does as yet not exist.[23]

6 The Purpose of This Book

This book presents interesting puzzles and illustrates the many problems of public funding for film such as industry change, digital transformation, regionalism, cultural diversity, the "Hollywood factor," alternative models of film funding, gender equality in film production, shifting audience tastes and consumption behaviors, governance efficiency, and more. Based on insights from fields such as cultural economics and studies in public film policy, the authors illustrate how technology and industry change shape both the financial fitness of film and how public film funding can promote both cultural diversity and economic efficiency of

[21] Surprisingly, however, the practice of public subsidies for cultural activity is said to lack a rigorous and consistent economic rationale (Aubert, Bardhan, & Dayton-Johnson, 2001).

[22] On top of this, a purely economic position also ignores the fact that intra-sectoral competition for subsidies among the creative industries has intensified. Who will receive the funds which become increasingly scarce? Theaters, opera houses, museums—or film?

[23] Some attempts are visible: Kumb, Kunz, and Siegert (2016), Kumb (2014).

national and international film industries. It shall help both scholars and practitioners in the film industry to understand the complexity of issues and the requirements necessary to preserve the social benefits of public funding schemes for film.

Arguably, current policy support schemes to film media seem particularly challenging, intrigued by positive, negative, and ambiguous effects on all stakeholders involved. This is not only because European media policy consists of a complex maze of stakeholders, regulatory instruments, and diverging interests (Donders, Loisen, & Pauwels, 2014). As described above, this is due to the fact that the art~~s~~ and culture of filmmaking is presently facing a plethora of profound, if not disruptive, challenges that seriously threaten their long-established ecosystems and so the industry's continued financial viability and competitiveness (European Commission, 2012). Certainly, the "screen art industry" has always been powered by the capabilities of currently available technologies. Be it about the invention of the color television, the progress of cinema-related technology, special effects capabilities, and now virtual reality powered video/movie experiences—the adoption of new technology is clearly impacting the way movies are produced and consumed and other video-related entertainment products.[24] But, would we know how film media will look like in a few years from now, driven by radical technology innovation, increasing audience fickleness, and new financing models shaping industry architectures and business models used within this converged media ecosystem, under the impact of globalization, with China being the "new Hollywood" in filmmaking? (Bao & Toivonen, 2015; Peng, 2015; Richeri, 2016). It is clear that these disruptive potentials, arising from technological convergence, digital transformation, industrial globalization, and audience fragmentation, evoke a nexus of research dimensions. These encompass issues of technological change and innovation; effects of the convergence on filmmaking, distribution, and exhibition; effects on the industry structure and the competitive behavior of market players and their new rivals from outside the industry; the ever-more-important changes in audience behavior; and the creation of public policies to protect consumers and promote high-quality productions.

State aid for film wishes to amplify the discussion on public subsidies for film from various international perspectives. Given the different methods in theorizing, development, realization, monitoring, impact measurement, and evaluation of policy concepts, programs, institutions, instruments, and impacts, this debate is not only of interest for academics but also for policymakers in the field. While creating artistic, cultural, and socioeconomic value from subsidizing film media is far from being a new academic proposition (Lange & Westcott, 2004; Newman-Baudais, 2011; Nielsen & Linnebank, 2011), *State aid for film* offers a much closer study from the range of new perspectives. These include:

[24] Arguably, "Hollywood as we know it is already over," "with theater attendance at a two-decade low and profits dwindling" (*Vanity Fair*, 2017).

- Understanding the changing role of film subsidies as an important policy tool vis-à-vis the market entry of new players from outside the traditional film media industries are increasingly "colonizing" the location in which contemporary identity, culture, and core values and norms are contested
- Exploring how media convergence, globalization, and consumers turning away from legacy channels are major drivers of industry change as new digital distributors of film have emerged, crossing national borders, making media policy in the information society increasingly a transnational concern
- Investigating the quantity and quality of public support for film media as prerequisites for cultural diversity, European integration, and economic sustainability in times of growing media concentration, technological disruption, and political polarization
- Innovating academic discourses on film policy in making them more pluralistic, improving the quality of policy designs, strengthening the validity of evaluation mechanisms, and thus increasing outcome efficacy and their fitness to reach their objectives
- Evidencing the effects of film subsidies on various levels: the industry, the film producers, the creative staff, etc.
- Evaluating the efficacy and existing funding instruments and tools offered, the governance processes and their political framing, and the outcomes and effects of these schemes' efficacy on culture, the society, and the economy
- Analyzing potential biases between purposing, policy transfers, and controlling of these schemes and the challenges to "good" governance and policy quality arising from them

To conclude, the book provides a comprehensive analysis of today's global challenges in the public governance of film funding and hence stresses the necessity of *State aid for film* as an important tool for strengthening media diversity as it stresses film as both a cultural *and* an economic good in a modern democracy.

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State Aid for Film: A Synoptic Overview of Current Issues

Paul Clemens Murschetz and Roland Teichmann

State aid for film is a contested terrain, stricken with many challenges and threats to industry, filmmakers and government administration. However, it remains a pivotal tool for cultural diversity in the field of film media and other audiovisual services. This chapter provides a synoptic overview of key issues covered in the book.

Part I (*Exploring Scholarly Themes*) of this book will then introduce the reader to some more theoretical reasoning surrounding *State aid for film*, supported by explanations from disparate academic fields such as cultural economics, media economics, governance studies, public policy and finance, governance studies, management studies, and thereby systematize, link, and extend familiar definitions, characteristics, types and dimensions of film subsidies from extant conceptualizations in these fields.

As indicated above, it is this nexus of considerations that motivates the book as a whole and this part of the book in particular. We start with an introduction to the economics of film financing (Chapter "The Economics of Film Financing: An Introduction"). There, the author explains the structure of film project financing and the issues stemming from the uniqueness of each project, the ephemeral nature of the product and the unequal distribution of expenses on the timeline. Further, it explores the role of risk in studio decisions and in financing arrangements, explaining why it is that sequels are the "holy grail" of movie studios and why they are not cofinanced. Finally, it discusses state subsidies to movies by analysing the difference between expense-based subsidies as offered in the US and quality-based subsidies' model used in many other countries and argue that the latter may be inferior due to the so-called agency issues.

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Part I continues with offering a topography of issues regarding private equity finance and the role private investors play when financing film in Europe (Chapter “Private Equity Finance: The Role of Private Investors in the European Film Market”). The author explores the conditions under which a more active role of private investors may substantiate the external financing of the European film industry. In Europe, this industry is characterized by its reliance on public support schemes. While the existing market structure of the European film industry—strong prevalence of SMEs and mid-cap companies—and the nature of the production function might justify a public-sector intervention, this chapter argues that the characteristics of the financial markets in Europe, mainly based on financing by banks, have not facilitated the emergence of an active private class of investors.

Then, it opens the discussion of subsidies for film from a policy perspective as applied in the European Union and surveys the different macroeconomic policy approaches that guide it (Chapter “Film Governance in the EU: Caught in a Loop?”). There, the authors discuss film governance in Europe with a specific focus on the normative and structural conditions for public funding that is the role and place of film as both a public good and a market factor in the historical development of film policy in the European Union, underpinning regulatory principles and cultural values. The discussion maps the drivers and brakes in publicly funded film policy since the conception of an EU wide policy, drawing the directions it has taken, leading to the current challenges exacerbated by the financial crisis. They show that market orientated and cultural-focused tensions have underpinned the governance of film throughout its history in the European Union, bringing about a “loop” effect and a cyclical logic that, despite having created important economic and intellectual capital bases, have failed to move policy thinking forward.

Further, it discusses an integrative framework of connecting the concepts of “governance”, “public interest”, and “public film funding” (Chapter “Governance, Public Interest, and Public Film Funding: Discussing a new Theoretical Framework”). More specifically, the author suggests applying an integrative analytical framework for investigating social order and policy processes to the analysis of film funding policies by integrating six dimensions of governance: *ideology*, *institutions*, *level of policy activity*, *stakeholders*, *mechanisms of operation* and *policy products*. The chapter briefly reviews the literature on the governance of culture and film and discusses the extent to which the framework is suitable for effectively analysing the governance of film. It is suggested that the six dimensions—and in particular the stakeholders and the level of policy activity dimensions—are the most relevant to the analysis of the culture and film sector.

Then, the book enters the “effects debate” which explores several theoretical approaches that can be employed to measure the performance of the movies and to assess the main factors that may influence their performance (Chapter “State Subsidies to Film and their Effects at the Box Office: Theorizing and Measuring Why Some Genres do Better than Others”). The authors focus on evaluating the impact of public intervention into the movie performance and its effects on genre success at the box office. From an empirical perspective, we provide some examples to highlight the impact of public subsidies in the movie performance in Italy. To this aim, we consider quantity (box-office revenues) and quality (film festival awards) as two separate indicators. Specifically, public subsidies and movie genres are employed as explanatory variables to investigate the impact of public intervention and film genre on the movie performance. In this respect, we use specific methods, such as fixed effects approach and count models, in accordance to the type of the dependent variable under investigation. The findings show that although public funding has an overall negative impact on quantity and quality, there are some differences when considering public subsidies by genre. On balance, there is statistical evidence that dramas and thrillers are the genres that should be primarily financed by public agents.

The debate on film subsidies is further widened by a chapter that explores key issues in film financing from the perspective of organizational economics (Chapter “How Film Financing Shapes Project Strategy: Applying Organizational Economics to a Case Study in Norway”). It examines the contractual relationships between investors and producers and analyses how these relationships affect the formation and implementation of a single film project strategy. The author argues that contracting problems can arise as a “natural” part of the financing process and can harm the project strategy in two important ways: (1) through an incomplete alignment of objectives, which may lead to the formation of ambiguous strategies, and (2) through a weak governance structure with insufficient contractual safeguards for the strategy implementation, which may result in deviations from the agreed strategy. Based on an examination of these two problem areas, he suggests a contract-dependent model that leads to four generic film project strategies and further discusses the performance implications for each of these. Finally, to demonstrate the likely effects in a Scandinavian context, the author applies the model to a case study of the current Norwegian film support system.

Theoretical issues are eventually rounded off by discussing the issue of film and risk as confronted by the “Hollywood system” managing market uncertainty (Chapter “How Hollywood Applies Industrial Strategies to Counter Market Uncertainty: The Issues of Financing and Exhibition”). The authors analyse how the major “Hollywood studios” try to contain the risks inherent in film financing, production and distribution and consider how these industrial practices influence the development of specific format genres. They reaffirm De Vany’s (2004) observation that while these practices are designed to reduce uncertainty in the film industry, they actually result in homogenizing film production with a focus on some specific genres and established intellectual properties. The authors also find that digitization has reduced financing uncertainty even further.

Part II (*Analyzing Current Practices*) features a selected range of case studies on the provision of film subsidies, their governance and effects on affected markets. The selection of cases was pragmatic in as far as it has picked cases on the basis of two criteria: (a) availability and accessibility of data which was guaranteed by the authors originating from the countries they authored and (b) external validity (albeit not being comparative and built on multi-case study logic) in order to reveal critically interesting experiences of a nation, i.e. lessons to be learned from different regulatory practices from these countries.

Part II of this book starts with key statistics on public film funding for film and other audiovisual works in Europe, collected and edited by the *European Audiovisual Observatory* (Chapter "Public Funding for Film and other Audio-visual Works in Europe: Key Industry Statistics 2010–2014"). The authors, both film industry analysts at the observatory, analyse the development of the structure and volume of public funding between 2010 and 2014. They looked into three indicators more deeply: the funding body population, *public funds' income* by type of financing source (government budgets, levies, etc.) and *public funds' spend* by type of supported activity (film production, distribution, etc.). They found that the number of public funding bodies in the 35 European countries covered remained stable in the time period covered. Although the overall public funds' income adjusted to inflation increased over the period 2010–2013, it declined somewhat in 2014, as contributions from government budgets no longer compensated for declining broadcaster contributions. Funding body spend on the other hand increased steadily and was mainly dedicated to support the development and production of films. Public support to theatrical exhibition, promotion activities, structural funding, audience development, training and video games, however, grew above average.

The next chapter (The European Commission's Approach to Film Funding: Striking a Difficult Balance) looks to the challenges the *European Commission* faces to developing European-level policies for film funding that keep up to the promise of promoting cultural diversity in Europe. It highlights the difficult balance struck by the *Commission* as it has to satisfy different worlds at the same time. Between developing its own support via the MEDIA programme and reviewing Member States' financing schemes, the *Commission* sees itself continuously challenged in its attempts to meet its grand objective of realizing a digital single market for films. Maintaining the carefully struck balance between the different (industrial and cultural, national and European) interests around the table comes at a cost. For the time being, the authors conclude that this tension between policy integration and fragmentation will remain a substantial one.

In their chapter, Tim Raats, Ilse Schooneknaep and Caroline Pauwels (Supporting Film Distribution Across Europe: Why Is Overcoming National Barriers so Difficult?) ask the question why overcoming the national barriers to film distribution is difficult. They describe and evaluate how distribution support in the European Union has evolved since the 1980s. Their focus is on small media markets in particular which traditionally lacked forms of distribution support across their national borders. Still, the authors find clear improvements of smaller nations in developing support mechanisms that target both domestic *and* cross-border distribution. Nevertheless, there is a long way ahead as domestic production remains the dominant support focus of national film funds in general, with distribution support being restricted to promotion and marketing rather than substantial support for theatres, retailing and online distribution.

Next is a contribution on the legal framework of *European Union* (EU), presenting state aid rules within the audiovisual sector (Chapter "Film Funding Law in the European Union: Discussing the Rationale and Reviewing the Practice"). Building on existing scholarship, the author explores the implementation of these EU state aid rules and discusses the *European Commission*'s approach to Member States' support schemes aimed at sustaining film production and post-production activities. It highlights trends and patterns in film funding within the European Union and investigates to what extent EU State policy has contributed to the flowering of cultural diversity in the film sector. The author argues that the EU's state aid control has become a highly politicized field, and the *Commission*'s reasoning is vested of clear cultural policy objectives.

Part II then turns to single case country analysis of *state aid for film* in selected countries across the globe. The first case is Australia (Chapter "Public Film Funding in Australia: Recent History and Empirical Analysis"). The authors begin with a detailed historic overview of funding arrangements and the eventual role of public money in the film industry. Particular attention is given to the tax incentives offered under the 10BA scheme (where tax deductions as large as 150% were offered, alongside a 50% tax haven on royalties), the "two-door approach" funding provisions under the *Film Finance Corporatio*n (FFC), and the more recent *Producer Offset* scheme operated under *Screen Australia*, the Federal government agency charged with supporting the development, production and marketing of Australian screen content, as well as for the development of Australian talent and screen production businesses. On top, the authors offer an empirical investigation building on research by McKenzie and Walls (2013). There, they develop a so-called hedonic box office model of demand, a model that correlates successful films to those that received public funding. The model is tested against data of public funding on box-office revenue performance of Australian films in Australian cinemas over the years 1997–2015.

The second chapter, *Exploring the Ecosystem and Principles of Austria's Film Subsidy Schemes*, will look to the governance activities of Austria, the editors' home country, which has introduced government subsidies to film only late in 1981, at a time when other European countries had long arrived at considerable levels of financial support for their film industries. Presenting descriptive case study evidence, this chapter offers a synoptic overview of current institutional practices of governing public film funding in Austria. In their chapter, the authors open the discussion on state subsidies to film in a two-pronged way: In the first part, we deliver a synoptic overview to the supply of financial subsidies to film in Austria. We first take an "institutionalist view" and mainly describe the funding principles of the *Austrian Film Institute*. Doing so, they critically appraise the scheme's stability in safeguarding the development of original films in the country. In the second part, they argue more theoretically and posit that the subsidy discourse is too narrowly focused on the different technicalities and governance structures and processes, and, notably, the intended effects subsidies should have on the players involved.

We find that while subsidies have remained the main pillar of the country's quest for diversity, more attention should be given to funding concepts that support less "market-driven" productions, that is, independent, original and high-quality productions and the effects these have on film culture and society at country's film producers albeit limited resources and low funding levels overall; the debate needs to be redirected to the specificities of understanding the wider cultural effects of government subsidies to film. They believe that more attention should be given to research and practices of the cultural and societal impacts of these schemes, other than the direct production-related and exploitation-related impacts which the schemes address. Hence, they argue that the purpose of subsidies needed to be redefined in that their value was not only economic and hence contained within budgets but that benefits were rather indirect and "cultural". Repurposing these schemes would naturally lead to "cultural enrichment" resulting from collective interactions between governance and the market players, that is, filmmakers, artists and other cultural professionals.

The following chapter *Film Subsidies, History and the "Economization of Culture" in Austria* will intensify this debate. Coning as an expert interview, it critically positions government intervention for film media alongside the overriding theme of the "economization of culture" and the "corporatization" of film as entertainment media today, a trend which seems to focus on delivering audiences to advertisers and audiences as consumers and not delivering content to audiences as critical publics.

Next is Germany, Europe's largest economy (Chapter "Public Film Funding under a "Federalist Policy Paradigm": A Synoptic Analysis of State Aid for Film in Germany"). The German system of public film subsidies is unique in Europe. Germany maintains a multilevel system of film subsidies. On the federal level, the *German Film Board* provides funds, mostly money that was collected from the cinema owners and the video distributors. An agreement between the film and the television industry provides additional funding. On the *Länder* level, there are more institutions for film support, and usually they are connected to the requirement of using their locations. For many film production funding is provided from different levels, including also the European money. Hence, Germany combines high levels of funding with a decentralized governance structure through regional funding bodies, best described by the "federalist paradigm" of governance. In this chapter, the author provides a synoptic overview of Germany's public film supply support schemes from an institutionalist perspective and critically discusses their efficacies under a decentralized governance paradigm. In Germany, public subsidies for film are both selective ex ante grants to filmmakers and ex post grants handed out automatically for new film projects once a film has become successful in cinemas or festivals. Subsidies are administered both on federal and regional level and aim at correcting market failures and safeguard the surplus value of film as both economic good and cultural artefact. However, the author argues that specific subsidy tools hardly achieve planned policy goals. Results show a basic instruments-effects bias in various schemes. The underlying deficits need to be addressed should the schemes become more effective.

The next case study chapter is on France (Chapter "France's Protected and Subsidized Film Industry: Is the Subsidy Scheme living up to its Promises?"), *the* most prominent example for a highly interventionist or film subsidy culture in Europe. There, the government has long adhered to an *étatiste*-interventionist tradition of promoting diversity and quality in film where government subsidies have come to be a *raison* d'être for the film industry. Indeed, the French state aid framework for the film and audiovisual industry is among the most comprehensive in Europe. It is also endowed with the highest financial resources in absolute terms. While direct aid distributed by the CNC (National Film Board) and the French regions remains the most visible component of this scheme, this aid has been increasingly complemented with more indirect financial mechanisms and notably by tax incentives. State support includes a generous and wide-reaching subsidy programme for cinema and video worth roughly 2 billion euros yearly across all the different types of subsidies provided. The authors claim that the scheme's efficacy delivers mixed results. While a complex support framework has helped building up a strong French film industry, a success which can be greatly be attributed to the measures taken by the *National Film Board* (CNC), in which grants and public subsidies co-exist with tax incentives directed at private investors, we find, however, that the subsidy scheme does not live up to its promises with regard to audience attractiveness and demand. As a result, the authors consider it both being too complex and expensive as well as too ineffective.

The book will then focus on Italy (Chapter "Government Failure: The Ineffectiveness of Italian State Subsidies to Film"). The authors argue theoretically and investigate the degree to which state film subsidies actually help films at the box office: Did audiences get to see and appreciate films that otherwise would not have been made? While recognising the complex political and administrative context, the authors suggest that the public subsidy regime in Italy between 1995 and 2003 failed to assure the development of an industry as intended, since in an overwhelming number of cases the film revenues of those films supported were not sufficient to cover production costs, even when supported by a subsidy. Drawing from a variety of publically available sources, the authors constructed a dataset to estimate the profitability of films both supported and not supported by state aid in the Italian market. Building on *public choice theory* (Buchanan, Tollison, & Tullock, 1980; Congleton, Hillman, & Konrad, 2008; Tullock, 1967, 1987), and the theorem of *government failure* (Dollery & Worthington, 1996), the authors' approach differs from that of others in that it measures the success of films in the market by the revenues they generate. By factoring in costs of production, a better idea of the costs to society of subsidizing film production can be established.

Next, Korea's film policy offers a story of great interest for the design of cultural policies. Since the 1960s, most Korean governments have actively intervened in order to promote and protect Korean culture—a line not much different from the one adopted in certain European countries, such as France (Chapter "Evaluating the Effects of Protectionism on the Film Industry: A Case Study Analysis of Korea"). In his chapter, the author assesses whether Korean film policies have been instrumental for the success of the Korean film industry. The major finding of this analysis is that protectionist policies in the film industry have played an insignificant role. First, the import quota regime did not limit the size of the Korean audiences that watched foreign films but rather strongly induced Korean filmmakers to produce poor-quality movies. Second, the screen quota system has not ensured that the domestic audience will watch these movies. Finally, the subsidy policy was barely noticeable before the late 1990s and is now too late and too small to be credited for any significant impact on the success of the Korean film industry which began from the early 1990s. The author suggests that business activities under market-friendly conditions are the key factor towards enhancing competitiveness of the film industry. Furthermore, it recommends that policymakers in other countries review their own policies that advocate protectionism as a way to make their film industry more competitive and attractive.

Some more light shall then be shed on the surging film industries within Latin America, and the role of film subsidies play as an essential component in fostering a continental film industry under the reign of national governments (Chapter "Diversifying Public Film Funding Policies across Regions: The Case of Latin America"). The author examines the histories of various film institutes throughout the region to understand how these state-run funding bodies have diversified their roles and policy mechanisms throughout the region in order to help sustain national film industries. The state has been fundamental in enforcing laws to help foster national film industry growth through film institute programmes, support to the private sector via legislation and funding to film schools. Moreover, more recently, it has boosted its assistance in marketing and branding national cinema, along with its commitment to foster transnational exchange with the Ibero-American film finance fund, *Programa Ibermedia*. Methodologically, the research takes a historical and comparative approach to various state funding mechanisms, with an emphasis on the most established industries, Argentina, Brazil and Mexico. The author argues that neoliberalism, or the shift from a state-funded system to a privately owned market economy, is not solely an economic policy but also a cultural one. As Latin-American public film policies have turned neoliberalist, they have taken on branding and marketing policies as dominant ideology.

More pragmatic in tone, the next chapter on New Zealand explores the current public subsidy schemes available for both domestic and international feature films in the country (Chapter "Feature Film Funding between National and International Priorities: How does New Zealand Bridge the Gap?"). By taking an institutional political economy perspective (e.g. Cunningham & Flew, 2015) this chapter explains the priorities, rationales and motives of relevant ministries and agencies in New Zealand to support certain public funding schemes for feature filmmaking and illustrates how public spending shapes the financial fitness of the New Zealand feature film industry. The author analyses the public funding schemes for domestic feature films offered by the *New Zealand Film Commission* (NZFC) and the ministerial funding schemes. The author evaluates the economic argumentation used by the NZ government and some Ministries to support public funding schemes for international productions. Research findings indicate that New Zealand's film industry and institutions are affected by the particular priorities of changing governments. Importantly, the author discusses how public spending and priorities shape the financial fitness of the New Zealand feature film industry and the kinds of benefits and unfavourable consequences that international productions can bring for such a small host country.

The next chapter will show how Spain tackles state film funding. Spain has undergone various phases of subsidy regimes, but the two governments, the *socialist period*, named as the "Golden Age of Cinema" (2008–2011), and the *popular party period* (2011–2015), when the public funding was reduced at minimal and spending cuts in public film funding pushed the industry into a crisis, seem to have been the most significant. The present chapter on *Regulating the Mandatory Participation of TV Networks in Financing the Movie Industry: The Case of Spain* goes back into the year 1999 and presents evidence of government intervention into the Spanish movie industry by means of "mandatory transfers" from broadcasting to film. In 1999, the Spanish Government mandated that operating TV networks invest three per cent of their receipts on the production of movies in Spanish language. Using data of Spanish movies produced between 2000 and 2008, the authors study the empirical relationship between TV network participation on movie production and box-office success and find that private TV network participation (as opposed to public networks) through production (and not distribution) is associated with higher box-office revenues and gross profitability rates, even after controlling for movie production budget.[1]

The following chapter deals with the *Public Film Policy and the Rise of Economic Principles* in Switzerland. Switzerland is a specific case in point. Film production in Switzerland is particularly challenging in view of the country's geographical, cultural and political specificities. The country is small in size and consists of three linguistic regions with their own cultural specificities, each of which is deeply influenced by the film supply from large, neighbouring countries. On top, it was recently excluded from the EU's MEDIA programme, designed to support the European film and audiovisual industries. This stopped Swiss filmmakers to access important European funds. This chapter first contextualizes these problems as structural barriers that Swiss producers, distributors and policymakers are confronted with. Then, it provides data concerning the Swiss film market, and it describes the national film policies adopted by the Federal government to support film production. Finally, it analyses a new fund created in July 2016 to finance national films and international co-productions shot in the country. The chapter suggests that, through this policy innovation, Switzerland is cautiously shifting from a public funding policy scheme exclusively based on cultural premises towards one that values film production as a means for economic growth. This unprecedented policy shift brings Switzerland closer to other European countries, which have been following similar trends for many years.

[1]Other studies, in contrast, have shown for Spain that awards positively affect movie production while subsidies have no effect (Agnani & Aray, 2010).

Similarly, the United Kingdom (Chapter "Film Funding in the United Kingdom. The "Corporate Welfare System" and its Discontents") is notoriously critical towards all proposals to directly intervene into its film industry. Apparently, British regulators have proved the most skillful in playing a regulatory system of *official* non-intervention into film, thus rejecting the interventionist approach to sustaining film diversity by direct subsidies in many other European countries. The British contribution maps public funding for film in the United Kingdom and explores some of the contradictions between stated policy aims and outcomes, particularly on the issue of "creative labour". Via the now well-established and relatively substantial public funding systems for film production that exist in the United Kingdom, considerable public funds are directed towards transnational corporate interests and their national partners, a policy approach that we call "a corporate welfare system" for the UK film industry. This system has had considerable success on its own terms, leveraging massive investment into the UK film infrastructure, and has provided a blueprint for the economic development of other creative industries. However, it has also hindered wider policy commitments towards diversity and equality in the film workforce. It is argued that policy objectives to improve opportunities for underrepresented groups such as women, ethnic minorities, disabled people and people of working class origin are unlikely to be successful unless more direct interventions can be developed.

Part II continues with presenting possibilities to publicly intervene into US American film media (Chapter "Beyond the "Studio System": Public Support for Films in the United States"). It first contextualizes the overall development and structure of public arts funding in the United States, followed by a discussion of how public monies impact on both commercial and non-profit film industry players. Research focus is on subnational cultural policies given the proportionally larger role that subnational governments have upon direct spending for the arts. The authors find that state-level public incentive schemes intended to lure film production have mixed results and, arguably, create more costs than benefits for states providing them. Deeper analysis is conducted on the population of non-profit film organizations using the theory of organizational ecology and data obtained from Southern Methodist University's *National Center for Arts Research*. Results of the data analysis found California and New York to be centres for non-profit film organizations, although 58 per cent of non-profit film organizations are based elsewhere. Population patterns also appeared to correspond with the emergence of state-level public funding programmes, suggesting that public support for films can stimulate the birth of non-profit film organizations.

Part II closes with two chapters on film festival funding research. Both chapters examine state aid for film made available for organizers of film festivals, particularly in times when art cinema faces increasing pressures from the market logic of commercialization (de Valck, 2007, and 2013).

In their text, the authors (Chapter "Evidencing the Economics of Film Festival Funding: Do Government Subsidies Help?") report from a study on the economic situation of Austrian film festivals. On the basis of an Austria-wide online survey distributed to the organizers and attendants of the festivals that belong to the *Forum* *of Austrian Film Festivals* (FÖFF), they critically evaluate the changes film festivals have experienced over the past decade. Focus is on the modes of festival financing, the social status of employees and the direct, indirect and induced effects of the festivals per se and the festival tourism supporting the national economy. Then, the authors look into audience analytics of Austrian film festivals more carefully, looking into the socio-demographics, attitudes and behaviours with regard to cinema and film festivals, film consumption and media behaviour of Austrian festival-goers more deeply.

Part III (*Predicting Future Directions*) develops new perspectives of *state aid for film*. The contributions below attempt to define the context for films and audiovisual works in the future and to identify areas for reflection and indicate possible orientations on the future rules for any related state aid. In this part, the book aim at generating the scientific claim for analysing desirable future research thrusts to implications of film subsidies on the various targets of policy and research innovation.

In this part, the first article deals with gender inequality in the European film industry and outlines key findings of the international research report *Where are the Women Directors?* published by the *European Women's Audiovisual Network* (EWA) in 2016 (Chapter "Where are the Women Directors? Gender Equality for Directors in the European Film Industry"). It shows barriers to enter the industry and then focuses on the Austrian outcomes of the EWA study. Questions like the different perceptions of gender inequality by women and men, the number of female students at film schools, their shares of budgets, production funds or festivals are answered and compared to other international studies. In addition, recommendations are offered in order to address the challenges female directors have to face in sustaining their careers. We argue that the film industry will be strengthened, tolerance in our society encouraged and diversity represented more strongly if female directors' full potential is realized. We aim at providing evidence for the necessity of national and European policy changes regarding gender equality and call for action to change the status quo.

The book goes on with a contribution on digital video art and explores its connection to funding experimental filmmaking (Chapter "'Avant-Garde Film' Goes Digital Video: How does the United States Fund Digital Video Art and Experimental Filmmaking?"). It examines some of the history and theory regarding funding principles and mechanisms and aims at discerning changes in policy practices in the United States. The author argues that some of the aesthetic styles and content formats of digital video art and experimental film have been co-opted by both "mainstream" Hollywood cinema as well as by independent and do-it-yourself (DIY) video culture and claims that this process of technology-driven "mainstreaming" not only redefines the culture of digital video art and experimental filmmaking but also opens up new opportunities for the artist and, importantly, challenges the existing funding ecosystem. Relying on interviews with contemporary filmmakers, correspondence with funders and literature on the topic of funding in digital video art and experimental filmmaking in the United States, the author explores that public funding, in the US context, requires digital video art and experimental film artists to work with small budgets, piecemeal funding from local and private sources and support from academia.

Little surprise that the book then discusses the which extent to which modern movie analytics techniques can help us understand the success of movies, as measured by their box office or attributed *Oscars* (Chapter “Movie Analytics and the Future of Film Finance: Are Oscars and Box Office Revenue Predictable?”). Interesting lessons emerge from the authors’ analyses. Predicting box-office revenue on the basis of data available *before* the release of the movie remains difficult, even with state-of-the-art techniques. Prediction markets are a remarkably powerful tool at predicting success at *Oscars*. A moderate amount of controversy, as measured by the number of underlying themes raised by movie reviewers, may prove to be helpful in obtaining an *Academy Award for Best Picture*.

The next chapter describes the delayed emergence of an indigenous film production sector in Ireland and, as a direct consequence, the late emergence of support mechanisms for film production there (Chapter “An Irish Film Industry or a Film Industry in Ireland? The Paradoxes of Film Tax Incentives”). It discusses the establishment of the *Irish Film Board* in 1981 and the creation of a tax incentive scheme (*Section* 35) for investment in filmmaking from 1987. However, although both supports were initially largely focused on indigenous production, the chapter traces how they have gradually been reoriented to facilitate overseas (that is, mainly Hollywood) productions reflecting Ireland’s status as a competitor in the *International Division of Cultural Labour*.

The salient issue of tax incentive schemes for film production is further explored key in more international comparison in *Tax Incentive Schemes for Film Production: A Pivotal Tool of Film Policy?* There, the author reviews the historical origins and some selected issues of film incentives in the United States and compares them with developments in Europe. He also presents some current challenges in the context of their economic impact and efficacy and finds various difficulties in evaluating the effectiveness of the film production incentives in general. He further argues that these incentives, on both sides of the Atlantic, would not keep up with their promises. European and US policymakers suffer from this deficit.

Next follows a chapter on *TV Film Financing in the Era of “Connected TV”*. It raises the main question as to how “legacy” broadcasters may act and respond to changes in supporting TV film when the internet has changed and is further changing the definition of TV broadcasting (Chapter “Film Financing in the Era of “Connected TV”. How do “Legacy” Broadcasters Respond to Market Changes?”). Knowingly, “Connected TV”, sometimes referred to as “Smart TV” or “Hybrid TV”, is the new buzzword in home entertainment and includes a wide range of technical solutions that bring linear TV and the internet world together. TV sets are with added Internet connectivity, set-top boxes delivering audiovisual content “over-the-top” (OTT) to television, connections are offered to social media and networking services (“Social TV”), and viewers have the ability to interact with gestures and voice commands or use multiple screens (“Multiscreen-TV”) for audiovisual communication, etc. This chapter explores (a) the changing nature of the TV market in the light of digital disruption, (b) the potential impact these changes may have on financing film and (c) the key issues affecting the role of public broadcasting who are basically mandated by law to start up and refund (independent) film productions.

By offering two case studies from Germany and the United Kingdom, the challenges of public funding for supporting film production are illuminated. The study shows that the changes produced by media convergence create a complexity of business models and organizational strategies, in which "legacy" broadcasting maintains a partial immunity to change. However, while this creates opportunities in the long run, the market faces immediate challenges in generating sufficient digital revenues to replace revenues from physical formats. In the following, the impact on the funding model for film content will be examined, particularly the role of public funding and the importance of public service broadcasters within the media mix.

The book closes with a chapter on crowd-funding movies as an alternative way of refunding movie production costs (Chapter "Crowd-funding Movies. A Business Model Analysis from Strategic Management Studies"). Usually, such platform combines several types of funding, including sourcing the Internet community to gather small private donations, that is, a revenue stream which is typically named "crowd-funding". In this chapter, we apply the framework of business model analysis to review this crowd-funding mechanism. We describe the business model characteristics of several industry cases. Next, we decide whether such a crowd-funding platform can sustain itself and whether it is able to collect sufficient funds for the production of movies. We argue that the platform could obtain enough funds from the general public for smaller-budget productions such as short films or documentaries. A movie crowd-funding platform could also collect enough income from advertising to make itself sustainable. Charging a premium membership fee to movie producers would yield negligible revenues and is hence not advisable. Further, we find that the platform will never amass the needed production budget in a small market, especially for the production of long feature films. However, a crowd-funding platform could be more valuable when combined with other means of financing smaller movie formats and could perform a marketing purpose alongside its central crowd-funding role.

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Part I

Exploring Scholarly Themes

The Economics of Film Financing: An Introduction

S. Abraham Ravid

1 Film Financing: A Corporate Finance Perspective

This chapter will provide a corporate finance perspective on the financing of film projects. In the following, I will discuss how films get financed, compare film financing to the financing of other projects and discuss the incentives and issues involved. While the economic principles of film financing are general in nature, the examples and industry background are of the studio and independent films' scene in North America and in Europe. The financing and production scene is very different in "Bollywood" and "Nollywood" (Nollywood is the Nigerian film industry, turning out about 1000 films a year, on mini-budgets sometimes below USD 50,000 dollars but comprising 11% of total Nigerian exports) (Okeowo 2016).

Films are essentially production projects, similar to a new product line or a new restaurant. However, they possess some unique, important characteristics. They are expensive commodities. The MPAA (i.e. the *Motion Picture Association of America*, the American trade association that represents the six major Hollywood studios) stopped providing average films' budgets a few years ago, but the top films in 2016 such as *Rogue One: A Star Wars Story* routinely cost USD 200 million or more to produce, excluding advertising and distribution expenses. Yet each project is unique. Whereas the essential attributes of most commodities can be easily described and measured, this is not the case for movies. However, at each moment in time, studios must select projects from among many competing proposals. The exception that proves the rule is the scramble for sequels—if a successful formula is found, it must be tried again. The hype involved in any release of a new film is often heightened by the participation of a major star or by expensive and unusual special effects (examples of movies of the latter type include *Jurassic Park*, *Volcano*, *Twister*, *Titanic* and many others) (see discussion below).

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Until the 1950s movie production took place generally within a company. The Hollywood studio system hired stars directors and others on a permanent contract with the studio.[1] However, since shortly after the Paramount decision of 1948 which broke the Hollywood oligopoly on film production and distribution, films' cast and crew have been hired generally on a project by project basis (John et al. 2017).

Films are financed in similar and yet different ways than other projects. Some films are financed by studios and are similar to other corporate projects, say, a new line of clothing or a new line of cars—the company allocates a budget and finds a project manager (see John et al. 2017), i.e. a director, then they hire the cast. The only difference between industrial project finance and such movies is that in most firms most people who work on a project are employees, whereas as discussed, film cast and crew members are generally contract workers.[2] In many cases, there are joint ventures or alliances formed (Palia et al. 2008; Goetller and Leslie 2005) between studios or studios and financing entities (see discussion below).

Most films may qualify for some subsidies, which I will discuss later. Both studios and independent film companies naturally seek to maximize that portion of financing. However, whereas in the studio world there is a production line of films (typically a handful or up to 15 a year), in the independent films' realm, each project is a new enterprise, requiring several layers of financing. First, producers are looking for presales of rights. If there is such a possibility, then the film can raise a substantial portion of the budget (sometimes most of it, for low-budget films) early in the planning process. Presales can also be viewed as equity positions but with very few control rights. The sale is usually to "informed insiders", in other words, buyers who have a good sense of what the film is worth in specific venues or territories.

If state subsidies (to be discussed below) and presales do not cover the total budget, then producers need to find equity investors (in other words, people who will take the upside after all debt and other costs are paid). If there are equity investors, then one can obtain bank loans as well. Because films have essentially no salvage value (films are only worth as much as the rights—there are no assets to be recouped by creditors), financing with loans only is virtually impossible for individual film projects. Studios, which often are well-diversified companies, can issue debt and equity similar to any other firm.

The equity portion is difficult: sometimes one can essentially obtain equity from participants, i.e. decrease the upfront budget by paying talent equity shares in the resulting movie. This can serve as an incentive mechanism as well. However, since films are financed one project at a time, most actors and directors have sufficient incentives not to mess up; otherwise they will not be hired again.

[1]Public broadcasting corporations liked the BBC in Britain and SVT in Sweden still follow this model to some extent facilitating production by permanent employees working in-house (Küng-Shankleman 2000; Norbäck 2012).

[2]For a good overview of film financing, see Vogel (2014), or for the international scene, see Finney (2010).

In general, finance theory concludes that it should be difficult to issue equity in the presence of asymmetric information (see Myers and Majluf 1984) in movie financing this problem tends to be even more severe, as every project is unique, and information tends to be costly to obtain. Equity investors realize that in the totem pole, they come behind banks and other debt holders and very often behind participants. However, the structure of the contract in the presence of severe information asymmetries may be an added deterrence. A contract may provide equity investors with a share (or all of) the receipts in a specific territory or outlet in return for their investment. For example, I can invest USD 100,000 in a film in return for all receipts in Australia. However, while averages are available for everybody to see (industry sources and even the *Hollywood Reporter* publish a list of the average value of a film in a given territory), film-makers may have inside information about the potential value of a specific project. For example, they may know that Australians do not like the specific star employed in the movie because of some events or remarks he made or that comedies do not sell well in this specific territories.[3] Thus equity investors may take a much greater gamble than they bargained for. Otherwise equity investors receive just risky equity. It is of course possible to write a fair contract, and indeed most independent films do end up with some portion of equity investment. At the same time, recent history has seen all classes of equity investors disappear virtually overnight as losses mounted.

Historically, equity investors came in waves driven by herding and tax incentives. In the 1990s equity investors were often insurance companies. As these investments soured, insurance companies were replaced by German tax deals and Middle Eastern funds. About 10 years ago private equity funds entered the market. The latter tend to be more sophisticated and have continued to invest in the market, without spectacular failures (see Vogel 2014, "Film Finance: The Role of Private Investors in the European Film Market"). However, production companies are constantly on the lookout for "glory investors", in other words, people who will invest in movies because of extraneous reasons and thus will be willing to suffer lower returns. Weiser (2014) writes in the *New York Times* about a construction executive who invested USD 1.8 million in a film company that did not actually exist. I am cited in that story suggesting that it was easier to do that, than, for example, to obtain financing for a risky real estate venture (Weiser 2014).

Once an independent film project has obtained presales, equity investment and subsidies, it may be possible to obtain loans. As is always the case, loans are paid first, so that lenders are less concerned about possible low revenues. Bank loans always have covenants, and interest rates vary, but they are not dissimilar to loans extended to other types of projects, obtained from financial institutions or other third parties. The loans may be secured by presale contracts with respect to the film or by the general assets of the film production company.[4]

[3]That is why I separated presales to informed sales agents from equity investment in return for specific streams of potential revenues.

[4]A film production company may sometimes issue a security with a yield linked to revenues from specific films. The principal amount of such a security is typically due at maturity, and the security may have a low (or even nil) rate of stated interest. The security also usually provides for a

2 Co-financing, Strategic Alliances and Risk Reduction

Much of the literature in finance suggests that executives tend to seek safe projects, even when it is not optimal for their firm to do so (Smith and Stulz 1985; Demarzo and Duffie 1995; Ravid and Basuroy 2004). In the movie industry world of heavily skewed returns and revolving doors for executives (De Vany and Walls 1996; Weinstein 1998), such concerns are of paramount importance. Our 2004 paper (Ravid and Basuroy 2004) finds that studios (and their executives) may prefer safe, very violent projects to much riskier, but with higher expected return, family movies. Of course, the "holy grail" in this search are sequels and franchises (see also Ravid 1999; Palia et al. 2008; Bohnenkamp et al. 2015). It is not that sequels succeed better than the original film in the franchise. The typical sequel costs more than the original film because actors, aware of the success of the original movie, demand higher pay, and a sequel is typically not as successful as the original film with some exceptions. However, sequels beat a film based on a new original screenplay almost every time. During the twenty-first century, there has been a radical change exactly along these lines in the menu the studios offer to the public. In fact, the top ten films of 1998 include no sequels and few family movies. The same lists for 2014 or 2015 include virtually only franchises and sequels.

Another interesting aspect of risk reduction is the use of stars. Stars, on average, do not seem to change the financial outlook for films (Ravid 1999; Elberse 2007). However, we (Basuroy et al. 2003) find that stars can provide a revenue bump for movies that are panned by critics. This may not be the only reason to use stars in movies, but it is a strong rationale for the inclusion of well-known faces in the cast.

A major tool for risk reduction is co-financing (Palia et al. 2008; Goetller and Leslie 2005). We find (Palia et al. 2008) that most deals are structured "ex ante", in other words, before the film is produced. Palia et al. (2008, pp. 486–487) describe the possible arrangements: "A studio or a production company that decides to form an alliance can approach several types of partners. They may be another studio, a production company, or a dedicated financing partner. The agreements may be for one project or for several, and they take different forms. There are "one-pot deals" and "two-pot deals." In one-pot deals (also called "central pot" or "50–50" deals), the partners pool resources and share the revenues equally. Distribution is allocated by prior agreement. For example, *Warner Bros*. and *Universal Studios* agreed to split the production costs and the revenues of the movie *Twister*. A coin toss gave *Warner Bros*. the North American distribution rights and *Universal Studios* the foreign distribution rights (Welkos, *Los Angeles Times* 1996)".

In two-pot deals, typically the co-financing partners split the rights: one receives domestic rights and keeps all revenues from that source, and the other gets the foreign rights and all foreign revenues. An example of a two-pot deal is in financing of the movie, *True Lies*. *Twentieth Century Fox* invested about USD 80 million

supplemental (and perhaps increasing) interest payment that becomes due when a predetermined financial target (such as revenues or net cash proceeds) is reached or exceeded.

dollars in *True Lies* in return for the domestic rights; *Universal Studios* invested about USD 30 million dollars for the foreign rights.

Other types of deals may include more complicated slices of the revenue stream. One partner may acquire rights for certain territories only (say, Italy or France or Hong Kong) or television rights or sequel rights.

Ex ante contracting avoids the well-known "lemons" problem (Akerlof 1970), i.e. when a well-informed studio only offers the dogs for co-financing. The most interesting example in that respect is the financing of the movie *Titanic* (1997). As the movie was rolling behind schedule and over budget, *Fox* was looking for partners. At that point in time, it should have been clear to anybody that the inside information the studio had was negative. Therefore, the price they could expect to pay for sharing the risk would be very high. Finance theory predicts that at this point, since there was no credible way to convey significant positive information, the price they could receive for selling any rights would be too low. However, *Fox* went ahead and sold a significant share of the rights to *Paramount* for a fixed price, reportedly USD 65 million dollars, with *Fox* committing to complete the movie no matter what the total cost would end up being. Tensions and issues ensued, as the two partners had conflicting interests. In the summer of 1997, the studios had to postpone the opening of the film from the summer to December, because of technical issues (Einav and Ravid 2009). The *New York Times* reported: "Unspoken in the decision on a postponement, which was announced late Tuesday, were the tensions between the two jittery studios, *Paramount* and *Fox*, over a movie whose climbing costs, delays and flamboyant visual effects symbolize a season that seems to have as many thrills and chills off screen as on" (Weinraub 1997).

In retrospect, finance theory turned out to be right on the mark. For *Paramount*, the USD 65 million dollars turned out to have been probably the best movie investment ever made, whereas for *Fox* the opportunity loss was enormous. However, as mentioned, finding partners in mid-stream is rare, and most alliances are formed before one frame is shot.

In our 2008 study we used 275 films, produced and distributed by various studios and production companies. We looked through several data bases but also verified the financing arrangement for each film with industry professionals. The main classification we provided was of risk groups, according to ex ante characteristics. We found that PG-rated (family friendly rating by the MPAA) films and sequels tended to have significantly lower SD (Standard Deviation) and lower skewness than other groups and that these characteristics predicted a lower probability of co-financing. In other words, studios tend to co-finance their most risky properties. The risk tendency is more relative than absolute: in other words, each company co-finances the riskiest portion of their own portfolio, supporting the internal capital market theory in Robinson (2008). Starkly put, sequels are much less likely to be co-financed. We also find, as expected, that high-budget ventures tend to be co-financed more frequently. Sharing costs is an often-mentioned argument for alliances.

Table 1 is reproduced from our 2008 paper (Palia et al. 2008) and shows a time trend in addition to the variables mentioned. We also find that co-financed and

Table 1 Probability of alliance

Variable	Marginal effects	*p*-value
Intercept	−0.0083	(.9698)
Project risk		
PG-rated (relative to G)	−0.3861	(.0480)
PG 13-rated (relative to G)	−0.2241	(.2492)
R-rated (relative to G)	−0.0356	(.8547)
Sequel	−0.3361	(.0173)
PG or sequel		
Managerial bargaining power		
Director who won an Academy Award	0.0201	(.8780)
Director who is also an actor/producer/writer	−0.0397	(.5676)
Resource pooling		
Budget	0.0437	(.0556)
Budget^2	−0.0018	(.1439)
Market structure		
Herfindahl index		
Year 1994	−0.3594	(.0102)
Year 1995	−0.1505	(.2974)
Year 1997	0.2285	(.0646)
Year 1998	0.0852	(.5006)
Year 1999	0.1165	(.3128)
Year 2000	0.3657	(.0014)
Log-likelihood	−151.5492	
Likelihood ratio	<.0001	
p-value		
% predicted correctly	70.438	

single-financed films perform equally well, supporting Goetller and Leslie (2005). This can be interpreted as an encouraging message to the industry, as it is consistent with an optimal choice of financing structure.

3 Incentives and Subsidies

A most important element of film financing can be state support. State support takes several forms. One form can include direct and indirect grants of various kinds to selected projects. In such a quality-based subsidy model, there is a committee that selects which films to finance and the selected films receive some funding according to various criteria. The advantage of this model is that if the committee selects properly, then only worthwhile projects are funded. However, in reality, there are several problems with this form of subsidy. First, there is the constant conflict between selecting "artistic" "high-quality" films and crowd pleasers (an additional selection criterion in France or Australia). The other problem is a severe agency problem. Since there are few objective criteria at this stage of the game, this model is rife for various insider dealings.

The other model is an expense-based subsidies model of subsidizing every production that answers to some economic criteria (until a fund is exhausted). These criteria can include spending some money in a given territory and in turn receiving a subsidy or a tax credits which can offset this spend. Countries and states can be either very specific or very general in specifying criteria for funding, and studios get very creative in applying for support. For example, in one major Hollywood production all insurance payments were channelled to subsidiaries in a specific territory in order to bring up the amount the production money spent in that area and qualify for tax credits. In another case, an "Indie" film which obtained film subsidies in order to shoot in a specific territory, an expensive European country, built all the sets in a cheaper location and hauled them on trucks to the territory where subsidies were available for principal photography.

Although production subsidies are available in many countries and territories, in the USA subsidies tied to spending are generally the only form of support available. While this process frees the discussion from ideology and agency problems, it does create a race to the bottom and worse, if a territory keeps a high level of incentives for a while, people may decide to build a studio or other infrastructure in the area. However, as soon as some other state comes up with higher incentives, crews will flee and the infrastructure will have been wasted.

In general, incentives can be considered as a cash infusion to the budget with conditions attached. For example, Quebec recently advertised tax credits but limited the labour allowed for this tax credit calculation. A producer or a DP (director of photography) salary is ineligible for the tax credits, but assistant producer or set designer pay is eligible. Thailand has approved an incentive scheme (which is expected to become effective this year) of a cash rebate of 15% in cases where the local budget is at least 30 million Baht (as of this writing about USD 872,000) and another 5% if postproduction takes place in Thailand as well. South Africa provides rebates and incentives of 35% for local and co-production, 25% for foreign post and 20% for foreign production.[5] New Zealand provides cash grants as well as equity and debt funding (http://www.nzfilm.co.nz/funding).The details are confusing and require an accountant with film background to sort them out.[6]

There are several questions related to incentive strategies. One question relates to all state funded incentives. It is clear that if the price of shooting in Louisiana goes down, there will be more films shot in that state. However, the question is whether any additional jobs are created and even if the answer to that question is yes, does this "investment" of public money provide the highest return.

[5]Much of the information was distributed in the AFM (American Film Market & Conferences) in 2015 and 2014 (http://americanfilmmarket.com/).

[6]Some years ago some of my students in a film finance class had jobs with major film production companies calculating budgets net of possible incentives for each feasible location in which a movie might be shot.

However, the problem goes deeper. The subsidy game is a very dangerous game. Assume that state A provides incentives amounting to 25% of a film budget and state B's incentives reach "only" 20%. At the margin (of course, there are other issues, e.g. it is expensive to shoot a desert movie in the Amazon forest no matter how high the tax incentives may go). State A will attract more productions than it otherwise would, but if state B increases incentives from 20% to 28%, much of the business may move to state B. For example, just a few days after Governor Bobby Jindal of Louisiana signed a law capping production credits and changing eligibility procedures, the greater *Baton Rouge Business Report* came up with this headline: "Disney issues moratorium on new film projects in Louisiana; other studios may follow" (June 22, 2015; https://www.businessreport.com/article/disney-issues-moratorium-new-film-projects-louisiana-studios-may-follow).

The problem is exacerbated if a long regime of high rebates and incentives has led to investment in infrastructure, for example, studios or post houses. As soon as you start losing in the incentive game, business may dry out, and the expensive infrastructure will have been a wasteful investment. This creates a very interesting game. Once a state has built infrastructure, and the cost is sunk, and since the marginal cost of using production facilities is low and the return is high, such a state may optimally provide incentives which do not pay in the short run in order to subsidize the usage of the infrastructure in place. Here is a simple model: assume that the function g(X) represents the benefits of subsidies of X to the state (such as jobs, tourism or any other quantifiable benefit). Consistent with standard economic thinking, we will assume diminishing marginal returns, i.e. $g'>0$, $g''<0$. The cost of the subsidy is simply, dollar for dollar of lost tax revenues. So, a subsidy of X dollars costs X dollars. In this structure, the solution to the state's problem is very simple: provide subsidies as long as $g'>1$. Keep in mind that we make simplifying assumptions that favour the subsidy scheme, i.e. that there are quantifiable benefits and they can be precisely calculated. Now assume that the state built (or heavily subsidized) a studio to accommodate the needs of film-makers attracted by the subsidies. Then investment in the studio is sunk, and it is reasonable to assume that the marginal cost of using the studio is very low. For simplicity, assume a marginal cost of zero up to the capacity of S. It is clear that an investment credit scheme that will provide C dollars up to $g(C)'=1$ for all spend except studio usage and then an additional subsidy for E for studio usage as long as $g'(C+E)>0$ is optimal. The excess subsidy, E, where essentially a dollar of subsidy provides less than a dollar of benefits, represents the inefficiency related to the existence of infrastructure and incentivizes states to go "overboard" with generous subsidies. It should be clear that under this scenario and some mild assumptions, the studio should not have been built in the first place. The Isle of Man, for example, provides equity investment in films with no set limit. As we recall, equity is the toughest financing component to achieve. However, such commitments have enabled the island to develop into a major film hub (and a hub for other investments as well). Of course, while the economics are relatively straightforward, the politics of subsidies and in particular film subsidies are more complicated and can be very emotional. On one hand, everybody wants to see film stars in the neighbourhood, and on the other hand, cuts to *Medicaid* (government-run medical insurance for low-income families in the USA) coupled with films' subsidies can be viewed as a particularly frivolous transfer of wealth.

While the system of subsidies is flawed in many ways, the economic logic is still more compelling than the economic logic of film commissions that try to gauge the artistic and economic potential of a movie. By definition, such judgements are subjective and often mask political considerations. For example, screen Australia lists goals that seem to be quite general, in supporting the development, production, promotion and distribution of Australian screen content as defined on their website. Film boards can include government officials, in which case the political connections are clear, or industry professionals (as is the case for most board members in Australia) who have personal relations with many of the people who apply (screen Australia has a policy on conflict of interests).[7]

The French system is a complicated combination of direct support based on merit and "automatic support". Brody (2013) describes the system and its consequences: "When, as in France, the government is involved in the production of movies, the industry and the art become a matter of politics". In sum, there is no convincing scientific case to my knowledge for public support of movie production.[8] However, should governments decide to provide such support, standard finance theory suggests that governments should leave the equity position (or a big chunk of it) to the film-makers so as to provide the correct incentives, and they should provide a direct cash subsidy or tax incentives to all qualifying films. Choosing which movies to invest in, while in principle can serve a noble purpose, can often deteriorates into politics and does not provide the right incentives.

4 Conclusion

This chapter surveyed the main issues in film financing. I explained the structure of film project financing and the issues stemming from the uniqueness of each project. I explored the role of risk in studio decisions and in financing arrangements, explaining why it is that sequels are the holy grail of movie studios and why they are not co-financed. I then discussed state subsidies to movies. I analysed the difference between expense-based subsidies as in the USA and the quality-based model used in many other countries and argued that the latter may be inferior due to agency issues.

[7]For some examples, see Finney (2010).

[8]There is plenty of anecdotal evidence regarding films' contributions to a local economy, but not a rigorous cost benefit analysis of subsidies. For example, here is an April 13, 2017, release from the MPAA: "Production of Universal Pictures' *The Fate of the Furious* contributed over USD 65 million to Georgia's local economy, benefiting a wide array of local businesses across a number economic sectors, according to new data released from the studio. The film also employed over 1600 local workers, who took home more than USD 25 million in wages".

To conclude, movies will always require financing, although digitalization has lowered the cost of production and of special effects in recent years. Much of the financing, as discussed, is based upon a predictable structure of cash flows. This is changing fast. Particularly hard-hit are independent movies where presales served as an important, sometimes crucial, component of the budget. Presales estimates, however, are based on historical evidence. New distribution channels such as streaming are replacing DVDs and make predictions very difficult. Even worse, it seems so far, that streaming will lower the ancillary revenues (which for most films are the most significant revenue component) compared with past estimates. Industry professionals and analysts in the recent American Film Market, the biggest marketplace for independent films in the world (November 2015) expressed grave concerns about the effect of such future trends for the industry. However, at the same time, both global and US box-office grosses continue to rise almost every year (including 2016), and new distribution channels require more content. The future, then, may be bright.

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Film Finance: The Role of Private Investors in the European Film Market

Olivier Debande

1 Introduction: Market Limitations

The financing of film and television (TV) programmes by private investors and commercial banks is a limited market in Europe and involves competition between a few specialised commercial banks. Over the last years, some financial players have even exited the audiovisual (AV) industry, a move that is considered to be the result of the high level of perceived risk in financing film and TV programming, EU market fragmentation and undercapitalisation of small market players.[1] As a niche market, this industry demands experience and knowledge, and financial institutions have limited their pan-European activities due to the difficulty of assessing the soundness of non-national partners. In addition, this oligopolistic market structure creates informational barriers to entry which limit the emergence of new players ready to provide funding to European production companies.

The financing of the AV sector has features in common with the financing of R&D, notably the need to cope with the high level of intangibles and risks

. The use of different financial instruments will depend on the stage of development of the companies, funding needs and the risk associated with each market segment. For instance, venture capital might be more appropriate for financing projects addressing the development or pre-production of AV products. Furthermore, the AV sector is characterised by complex interactions among the various players and different sources for funding. When a production company decides on a prospective production, they have to line up financing, and different alternatives are conceivable. If they decide entirely to self-finance the production, all the risk of the project is borne by the producing company.

[1] Here, the audiovisual industry also covers the film and television industries.

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On the other hand, if third-party financing is mobilised, the fund provider should be in a position to secure interests in the producing company's assets as collateral for the loan. These assets could have different forms including rights to the future production, a library of films or TV programmes made or acquired by the production company or other capital assets. In some cases, producers may have specific distribution agreements with large distributors or be affiliated to major media groups, broadcasters or studios. Additional 'soft' assets will also enter into the assessment of the creditworthiness of the production company, such as its reputation and track record in producing films or TV programmes within the initial budget and delivering their products on time.

The intervention of lenders in the financing of films and TV programmes is structured on the basis of a relatively well-known model.[2] Commercial banks require the producers to obtain presale agreements in some markets from distributors and TV channels prior to financing the film. By selling the exhibition or broadcast rights to the film or TV programme, for a predetermined amount of money, producers can then get financing from the bank. The bank may then discount the contracts, generating the liquidity for the production of the AV work. After the film or the TV programme is made, the presale agreement can be exercised and the rights on other secondary markets or windows sold. The loan would then be paid out of these earnings, and, in the event that the revenues generated by the exploitation of the rights exceeded the loan amount, the producer would be a residual claimant. Presale agreements are a key ingredient to reducing the risk of the loan for the lender, which could rely on the expertise of the distributors for the assessment of the market potential of the film. The role of the distributor is to act as a signalling device for the bank by assessing the value of the production in their own market and evaluating the quality and the commercial potential of the production.

A distinction has to be made with regard to the size of the production company. In Europe, the AV market is characterised by the prevalence of small independent production companies for which third-party financing is a critical issue. For most producers, their primary collateral is the prospective film or TV programme itself. Recent developments seem to demonstrate increased difficulties for small production companies to access the debt financing market due to a set of factors: (1) their low level of capitalisation, (2) restricted credit policy of the banks due to the legacy of the financial crisis and the strengthening of the prudential supervision and regulatory framework of European banks and (3) perception by the commercial banks and private investors of the high risk attached to transactions in this sector.

In addition, the European AV landscape is affected by difficult access to the banking sector on the part of national producers across Europe. In small countries, few banks have adequate expertise and know-how in the audiovisual sector. But even in the few countries with large domestic market, there is declining interest by

[2]See, for instance, Davies and Wistreich (2005), Vogel (2014) and Young, Gong & Van der Stede (2010).

the commercial banks in this sector (even for the discounting of presale contracts with TV channels) due to the high administrative costs and a shortage of expertise. This evolution of the European market led to the emergence of new forms of funding such as crowdfunding. Given the heavy dependence of European producers on TV channels as a source of production finance, the financial situation of broadcasters—both commercial and public—has a direct impact on production companies. Compared to the USA, there is a limited development of structured financing instruments, such as slate financing or the securitisation of film package in Europe. Hence, the development of European co-production schemes and the need for producers to set up multiple sources of funding increase the complexity and the length of time needed for a producer to close the financing arrangement for new films or other audiovisual work.

Despite the high level of activity of the European production market, the recovery of cinema admissions and the emergence of new distribution channels, there has been *no* significant expansion of the AV private financing market. Here, it is also important to stress the role of the regulatory and institutional framework. Investors are affected by the lack of harmonised accounting standards used across the AV industry, which affects their ability properly to assess the financial viability of production companies. Another issue related to the information transparency on the AV industry is the shortage of adequate industry databases for providing the information particularly required for the assessment of the credit risk of the film project.

The purpose of this chapter is to investigate the conditions for a more active role of private investors in the external financing of the European film industry. Potential actions to attract private funds within the European audiovisual market, i.e. to reduce and spread the investment risk in funding film or TV programme productions, are:

(a) Support the emergence of a stronger distribution structure
(b) Development of a pan-European and/or guarantee and counter-guarantee for financial institutions and guarantee institutions
(c) Development of an adequate database allowing for tracking of success and failure in production and assessing the performance of production companies
(d) Improvement of the accounting standards used in the AV industry (namely, for amortisation practices, income recognition and rights valuation)

2 Film Finance: Key Issues and Players

Financing a film requires a large investment that is irrecoverable and entails a palpable chance of loss. The 'nobody knows anything' property[3] implies a high variance of gross profits from film to film. The financing arrangement of an

[3]Based on a quotation from screenwriter William Goldman (1984) 'With all due respect, nobody knows anything'. See Caves (2000).

audiovisual work requires an interaction between different players. The number of active players varies in different national markets. The independent producer arranges the AV product financing and is in charge of bringing all parties together. He remains owner for life of the film rights and obtains its financing through sales or licencing of rights to distribution companies or TV channels, for a specific period from 7 to 25 years. The following private film financers can be identified.[4]

The *commercial bank* when considering the provision of a loan is expecting a certain number of distribution contracts and/or presale contracts with TV companies in order to achieve the entire budget. It will lend the funds in the form of loans with or without recourse (depending on the financial structure, i.e. creation of a dedicated special purpose vehicle, and on the quality of the balance sheet of the production company). The commercial bank is taking the credit risk with regard to the distributors and the TV channels (or could ask them to back their commitment with a letter of credit) but is also keeping the first claim on the distribution rights of the territory or alternatively support (video, DVD) purchased by the distributor or the TV channels. In the case of non-payment by the producer, the bank has the ability to sell the rights. The bank must ensure that all necessary production funds (i.e. strike price corresponding to the amount of money, usually the same as the budget, that the financier has to pay into the production account in order to trigger the liability of the completion guarantor) are available in order for the insurance given by the completion guarantor to be put in place. However, this latter condition depends on recourse to completion bonds, which is not a common practice across Europe.

The *completion guarantor* firstly confirms the film's budget in order to issue the insurance policy. This insurance policy gives responsibility to the insurer to cover all budget cost overruns and to reimburse the bank in the event of the film being called off. The completion guarantor, when reviewing the budget, checks that an extra percentage is added to cover contingencies (around 10% of total budget cost or more in the case of a complex production). In terms of likelihood of occurrence of the risks, the risk of the film being called off appears to be relatively low; but on the other hand, various risks such as bad weather conditions or defective production equipment could occur during the production period. The completion guarantor will cover all known risks, from political to weather risks. For the production company, the cost of this insurance can vary from 3% to 4% of the budget. In addition, an additional percentage (between 1 and 1.5%) could be added to the budget for miscellaneous insurance such as errors and omissions.

The *sales agent* is an important player in the preparation of the financial package. He represents the producer in all negotiations with distributors for each territory. The sales agent knows which distributor to approach for which type of film for a given territory as well as its financial situation and the required timing for the film's release. His involvement will contribute to an optimisation of the

[4]Of course, public authorities active through the various existing public support mechanisms (subsidies, loan guarantee schemes, tax-driven instruments) play another key role as well.

management of the rights associated with the films across the different release windows. The sales agent charges a commission from 7.5% to 15% for this service, based on the performance of the film for which he has negotiated the distribution agreement.

The *distribution company* will purchase the rights for each territory where it plans to ensure the distribution of the film or the TV series. Most of the revenue generated by a film is received within the first 5 years of film's life corresponding a first cycle of exploitation of the film), and most of this is collected during the 18 months of a film's distribution cycle. Indeed, after exhibition in its home country, the film passes over the next several years into other channels: exhibition abroad, video cassette/DVD, pay-TV and then free TV.[5] The 'profit release window' representing the life cycle of a film could be described on the basis of its revenue potential along the different market segments, according to territoriality (by country and linguistic zone) and time (duration of distribution rights) agreements.[6] The sequence of this distribution life cycle differs from one country to another and is designed to ensure a satisfactory return on each window. Films are normally firstly distributed in the market that will generate the highest marginal revenue in the shortest period of time. They will subsequently cascade by order of marginal revenue contribution to markets that return successfully lower revenues per unit of time.

Film utilisation across the profit windows[7] is becoming progressively more important as a source of (re)financing increasingly expensive film productions, which today can hardly be financed from the receipts generated from the cinema alone. The relationship between the various segments still stresses the importance of the box office success which will determine the attractiveness of films. Indeed, under this system, the information generated in the domestic theatrical exhibition market—in terms of box office revenues and word-of-mouth transmission of film quality assessment—has great influence on consumer demand in the ancillary and foreign exhibition markets. In the US market, there is clear market segmentation

[5]In the pay-TV market, a distinction can be made between the first window (usually 6 months), i.e. the first period of premium films availability on pay-TV, and then the second window (usually also a 6-month period). After the second window, the film becomes available for free television. Pay-TV operators' subscribers often consider the second window as 'second quality', and the pay-TV operator may be forced to reduce its subscription price to differentiate itself accordingly.

[6]In Article 7 of the *Television Without Frontiers Directive* (89/552/EEC), adopted on 3 October 1989 by the Council and amended on 30 June 1997 by the European Parliament and the Council Directive 97/36/EC concerning media chronology, it is laid down that member states shall ensure that the television broadcasters under their jurisdiction do not broadcast any cinematographic work, unless otherwise agreed between its rights holders and the broadcaster. The broadcasting chronology for the economic exploitation of films in the member states of the European Union is based on agreements concluded between the economic players concerned. Three countries, i.e. Germany, France and Portugal, supplemented this legislative framework by additional legislation. This Directive is currently under review, and the issue of the harmonisation of the media chronology across the member states is addressed in this review process.

[7]See Young et al. (2010).

between the different supports for the release of films. Some productions are targeted only for the TV, video/DVD or PPV market.

The *TV channels*, in the case of the production of a TV series or when acquiring the rights for the diffusion of a film, are a major source of funding for producers. They could intervene in the market either by commissioning the production or co-production or through presale agreements for the exploitation of the rights on their channels.

The *collection agent* is an independent entity selected by the producer, sales agent and financiers to collect and distribute the revenue generated by the exploitation of the film. In general, the exact position of the different stakeholders in the recoupment process is pre-agreed, giving confidence to the parties that they will receive their entitlements assuming that the film generates sufficient receipts. The collecting agent could also be in charge of paying the profit participants.

Private investors could participate in the financial package of a film or TV series for tax reasons. The level of commitment of the private investors will also depend on the existence of tax-shelter instruments available in various European countries, and they will cover the part of the transactions not covered by presale contracts. Private equity investors as well as hedge funds are reluctant to invest on a large scale in EU films due to the long and uncertain time horizon of this kind of investment and the fragmented nature of the European audiovisual market.

Lawyers specialising in media financing are active in the preparation of the documentation associated with the transaction. Unlike a property mortgage secured on a fixed asset with an intrinsic value, loans for the production of an audiovisual work are secured primarily on contractual distribution arrangements. Given the complex nature of the intellectual property rights management, production financing and distribution arrangement and related insurance packages, the production company has recourse to a specialised firm of lawyers.

3 The Role of Private Investors

Film producers may benefit from various funding alternatives involving private investors and private banks: A simple classification according to the source of funding has to be matched with the various film financing instruments:

1. In-house financing and production-finance-distribution deals
2. Negative pickups[8]
3. Distribution sales or presale of exhibition rights (minimum guarantees)
4. TV presales
5. Debt financing
6. End-user financing

[8] A negative pickup is similar to a PFD (production/finance/distribution) agreement, except that the film company (studio or distributor) will pay a fixed price for the completed film, and it is up to the production company to finance the budget for the film.

A common way of financing films is to *presell exhibition rights*[9] to national and foreign distributors, for a pre-defined period of time and for a specified geographical area. The producer can use the *guaranteed minimum payment* from distributors to obtain additional financing from lenders or investors (i.e. providing promissory notes discountable at banks).

This scheme offers more creative freedom to the producer, although he loses the benefits accruing from the film's promotion because these are retained by the distributor. Indeed, the distributor can profit from the price discrimination policy by managing the promotion on the basis of the rights he has obtained both in terms of duration and geographical coverage. The preselling of rights to several independent distributors makes it difficult for the producer to benefit from the interdependency between the various exhibition 'windows', but at the same time, the producer benefits from greater creative freedom since the dispersal of the bargaining power among various distributors lowers their ability to affect artistic choices. Finally, this scheme implies another sharing of risk due to the absence of 'cross-collateralisation', since each agreement with a distributor is independent of the others. Producers generally relying on presale strategies manage to reduce their downside risks while giving away much of the substantial upside profits and cash flow potential from hits. The producer will still usually need interim loans to cover cash outlays during the period of production.

The producer could also presell the rights on his film to national or regional TV channels. The mechanism shares some similarities with the preselling of exhibition rights, since the producers could discount the TV channel's contracts to banks in order to finance the production of his films. In most of the cases of the presale of TV rights, the TV channel is a co-producer, which could entail some control over the artistic package. The use of venture capital funds for the financing of AV works produced by small production companies appears unsuitable due to the following reasons:

(a) The uncertainty on the evaluation methods of the rights recorded on the balance sheet of the company
(b) The lack of adequate exit mechanisms due to the complexity and difficulties of realising the rights recorded on the balance sheet of the company (the only potential exit mechanism is the sale of the company assets to another company)
(c) The importance of the personality of the producer and the assets attached to the producer with unquantifiable market value
(d) The uncertainty in the development of a film and the need to achieve a portfolio of a sufficient size properly to diversify risks (e.g. 12–14 films)
(e) The specificity of the audiovisual product

[9] See, for instance, Davies and Wistreich (2005).

3.1 Finance Risks and Mitigating Measures

The *main risks* for the financing of films[10] are:

- Related to the product:
  (a) Cost overruns postponing the delivery and requiring additional funds to complete the film
  (b) Delay in the delivery of the film due to uncontrollable contingencies during production or post-production stages
  (c) Commercial success
  (d) Revenue shortfalls due to inadequate estimation of sales forecasts (especially in the case of gap financing where all the sales contracts are not signed at the disbursement of the credit facility)[11]
- Related to the production company are:
  (a) Risks associated with the quality of the balance sheet of the company
  (b) Risks associated with the evaluation of the underlying assets, i.e. the films' rights
  (c) Risks related to the size of the overheads costs

Regardless of the financial structure set up for the funding of films or TV productions, the due diligence process integrates the following elements in order to minimise the risks associated with the transaction: (1) analysis of the track record and performance of the producer (number of films produced, rate of performance in terms of box office, recruitment and management of the team engaged in the production), (2) review of the film's characteristics (film scenario, casting, potential technical difficulties related to the shooting process) and (3) analysis of the film budget (structure of the financing, co-production and presale contracts providing an estimate of the self-liquidating nature of the credit, quality of the co-producer, quality of the final buyers). The types of securities requested are:

- To cover the risk associated with the product: assignment of rights on contracts generating future film revenues, pledge on the negative, insurances, completion bond

[10]See Vogel (2014) and von Rimscha (2009).

[11]With gap financing, banks provide a loan of between 10 and 30% of a film's budget against the value of all the distribution markets that remain unsold. An experienced sales agent is engaged to provide an estimate of what those territories could cumulatively be worth. The bank will typically lend half of that projected total and demand that at least two presales are already in place as a measure of a project's viability. In return for its financing, the bank will be senior in the capital structure, receiving all income until its principal and accrued interest are fully recovered. As the presales market continued to soften, the gap has widened further. So-called 'super-gap' financing has recently emerged, essentially a riskier form of mezzanine-style financing in which more (up to 35%) of a film's budget is borrowed against future revenue projections. In return for financing more of the budget, super-gap lenders demand higher interest rates.

- To cover the risk associated with the company: corporate guarantee or asset-based securities (library of films)

3.2 The Specific Debt Finance Market

The *debt finance* market can be split into two categories:

1. The *global lenders' market*, where the main players are large international banks operating from head offices, is Los Angeles and sometimes London. They concentrate on large deals ($10 million dollars minimum) for large sponsors (either Hollywood majors, European mini-majors or large independent companies).
2. The *niche domestic lenders' markets*, where players are small specialised finance institutions (sometimes part of larger retail banks) that provide finance on the back of national public aid mechanisms for small local production/ distribution companies.
3. *Single picture distribution contract-based financing*: These deals are usually put together for independent producers: before engaging heavily in production, the producer presells its rights to one or several distributors. The distributor (s) guarantee(s) payment of a certain amount once the film is completed and delivered. The role of the lenders is therefore to fund the bridge from production expenditure to receipt of the distributor's payment. Financing relies on the credit quality of the distributor(s), the assurance that the film will be completed (completion bonds are used) and the receivables to cover costs ('borrowing base value') and to avoid funding gaps (although on larger productions gap financing is sometimes used). There are a variety of structures along the same theme such as 'negative pickups' where letters of comfort are provided to a sales agent, which offers a series of distribution commitments as security. Contract-based facilities are short term (12/18 months).
4. *Structured finance deals*: Such financing tends to be for a longer term (5–7 years) and more complicated given the structuring and risk aspects. These can take several forms: (a) insurance-/tax-/accounting-driven structures provided for US majors or European mini-majors and (b) single film project finance: although lenders rarely take theatrical performance risks, single film project financings are sometimes put together for the large US studios. In these structures, lenders rely on the film's future box office receipts. The lender's analysis concentrates on the suitability of the debt to equity ratio, the talent quality (both directing and acting) and the commitment to *Prints and Advertising* (P&A). Studios sometimes offer partial security coverage in the form of assignment of receivables or rights on an existing film library.
5. *Package financing (securitisation) or slate financing*, where debt repayment relies on the cash flows of an existing film library (cash generated from video sales and rentals, pay-TV or mainstream TV showings). These structures are relatively common in the USA (given the extent of the US major film libraries) but have so far failed to take off in Europe. In the case of independent producers,

little collateral can usually be provided to back a loan except by having recourse to presale contracts and other rights agreements relating directly to the production (making a production loan more akin to an account receivable scheme). The lender then has to look at the creditworthiness of the licensees for repayment of the loan and is hence exposed to the risk that a licensee fails to accept delivery of a completed picture, especially for loans with a relatively long term. As a consequence, the best option is to lend a fraction of the total amount of the presale advances or better still to design the loan on the basis of a portfolio of films to 'cross-collateralise' the risks between the various films. Various German companies (such as *Constantin*, *Kinowelt* and *Helkon*) have raised significant amounts of funds on the *Neuer Markt*, invested essentially in American production. However, with the end of the Internet bubble and numerous bankruptcies among media companies, the market perception dramatically changed, reflecting the lack of trust in the valuation of the companies and the inadequate business model.

4 Film Financing in Europe: Diversity Prevails

The fragmentation of the European audiovisual industry is characterised by the existence of a fringe of small undercapitalised firms, especially in the independent production sector, working on a film-by-film basis, facing difficulties to access the funding required for the development of their activities and to create the conditions for a sustainable business model. When production companies are forced to sell the rights to their film or TV programme to secure the next production, they are self-perpetuating the vicious circle of undercapitalisation. In addition, the sector continues to depend a lot on public support scheme.[12]

In some cases, the micro-companies do not have a sufficient balance sheet to have access to debt financing.[13] Indeed, a bank will only consider a level of equity equal to the amount of the loan (50–50 financial structure as adequate), implying de facto that only the major American companies would be able to produce films. An adequate level of equity should reflect the peculiarity of the audiovisual industry; however, the undercapitalisation of numerous small independent production companies implies that quite often the producer does not have enough funds at the end of the production of a film to invest the adequate funding for the development of a new project. This partially explains the lack of investment observed in Europe at the development stage. In such a situation based on a film-by-film approach, the risk-reward ratio is too negative to attract private investors.[14]

[12] *European Commission* (2014).

[13] Berger and Udell (1998) and Binks and Ennew (1996).

[14] *A common complaint is that investors do not have 'anything to invest in', reflecting the 'here today, gone tomorrow' nature of many single-project production companies*. Report to the Secretary of State for National Heritage (1996). The Advisory Committee on Film Finance (p. 18).

It is indeed well known that, as a rule of thumb, Hollywood majors are unlikely to achieve more than one or two successes for every ten films produced. Differing from European production companies, US majors are able to cross-collateralise the losses and the benefits over an adequate portfolio of films (without considering the revenue generated by the exploitation of the rights of the 'unsuccessful' films in terms of box office in other media).[15]

The European audiovisual market also suffers from a lack of transparency concerning the accessibility and quality of the balance sheets of a lot of entities active in the production and distribution sectors.[16] This situation results from the limited number of listed production companies on European stock markets since the majority of independent producers are too small to justify listing and from the lack of harmonisation of the accounting policies/practices of the audiovisual companies within national markets and across Europe (valuation methods of library of films, amortisation rules). When considering a production company having access to the financial market, the financial structure for a filmmaker is based on an interest-bearing loan facility on a secured basis.

The security usually takes the form of presale contracts with distributors or TV channels for contractual minimum guarantees, the discounted value of the contracts being generally equal to or in excess of the production budget and the cost of financing. The advantage of such an approach for the producer is that she/he is in a position to retain control and ownership of the film and its profit stream once the bank's loan, interest and expenses have been repaid. In general, the commercial bank is not asking for a participation in the profits of the films but is providing additional finance services to the producers generating additional fees for the bank and minimising risk taking. Due to regulatory, historical, legal and cultural reasons, the financing arrangement of AV products remains quite different across Europe. To illustrate this diversity, an analysis of the typical financial structure for a film in France and in the UK is provided.

4.1 The Typical UK Financial Arrangement

In the UK,[17] the financing of an independent film or TV series production is often structured on a project basis (as in a project financing deal) and, if fully collateralised, is on a non-recourse basis, i.e. no recourse on the filmmaker's balance sheet. The borrowing entity is usually a single purpose vehicle (SPV) of nominal capital whose assets will be the rights to the story and as the production is progressing, the film itself. On the liabilities side of its balance sheet will be the nominal capital and the production loan, assuming the cost of the film is fully covered by presales. The advantage of such an arrangement for the producer is that he is in a position where he can retain control and ownership of his film and its revenues after deduction of

[15] Amram (2003).

[16] *European Commission* (2013).

[17] Alberstat (2012) and Davies and Wistreich (2005).

the various sub-distributors' shares and once the bank's loan, interest and charges have been repaid.

The role of the producer is to arrange the financial package for the film or TV programme, based on the concept of the creation of bankable security through the presale of rights. The producer will sell his rights for the exploitation of the film to distributors and TV channels, which, on the basis of various elements (script, actors, producer and director's reputation and track record), will buy all or partial rights to exploit the film in a territory and/or media. The distributors will agree to pay a minimum guaranteed amount on the account of the producer's share of income derived from the exploitation of the particular rights with the payment being made at specific point in time—signature, delivery of the film and date of video availability. The objective of the producer is to find enough contractual agreements with distributors to cover the budgeted cost of the film and the cost of the loan to finance it. The loan provided by the bank usually covers 80–100% of the film costs. In fact, the financing could be provided for a project covered by a minimum of 80% of presales when the producer works with a well-known sales agent. If this is not the case, the coverage in terms of presales has to reach 100% of the film cost. In other words, a maximum gap of 20% could be considered by a commercial bank only when the producer has a well-established track record within the bank portfolio and has recourse to a reliable sales agent and major territories are available with an estimated presale value which exceeds the uncovered amount by a ratio of 1.5–2 (not including the sale potential in the USA).

Gaps might also be covered by deferrals of fees (producer or actor fees), equity put into the project by investors for tax motivation, grants given by European/national/regional public authorities and co-production arrangements or facilities deals in various countries. Finally, the gap should be covered within 1 month from the end of the principal photography. Distribution fees and other commissions are not paid by the sales agent until the gap is covered by distribution contracts unless they have been budgeted. The commercial bank, and especially in the case of a financial package including gap financing, requires the provision of a completion guarantee by the producer. The completion guarantor undertakes an in-depth analysis of the estimated budget of the film to identify the risks of cost overruns. This guarantee, provided by specialised insurance companies (such as *Film Finances* (part of *Lloyds*), International Film Guarantors (*Fireman Fund*) and *CineFinance*), secures the bank's loan through the provision, within a specified timeframe, of the elements required to trigger the minimum guarantees provided by the distributors and of the amount of funds required to complete and deliver the film in the case of any cost overruns during the production of the film. The disbursement of the loan by the bank will be linked to a precise timing. Where other financing is involved, whether to cover a gap or as part of the producer's plan of action, the bank will usually require that its loan is only advanced after all other funds have been disbursed. This sequence of disbursement is related to the completion's guarantor obligation becoming callable only if the full cost of the film has been provided.

4.2 The Typical French Financial Arrangement

The financing of films and TV programmes by commercial banks or specialised financial institutions in France is based on a different structure resulting from mechanisms specific to the French market in terms of regulatory and institutional environment (*Centre National de la Cinématographie*—CNC), legal environment (*Registre Public du Cinéma et de l'Audiovisuel* providing the security framework to have valuable and certified guarantees on the rights associated with the film) and financial structure (*Soficas* which are specific tax-deductible investment funds created in 1958 to offer attractive tax-efficient products to wealthy clients and corporates and act as co-producer although they are not entitled to any rights in the film's negative).[18] In addition, the market is dominated by specialised financial institutions.

The financing of a film is based on a transaction where there is a full coverage (100% or more) through presales with distributors and TV channels. The security package requested by the banks of the producer includes the assignment of the claims arising from presale distribution contracts, the assignment of the potential support entitlement generated by the various European, national or regional public support schemes, the assignment of the share in any co-production agreement or from any tax-shelter or tax-driven mechanism supporting the production sector. The proportion secured to presell agreements with TV channels is bigger than in the UK. The financial arrangement does not include recourse to a completion bond. As a consequence, the specialised financial institutions active on the market play the role of the completion guarantor. A way to compensate for the non-recourse to completion bond is to request a recourse on the production company assets, assuming that the company has a sufficiently viable financial structure and mobilisable assets on its balance sheet. The characteristics of the production companies imply that access to this type of security remains limited. The legal documentation for the financing structure of a film or a TV programme is less demanding in France than in the UK.

The French financing market is characterised by the existence of a guarantee fund, called *Institut pour le Financement du Cinéma et des Industries Culturelles* (IFCIC),[19] which provides guarantees to credit facilities set up by commercial banks to producers. The main beneficiaries of IFCIC are independent producers who benefit from direct IFCIC financing for film or TV production or from counter-guarantees of bank financing of their activities. Access to IFCIC instruments is restricted to French producers or co-producers,[20] and only commercial banks being shareholders of this institution can benefit from the guarantee scheme. The purpose of such a guarantee fund is to facilitate the spreading of investment risk and to enable a sound portfolio approach for investments in the audiovisual sector.

[18]See, for instance, Gaillard and Loridant (2003) and Sauvaget (1999).

[19]For more information on the IFCIC, see the website at www.ifcic.fr.

[20]Knowing that France has signed co-production agreements with numerous countries except the USA and Japan.

The analysis of the UK and French approaches to film financing shows the major differences between a market characterised by recourse to market contractual mechanisms with a strong legal environment offering the adequate enforcement procedure (the UK situation) and a market characterised by the development of institutionalised legal rules limiting the complexity of complete financial arrangements and mimicking partially (or trying to replicate) arm's length contractual relationships. The contractual structure induces a different sharing of risks between the various players and a trade-off between the reduction of uncertainty and flexibility in the management of the contractual relationships. The financing of French productions or co-productions is heavily dependent on the broadcasting market. TV channels face various obligations to invest in French co-productions, associated with quotas of French and European films to be broadcast, restrictions on the number of films broadcast on a weekly basis and regulated elapsed time for the release of a film after cinema theatre exposure [differing between free-TV channels (2 years after theatrical release) and pay-TV channel dedicated to cinema (1 year)]. The nature of these obligations depends on the type of broadcaster, i.e. generalist (free-TV channels) versus specialised (pay-TV) channels. For the former, they have a co-production obligation defined as 3% of their turnover, while for the latter (initially only *Canal+*), it corresponds to 20% of the turnover. As a consequence, TV channels, either through co-production, where they invest funds during the production phase having rights in proportion to their investment on the negative and future revenues of the films, or presale contracts by which they purchase the right to broadcast films on their channel paying upon delivery of the completed film, become key players. The positive consequence is the provision of an important regular source of funding, leading to additional effects such as the increase in the value of French and European film libraries through the 'quota effect', the contractualisation of the relationship between film industry representatives and *Canal+* and increased competition between TV channels on their specific release window. However, the relation of dependence created between the cinema industry and the broadcasters increases the vulnerability of the film producers to downturns in the broadcasting market. In addition, it could induce 'interference' in the artistic and commercial quality of the films designed to reflect more the demand from the broadcasters than the one from cinemagoers in a market already dominated by US films (in terms of box office market share).

5 Conclusion: Private Investors Still Missing in Europe

The recent evolution in SME financing seems to demonstrate an increase in bank lending to SME but not benefiting to the same extent to SMEs active in the cinema industry due to the intangible nature of their assets and collaterals, the limited size of the market and the concentration of funding in specialised financial institutions. The access to debt financing for producers also varies in function of the size of the country. Indeed, in small countries with a low production capacity reflecting the restricted linguistic and geographical size of the final market, the level of activities does not favour the emergence of specialised financial institutions. In general, producers rely on the traditional banking network, which exacerbates the impact of the lack of expertise of the financial institutions (and hence the ability to assess in a proper way the level of risk attached to an operation). Moreover, in the absence of dedicated internal departments dealing only with audiovisual financing, the ability of the producer to secure financing is linked to the creation of a privileged relationship with a banker based on mutual trust and specific soft knowledge. The continuity of such a relationship is more versatile, partially depending on the bank's internal risk policy.

The due diligence process for the financing of small production companies rests on 'soft issues' related to the knowledge of the people active in this sector and market practices. A credit analysis only based on a classical corporate approach (e.g. balance sheet analysis or minimum size for structured transaction) could not allow the relevant issues for evaluation of a funding request to be addressed. The support for major productions in France is done through classical corporate loans, while in the UK the structure is mainly based on the creation of an SPV for the financing of independent producers or major players.

The mix of the industrial structure of the Europe's film industry, the lack of an integrated market for European films and the strong reliance of SMEs and mid-cap companies on banks financing combined with public sector support prevent the emergence of an active class of private investors. In addition the lack of transparent and reliable information on the track record of producers and distributors does not favour the entry of private investors in this market. The recent *Capital Market Union* initiative launched by the *European Commission*[21] and the emergence of alternative non-banking funding sources such as the crowdfunding or mini-bond markets might create new opportunities for private investors that could percolate to the film industry.

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Film Governance in the EU: Caught in a Loop?

Olga Kolokytha and Katharine Sarikakis

1 Introduction: Film as Cultural Policy

Film occupies a central place in European Union (EU) cultural policy, as one of the cornerstones of European culture and a vehicle in support of the formation of European identity. It serves, however, further as a source of information on European culture, generating a distinct philosophy of the moving image, historically based largely on the cinema of auteurs (Mitric & Sarikakis, 2016). Film is an historical source as the millions of hours of film material available in archives give testimony, not only to the historical development of aesthetic change in the moving image but also to the history and cultural heritage of Europe. Film reaches people with high immediacy and has been used as a political tool, in particular as a propaganda tool. Importantly, the role of the movie industry as an economic actor in the creative industries and its place in the world market has occupied EU policy the most. The EU has a salient impact on the film industry in Europe, framing the processes of cultural policy that govern activities related to the arts and culture and providing the regulatory framework for film creators on European level. Whereas national policies might not always systematically support film production, the EU plays an even more important role to support the sector.

In this chapter we aim to provide an overview of fundamental elements of the governance of European film and present the emerging challenges from a governance theory perspective, in lieu of the role of film as a cultural and economic actor and within the context of public funding for film in Europe.[1]

[1]For a brief historical overview of public funding for film and audiovisual works, see Newman-Baudais (2011).

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Public governance (commonly referred to as *governance* and not to be confused with corporate governance on organisational level) is an established concept in media and communication studies and one associated with other disciplines and fields of scholarship. Hewson and Sinclair (1999), for example, approach governance as a system of globally oriented policies and actors. Raboy (2004) works with the concept of governance with reference to the role of global actors, and Donges (2007) defines *governance* with reference to the regulation of structures, processes and contents, linked to institutionalised regulation structures and building bridges to other disciplines. Puppis (2010) sees *media governance* as a new concept for analysing media policy and regulation; Sarikakis (2012a, 2014) expands its notion with reference to the role of not only institutions and law but also of ideas and principles, actors and processes, and Karppinen and Moe link the term with linguistic and cultural contexts (Karppinen & Moe, 2013).

We build on these approaches to refer to governance as a political process to be located beyond the clear borders of formal government, through which decisions are reached, but also as an interaction of powers and actors involved in international policymaking; these actors can be authorities, governments, supranational organisations, civil society and ideological dispositions (Sarikakis, 2012a). Hence, we define media governance as the sum of policies, including those translated in hard law and those implemented as codes, custom and practice, that have a regulating effect (Sarikakis, 2012b). We approach media governance as consisting of a *value* system, a *process* of regulating market structures and the affected industries and a universe of *impacts* of these values and processes on media landscapes.

Applied to the film sector, this definition urges us to primarily focus on intangible factors of regulation, such as principles and value systems of governance, rather than on mere tangible factors that cover the structural and institutional dimensions of policymaking. In particular, film as part of cultural policy is treated predominantly through a set of "soft" measures rather than hard law, constituting *film governance*, and an object of media *and* cultural policy. In order to understand this system of measures, we explore the role of actors and their normative assumptions reflected on film policy.

One of the core ideas in the development of a distinct European policy approach to European film is its storytelling function and therefore its value as a public good for citizens. The second equally strong dimension, and indeed historically promoted, is its economic value for EU markets. Governance of publicly funded film in Europe derives predominantly from public policy and includes public resources that are set in motion due to the drivers that shape film industry and the current challenges of its various sectors. Using critical analysis of legal and policy documents and relevant academic literature, we map the field and demonstrate that governance of publicly funded film in Europe is based on anxieties, such as "Europeanness" vs. Hollywood-dominated culture and cultural vs. market needs, which define the European film sector. Here, we pay special attention to the prolonged, nearly decade long crisis, as a factor influencing and shaping policies and trends in the film sector. With this discussion, we aim to also at providing a solid foundation upon which the following issues will be discussed separately.

In the following pages, we will first discuss the regulatory framework and factors affecting governance of film and then look into the main EU programmes related to public funding for film. We follow on with a discussion on the financial crisis and its emerging effects on film in Europe and conclude with an outline of current trends and challenges in the sector.

2 The EU Regulatory Framework

Despite the fact that in public policy debates film has been addressed as an industry in need to catch up with the USA and global competition, the core of film policy has had to address the sector as one on the basis of meaning-making and identity-shaping in Europe. Film has therefore historically been seen as a creative industry and, simultaneously, a system of values and identity. As part of EU's cultural policy, film became an area where strong national economic interests *and* identity sentiments have clashed with global trade pressures and homogenisation tendencies of content.

Culture as a priority for EU was first introduced in the *Article 128* of the *Treaty on European Union* of 1992, known as the *Treaty of Maastricht*. Under that, the community "shall contribute to the flowering of cultures of the Member States" (*Treaty on the European Union*, 1992, p. 48) as well as support the culture and history of the people, their cultural heritage and the audiovisual (AV) sector at large. Film and the AV sector have fallen largely under this Article of the *Treaty*, but cultural initiatives were introduced earlier, such as the *European Cultural Capital* in the 1980s with the cultural and creative industries becoming a strong economic actor in the development plans of Europe.

Public funding for film is rooted in a broader understanding of film as a cultural force in Europe, with distinct features from other commercial goods, based on the power of storytelling in human societies. The historical development of film policy is inextricably connected to a broader AV policy in Europe, as well as a distinct cultural policy approach based on understandings of culture as guarantor of plurality of voices, exchange of knowledge about one's neighbours and preservation and development of one's own identity (*Treaty on European Union*, 1992). From the first mentions of film within the context of the EU such as the *Television Without Frontiers Directive* of 1989 (89/552/EEC) or later the establishment of the MEDIA programme in 1991 (*Council Decision* of 21 December, 1990), a sense of urgency to both preserve a cultural space of expression and dialogue in Europe and create spaces for European stories worldwide has accompanied policy thinking.

Film support was initially strictly a matter of national policy, but since the beginning of the EU project, the AV and media sector, in which the film sector belongs, gained in importance, largely however due to its potential to generate jobs connected with the AV market, as this was developing on a pan-European level. Since the development of a systematic approach by the EU together with national jurisdiction, the film industry in Europe gained more policy "visibility" because of the role it (was thought) should and could play in the global film market (*European Commission*, 2014). On the one hand, it was clearly argued that cultural integration, the legitimating force of the EU, requires adequate content, but as the industry in Europe is fragmented, access to content was a concern. On the other hand, the long-standing domination of Hollywood was seen as a model of commercial success but was also identified as the main obstacle of making European content more popular. The historical role of public service broadcasters (PSBs) in producing and supporting European content has expanded within this line of thinking: public channels are currently found to be scheduling more than 50% of European content, as well as remaining the core funders for independent film-making. Private channels are scheduling less than 20% with the share of non-European works, demonstrating an increase in the UK, Austria, Germany and Sweden during the period 2009–2013. National production broadcasting is around 50% in national channels, with 45% being non-national (Kevin & Ene, 2015, p. 4).

Concrete funding programmes from the EU demonstrate that the film industry is important for the development of a European identity (*European Commission*, 2014; Pauwels, De Vinck, & Van Rompuy, 2007) but is also part of the political construction of Europe. Identity formation has become a matter of public policy of interest for the EU not only with reference to the cultural sector but also within the *Framework Programme for Research and Technological Development* (*European Commission*, 2012). The Commission focuses on four theoretical concepts that define the study of European identity, namely, *Identification with Europe*, *Europeanisation*, *Transnationalism* and *Cosmopolitanism* (*European Commission*, 2012, p. 1). The EU film sector is seen to contribute to European added value as it reflects broader European relevance, and is a tool that assists EU in promoting European values during the integration process, but also serves cultural diplomacy as it highlights Europe as a birthplace of culture outside the EU borders, in accession countries and globally. With particular reference to culture, the dimensions that operationalise the shaping of a European identity are *cultural production*; *intercultural translation*, which facilitates communication within Europe; and *inclusion of the "other"*, such as minority languages. To achieve these, emphasis is given in cultural policy actions, as culture was used early on as the "glue" that would provide the citizens of Europe with a common identity and as an instrument assisting the integration process. This interest signals internationally the policy position that film and the audiovisual sector is not to be treated solely as a question of consumer goods but also as a cultural product (*European Commission*, 2014).

The EU paradigm has shaped the governance of film in Europe but has also given an impetus for similar policy trajectories outside Europe, such as Africa, while EU policies share a value-based approach with Canadian film and cultural policies especially vis-à-vis the USA (*European Commission*, 2011, 2013a; *European Union*, 2011; Mitric & Sarikakis, 2016; Sarikakis, 2007).

The ideological basis of treating film other than a mere economic good is rooted within the broadly understood role of film as an agent of social change and in particular in its distinct place as a bridge between high and popular art. The EU film sector is characterised by four particularities and challenges: (1) Historically, film is considered a cinema of auteurs, as opposed to "recipe"-based mass production industry; (2) the size of the film industry is a challenge in market terms; (3) national funding structures for film have added to regional fragmentation; and (4) Europe's linguistic diversity adds to market fragmentation. The sector consists mainly of small and microenterprises, which are heavily dependent on public subsidies to survive; its main sources of financing come from national or regional schemes, which in turn have a national or regional focus rather than a trans-European or global. Member states provide approximately 3 billion euros towards film support annually through more than 600 local, regional or national schemes (*European Commission*, 2013b). Funding is concentrated on creation and not on distribution, the latter of which is of equal importance for the film industry. The European film industry is, however, one of the world's largest in terms of production with 1500 film releases in 2014, double the number of the US film industry (*European Parliament*, 2015, p. 13).

Public funding for European film comes from direct and indirect interventions. Overall, public funding comes in a complex and multilevel form of support: it takes the form of public subsidies, financial guarantees to cover risks associated with production, preferential credit, tax relief on income, establishment of legal and economic measures to encourage cooperation with other countries, financial transfers by public authorities to ensure transfer of resources from different branches of the industry, practical help through film commissions and the organisation of promotion actions such as festivals (Lange & Westcott, 2004). In that respect, the first task and point of interest for potential creators and for policymakers and funders is to establish definitional clarity of what constitutes "European works", i.e. a special constructed category upon which the basis for the legitimacy of protective policy can be applied. The next section discusses the basis for European action in film funding.

3 Film Funding Schemes in the EU

To provide for a tailored policy for specifically the European film sector, the EU had first to provide a normative justification for policy and to construct a new regulatory object. The normative justification has been a subject of debate for some time, on the basis of identity, democracy and diversity. This gave rise to the concretisation of "European works". The document which defined the concept of *European cinematographic works* was the 1992 *European Convention on Cinematographic Co-production* in its Article 3c and Annex II (*Council of Europe*, 1992), according to which a work is classified as "European" if the main artistic (creative and performing) team and some of the technical team and/or the filming and post-production locations are European. This definition of European works is further transferred into all major AV policies and particularly the *Audiovisual Media Services Directive* (Chapter I, *Article I*, *section (n)*), which became a point of reference for AV legislation in all member states. The core legal frameworks for film in Europe were the *Television Without Frontiers Directive* and now the *Audiovisual Media Services Directive* (AVMSD), both providing for quotas to safeguard European works from non-European competition. At the time of writing, the Commission has proposed a revision of the AVMSD to meet the changing needs of the market (COM(2016) 287/4) with particular reference to user-generated content for video-sharing platforms. It proposes to extend the definition of European works to on-demand service providers, requiring that on-demand providers should give priority to the European works in their catalogues (*European Commission*, 2016, p. 17).

The regulatory framework further includes issues of copyright and media content determined largely by the *InfoSoc Directive* (*Information Society Directive*, officially *Directive* 2001/29/EC). The Directive has been criticised for not considering enough Europe's cultural diversity, in size, origin, business turnover or the content protected (Mazziotti, 2015). *The Orphan Works Directive (European Parliament*, 2012a), determining the exceptions to copyright for some public institutions, also applies to the film sector. The Directive regulates the use of works whose author is unknown in the film and AV sector but also digitised works in film archives. It regulates the finances for obtaining licences to publicly funded films and accessing publicly funded films and their use by the audiences.

Policy challenges in the field of film production, post-production and distribution are further to be found in the technological dimension of the industry. Digital means have progressively dominated over analogue and traditional film-making techniques, raising new challenges for questions of copyright, as well as long-term questions of accessibility to European works. Film distribution support is small, with particular difficulties when it comes to audiences outside the domestic sphere of the original film language, as from a market perspective, language barriers within the EU are considered undesirable. Yet, production numbers are higher for EU works rather than for US and Canadian works (*Council of the European Union*, 2014; *European Commission Policy Brief*, 2014). Distribution was expected to aim at broader accessibility of European film through video-on-demand (VOD) services, which are quickly becoming an additional and popular platform. Nevertheless, this option does not come without challenges. VOD requires substantial funding for language versioning and encoding. Copyright legislation also poses barriers to VOD and is resource intensive. EU policy has acknowledged the importance of distribution via VOD and alternative platforms and supports projects meeting these requirements, but also the production of television works such as dramas, documentaries or animation.[2] The AVMSD recognises that VOD can promote European works so on-demand services should be used to promote production and distribution of European works (AVMSD, 2010, *Article 69*). On-demand services are also viewed as a factor that can increase consumer choice (AVMDS, 2010, *Article 79*). Yet, at this point, it remains to be seen to what extent

[2]https://ec.europa.eu/programmes/creative-europe/media/television-programming_en

the harmonisation of copyright will solve this gridlock of allowing the free circulation of European works through emerging technological platforms.

Digitisation has become increasingly important as a driver of change in the governance of film in Europe and is associated with film heritage but also with issues of copyright. Despite the progress made on the technological side of film creation, a side-effect of the digital shift process is that analogue films need significant costs to be digitised that are not always easily covered by film heritage institutions as part of preservation of cultural heritage. The *European Association of Film Archives* estimates that only 1.5% of European film heritage is digitised (*Council of the European Union*, 2014, p. 8; *European Parliament*, 2015, p. 6). This is attributed to the high costs of digitisation, to rights clearance, but also to the lack of adequate funding. It is estimated that costs of restoring one feature film are on average between 40,000 and 50,000 euros (Mazzanti, 2011, p. 44) and that there are more than 1 million h of film in film heritage institutions in Europe (Mazzanti, 2011, p. 43). The estimated costs of digitisation of the whole film heritage of Europe, estimating 1 million h of film, are in the range between 500 million euros and 2 billion euros, using different techniques and qualities of digitisation (Mazzanti, 2011, p. 106). Preservation costs of that digitised cultural heritage are estimated at 145 million euros per year (Mazzanti, 2011, p. 109).

3.1 Film-Specific Funding: Production, Distribution and Diversity

Historically, most of the funding mechanisms aimed at the film sector derive from centralised "promotion" funding, based on the role of the Commission in the domain of culture. The latter has concentrated on three strategic priorities determining the structural conditions of film production: to address common challenges, such as the digital shift, to change models of cultural governance and to support the innovation potential of the cultural and creative sectors. The Commission's portfolio further includes "soft" angles, such as *cultural diversity*, *promotion of cultural heritage*, minimisation of obstacles regarding the *mobility of artists and cultural professionals* and the contribution of creative and cultural industries in boosting *jobs and growth* across the EU. Providing public funding is a matter of public policy supporting European culture as the film industry is fragmented, with many small enterprises involved in the production and distribution of films that are financially weak.

MEDIA programmes provided the main funding opportunity for the European film sector from 1991until 2013, with many different initiatives and variations of objectives and goals. (*Council Decision of 21 December*, 1990; *Council Decision* of 10 July, 1995; *Council Decision* of 20 December, 2000; *European Union*, 2011; *European Commission*, 2013a). MEDIA schemes linked cultural objectives with the market and gradually incorporated aims with a view to embrace the sector. They have been criticised for favouring the big players in the film industry as well as applicants from wealthy countries in training programmes for young filmmakers that require high fees (Mitric & Sarikakis, 2016). As we will see below, these issues were neglected in the MEDIA strand of the new *Creative Europe* programme (Mitric & Sarikakis, 2016).

Audience development is associated with distribution and access and in the digital era, possibly serving as a tool to access niche markets. The efforts for adequate distribution have not been successful in the past since funding is focused more on the production rather than the distribution side, but also because of the structure of the EU film sector, where a limited number of producers operate in more than one market (*Council of the European Union*, 2014). The EU introduced audience development in its MEDIA subprogramme to support initiatives in the form of not only promotion but also film literacy and cooperation projects.

The predominant focus of the MEDIA programmes on production developed slightly to combine support for post-production, i.e. the distribution stage of film-making and consumption in Europe. Although its definitional base of support of "European works" paid attention to the specific criteria constituting "Europeanness", very little attention was paid to strengthening other dimensions of this identity. MEDIA was conceived as a market enabler mechanism, rather than a "vehicle of translation" of cultures among European nations. This persistent gap was identified by several actors. Moreover, film funding through MEDIA was also showing manifest signs of homogeneity and adherence to formulate reminding Hollywood prototypes, rather than the artistic inheritance of the sector, the *art of auteurs*. Co-productions, seeking to fulfil the criteria of European works while also attracting US-based partners, resorted, for many, to the lowest cultural denominator.

A small, yet significant, function in the process of exchange was the LUX Prize. It was established in 2007 by the European Parliament, providing filmmakers with the opportunity to make their work known by access to funding for subtitling. Ten films are selected each year, three of which go to competition and one wins the prize. All 3 are subtitled in the 24 official EU languages and are screened during the LUX Film Days in more than 40 cities and 18 festivals in Europe, reaching an audience that would otherwise not be able to reach (Katsarova, 2014). The Prize has also been associated with EU policy areas such as immigration, integration and cultural diversity.[3] LUX Prize has been used by the European Parliament as a communication tool and is regarded as caught between politics and European film culture as a means to bridge the gap between politics and cultural policy, as well as to demonstrate the Parliament's interest in European culture and cultural identity (Stjernholm, 2016). The LUX Prize was introduced at the time Europe was facing the first signs of the crisis; its budget, however, was increased during the following years. From 2007 until 2011, the award amount was increased from 90,000 to 105,000 euros, with the total budget of the Prize, which includes sums for promotion events, to range between 300,000 and 325,000 euros (Stjernholm, 2016, p. 27). Despite the critique on the large amount of public money put on the Prize amidst the crisis (*Committee on Budgetary Control*, 2011, as referred to in Stjernholm, 2016),

[3] http://www.luxprize.eu/european-parliament-and-lux

since 2012, the LUX Prize expanded to include the LUX Film Days during which the 3 winning films of the Prize are screened in all 28 member states, with a total budget of 600,000 euros (Stjernholm, 2016). This, apart from the importance given to film as a means of political communication, demonstrates the importance placed by the Union on European film as a catalyst for cultural diversity and the communication of European culture.

Other actions involve support schemes for the film industry outside the funding for the cultural sector, such as the ACP Films (*African, Caribbean and Pacific Group of States Film*) financed by the *European Development Fund* (EDF), covering the 79 countries of the ACP and the 15 EU member states that contributed to the EDF (*European Union*, 2011). Other examples of such funding include the *Euromed Audiovisual Programme*; the MERCOSUR Audiovisual, created by the MERCOSUR authorities in December 2003 to promote cooperation in the AV sector; and the *Eastern Partnership Culture Programme* (*European Union*, 2011, p. 27).

3.2 A Deja Vu to Creative Europe

Creative Europe is the current public funding framework programme for the culture and the AV sector with a budget allocation of 1.46 billion euros, 9% higher than the previous programmes. The announced aims of the programme are to assist the cultural and creative sectors to profit from the opportunities provided by the digital age; to contribute to their economic growth, potential, job creation and social cohesion; as well as to enable the media sector in Europe to gain access to international markets and audiences.[4] During its duration, from 2014 to 2020, it is estimated that it will provide funding for 2500 artists and cultural professionals, 2000 cinemas, 800 films and 4500 book translations, with 56% of its total budget dedicated to the MEDIA subprogramme (*European Commission*, press release of 19 November 2013).

Although a 9% increase might appear high, it must be offset against regression in national economies from crisis hot spots, such as in Greece, Spain, Portugal, Italy and all countries where economic regression has seen the near total absence of any funding for film. The cultural and creative industries is the 3rd biggest employer in Europe, employing more than 7 million Europeans, with job creation rising by 0.7% per year during the recession period 2008–2012, when the equivalent for the EU was down by 0.7% (EY, 2014). In the domain of film in particular, total employment in 2012 was 573,555 for film production, post-production and distribution, with 36,000 authors working in the film industry (EY, 2014, p. 62). This should therefore also be seen as a measure that indirectly aims to alleviate the high unemployment rates in the cultural sector, especially since 2008, as well as the closure of smaller, independent movie theatres and distributors.

[4] https://ec.europa.eu/programmes/creative-europe/about_en

Apart from a direct contribution to the European economy, whereby there is clearly neither a homogenous development across national markets nor one that has proven sustainable, as the crisis has shown, *Creative Europe* claims to impact on social cohesion, cultural diversity and cultural identity. The Commission returns to the normative justifications that have historically accompanied cultural policy in the EU. It claims that the programme will improve available content and would impact on cultural diversity and European cultural identity. The turn to *audience development* can be understood also as a "follow-up" to the previous foci of its MEDIA programmes. The focus on markets is to increase numbers and consumer demand, although this would entail a more long-term approach, as well as approaching social groups that were previously excluded and re-engaging groups that have become marginalised due to the crisis. For the new vulnerabilities and cultural exclusions created during crisis that still endure, there is little scope in the new programme. For the Commission, targeted increase in demand is expected to positively spur the circulation of works, create new revenue and "enhance competitiveness".

Currently, with the *Europe 2020 Strategy*, the Commission proclaims to make the European Union a "smart", productive and inclusive economy with high levels of employment and social cohesion. The Commission identifies the cultural and creative sectors as sources of innovation and creativity and specifies a need to provide a framework to boost these, promote excellence and competitiveness and provide access to financing opportunities. It also acknowledges that there are issues such as complex administration processes, shortage of comparable data in the domain of creative industries, market fragmentation as a result of linguistic diversity and challenges by the rapid digital shift and globalisation that need to be addressed (*Establishing Creative Europe*, 2013, *Article 7*; *European Parliament*, 2012b).

4 The Fiscal Crisis and Implications for the Film Sector

Crisis has variably, yet clearly, affected cultural and media institutions in Europe: their conditions of governance, not only on the basis of structural changes related to scarcity of financial resources but also the normative underpinnings of policy as constitutional ingredients of policymaking and its intricacies and specificities (Sarikakis, 2014).

During the period 2008–2011, the EU redistributed structural funds, prioritising the new rather than the old member states, with part of those funds going to projects peripheral to culture (Inkei, 2010). The *European Regional Development Fun*d (ERDF) has also contributed to the film sector with funds directed to the conversion to digitisation of cinemas (Newman-Baudais, 2011). According to the latest Eurostat cultural statistics, cultural employment in Europe was hit from the crisis but demonstrated resilience with numbers of cultural jobs rising by an average of 0.7% during the years 2008–2010, whereas total employment fell (*Eurostat*, 2016, p. 63). Cultural turnover data appear not that optimistic though, with most member states having to go back to 2008 levels in 2013 (*Eurostat*, 2016). In film, TV and music, the value added rose 1.2% per year in the period 2011–2013, with cultural SMEs offering jobs to 78% of the workforce in the sector.

As a matter of continuity, the dominant character of film policy as one of economic policy has been maintained from the time of the *Television Without Frontiers Directive* to *Creative Europe*. The Commission focuses on the dilemma of new business models in the industry, deriving from "crisis" as a result of technological change. There seems to be little understanding and addressing the immediate and long-term impacts of the fiscal crisis in Europe, reflecting crisis as a matter of European identity and as a matter of the market. The Commission focused rather on the challenges imposed by changing viewing habits: "The possibility to test and share experience and knowledge on new business models will contribute to helping the sectors adapt to the digital shift, bringing new employment and growth opportunities" (COM, 2011, p. 8).

Creative Europe repeats historical arguments about the role of culture in creating new jobs. The Commission argued this time that the cultural sector is a means to come out of the crisis. It connected the creative sectors directly to jobs and growth but also in terms of spill-overs to domains such as education, tourism and ICT, social inclusion and social innovation as paramount domains for the emergence from the financial crisis. Most importantly, it acknowledged the challenges these sectors face and the need for a robust strategic approach to surpass them. It is argued that the new programme would make the cultural and creative sectors more adaptable to rapid changes, digital shift and globalisation and transnational circulation of works would lead to increasing trade in the internal market, as well as boost trade in the international market and provide income for the sector (COM, 2011). Nevertheless, the same arguments for market development, increased employment, social cohesion and integration have been repeated by the Commission for the introduction of programmes in the so-called *Information Society* for years but also for expanding European competencies to the cultural sector since the Maastricht Treaty. Certainly, the normative justifications for pursuing new framework programmes have remained the same, yet the increased "economisation" of this argumentation as well as the nature of "which Europe" is being pursued has been criticised by cultural policy scholars (Littoz-Monnet, 2010). There is little reflection in these documents as to the possible turns the financial crisis might have taken on Europe, even as far as the legitimacy of the very project of the polity. Instead, it was largely treated as a matter of stalling employment and low market revenues. However, as half a decade later has become clear, the political and cultural landscape of Europe is undergoing seismic changes. Where film would be regarded a force for connecting, not simply diverse cultures in Europe, but engaging and affiliating citizens to the values of democratic governance, is treated by policy frameworks as new priority.

Crisis has put Europe's funding mechanism at test as the ongoing financial instability has not only led the creative industries but also the EU to seek new funding opportunities. A financial guarantee facility of up to 750 million euros access to loans for small businesses active in the sector was planned for 2016 (*European Commission*, 2013c). The amount available through the financial guarantee facility appeared to be 210 million euros in the *Parliament Briefing* of 2014 (Katsarova, 2014). The final amount announced by the *Commission* in June 2016, in the press release launching the scheme, has finally been 121 million euros (*European Commission*, press release of 30 June 2016). The *Commission* estimated that the establishment of a financial guarantee facility would improve access to private financing of the creative sectors, therefore making them less dependent on public financial support. But this guarantee is aimed largely to encourage and protect private investment and less to support creators per se, which ultimately remained a source of public funding.

5 Conclusion: EU Film Policy Revisited

Three decades later and after a considerable amount of financing and public debate, it is becoming clear that regulatory thinking in the area of film policy has not moved far. The EU governance frames have been restricted to the historical tensions of the making of Europe, the focal existential dimension of a "single market" versus a Europe of cultures. In the meantime, the EU has not managed to "tame" the problem of Hollywood domination. Instead, it has given rise to products that compete at the level of the Hollywood industry and following its rules of the game. This does not mean that public film investment is being futile. On the contrary, it has provided the sector with powerful traditions and know-how and experience in global markets and promoted intra-European dialogues. Yet, it has remained prisoner to its initial ideological considerations, reaching at this point an historical intersection of economic and political crisis, to which film governance should have (had) much more to offer.

It is questionable whether *Creative Europe*, specifically linked to the digital shift and to the film industry, addresses appropriately and effectively the issues emerging from the digital shift, the persistent crisis in the sector and the legal challenges, such as the review of the copyright framework. There are also concerns over the modernisation of the film content and its availability on alternative platforms such as on-demand services and the implications this has on availability of content and copyright regulation.

EU policy also appears to be concentrated in three different subjects: *citizens*, *non-commercial activities* and the *market-oriented for-profit films*. The provision of culture should be considered as a public good and not be reduced to its economic implications. The EU, however, as an attempt to be faithful to the principles of cultural democracy, ultimately promotes a commercialised view of culture. EU policy does not seem to take into consideration the role of policy as an active stakeholder in the film sector, and although the relevant policies take citizens into account, this remains general; it has the form of provisions and safeguarding mechanisms, such as providing access to film content and safeguarding cultural diversity, rather than a more participatory relationship.

In terms of the film funding framework and mechanisms, there appears to be a conflict between protectionism and the free market that mirrors the EU policy on film, with subsidies belonging to the protectionism approach. EU cultural policy also appears to be shifting from a “laissez-faire” to a dirigisme approach. In an economy based on “laissez-faire”, and as this economy cannot guarantee that cultural and linguistic identities will be protected, public funding is a tool to ensure that cultural goods will be produced and “cultural uniformity” will be avoided (Ferri, 2015). The latest *Creative Europe* programme demonstrates an economic view of culture; this is visible from the language used, as one of the two general objectives of the programme is to promote smart, sustainable and inclusive growth, but also from the introduction of the *financial guarantee facility* described earlier, which is a new idea to funding programmes for culture. However, the persistence of the same regulatory modality between market and culture is seen throughout the new regulatory offer: a repetition of the potential of culture as an economic factor to save Europe from the crisis reminds us of the discursive beginnings of cultural policy in the EU.

The EU has proven to be unable to foresee the crisis, or indeed the multiple crises, financial, refugee and institutional, and act effectively. It has therefore entered a period in which its popularity is diminishing, its role as a normative power in both the European area and the global scene is severely at stake (for more on EU as a normative power, see Kaiser, 2017; Larsen, 2014; Manners, 2002) and it is losing strength in its efforts towards European integration.

The process of integration highlights the complexity, contradictions and problematics of the EU policy and its implications on culture. Regarding the economic and cultural dimensions of film, the question that arises is whether these are treated equally from national and EU funding schemes. On the one hand, the EU is said to implement policies that enhance creativity and promote accessible culture, and, on the other hand, it appears to be trying to accommodate the needs of the industry and the market as well as creating opportunities for jobs and growth. The way of doing this, however, seems to be considering the artistic/creative and the commodified/commercial aspects of culture as distant from each other, rather than as in separate but interrelated views of the same value. The film industry can provide the means for expression for filmmakers, and at the same time the artistic aspects of film influence the market and the industry itself. The EU film policy is using the digital shift to overcome difficulties in approaching the market but at the same time is distancing itself from the value of culture that it is said to safeguard and promote. The impact of this process to the film sector remains to be seen.

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Governance, Public Interest, and Public Film Funding: An Integrative Theoretical Framework

Avshalom Ginosar

1 Media Governance: A Catch-All Word?

Media governance has turned out to be a "catch-all word" in communication literature (Puppis, 2010). Some communication and media scholars use the term as a descriptive framework of communication control systems (Freedman, 2008); others address it as a substitute for "media policy" and/or "media regulation" (D'Haenens, Mansell, & Sarikakis, 2010). Braman (2006), who refers to the broader concept of "information policy" (which includes media policy), suggests "governance" as one of the three components of this term (the other two are "government" and "governmentality"). In other publications in the field of communication studies, the term is connected to the discussion regarding media and globalization or to the relationship between media and the market, media and society, and media and pluralism. It seems that scholars in media and communication studies are ambiguous about the meaning of the term and consequently there is no one agreed reference to governance.

This is not surprising since this term did not originally emerge from media and communication literature; rather, it was "borrowed" from other disciplines in the social sciences, economics, international relations, law, and public policy in particular. Since the 1990s, governance became a "buzz concept" and a framework for research that looked beyond the constitutional arrangements and formal aspects of the polity, politics, and policy (Levi-Faur, 2012). Yet, even in these disciplines, just as in media and communication research, governance as a term is often vaguely used and holds many different meanings.

In general, governance stands for a new mode of governing, alongside the two traditional modes: the "hierarchical" and the "market" modes (Rhodes, 1996). Compared to these two modes, governance is a pluralistic mode of governing with respect to various other components, such as types of stakeholders, different

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policy processes, levels of governing, various policy mechanisms, different policy products, etc. A pluralistic perspective allows the consideration of public interests alongside private interests while discussing various ways of cooperation, coordination, and negotiation between public and private stakeholders. Therefore, one of the core goals of analyzing governance is to identify all types of stakeholders in a given field (such as the film industry) and their various interests. Governance is not distinct from governmental order solely because of its multi-actor nature; rather, another key feature is its multilevel nature. It might involve either supranational actors, such as EU institutions (Héritier, 2002), or subnational actors, such as local and regional authorities and organizations (Kersbergen & Waarden, 2004).

While each of the private/industry actors is dedicated to the achievement of her/his own (private) interests, state actors as well as other types of public actors are expected to advance various public interests. According to the *public interest theory* of regulation, such actors preserve and advance public interests through the mechanism of state regulation (Christensen, 2011; Croley, 2008; Hantke-Domas, 2003). However, in a multi-actor nature of policy processes, public interests compete with various private interests. Therefore, the achievement of public interests is dependent on the relative strength and firmness of public actors compared to private (industry) actors.

In this chapter I will discuss the issue of *public funding for film* (or as the handbook's title alternatively suggests *state aid for film*) by employing (a) the governance perspective of public policy and (b) an analytical framework for investigating social order and policy processes according to this perspective. The topic consists of two components: "films" and "funding." "Film" is one salient example of the cultural industries, alongside music and music recording, television and other audiovisual products, and publishing (Hesmondhalgh & Pratt, 2005; Pratt, 1997). "Funding" is an activity related to both the economic strategy of the industry on the one hand and to public policy on the other hand (Kelly, 2016; Pratt, 2005). Therefore, this chapter addresses "film funding" from the cultural industry policy perspective. It is only a starting point for the discussion, while later I will argue that policy is only one relevant dimension among others to which the governance perspective refers to.

To some extent, the perspective suggested in this chapter represents an "outsider" point of view on the issue. It might be argued that it is even a counter-perspective to various "insider" points of view. Such "insider" perspectives are either from inside the film industry, artistic as well as business perspectives; or from the industry's affiliated institutions, such as public or government film councils or funds, private philanthropic funds; or even from scholars who are experts in film, art, and business. Against these inner perspectives, I argue that the "outsider" governance perspective for film funding is a more comprehensive one because it takes into consideration various other dimensions as will be demonstrated later.

Yet, it should be stated that the notion of "governance" is not often used when referring specifically to the film industry. However, in the last two decades, it has been used increasingly by practitioners, policy-makers, and scholars with respect to culture in general and cultural industries or creative industries in particular (for a detailed discussion on the different terms and the way they are related to policy and governance, see Pratt, 2005). Generally speaking, in most references to "the governance of culture," as well as with regard to culture industries and creative industries, the focus has either been on public subsidies for cultural activities—the narrower reference—or on general public policy toward culture, the broader reference.

Here, I would like to suggest a more comprehensive view of "the governance of culture" and "the governance of film." This view is based on the way that the notion of governance has been developed in the field of public policy (e.g., Ginosar, 2013; Levi-Faur, 2012), and it suggests considering film funding not only as an economic and political issue (e.g., the way in which Pratt, 2005, addresses the issue). Rather, the governance perspective suggests looking at film funding while taking into consideration various other features—such as relationships between different stakeholders, different institutions which are involved in the policy process, various mechanisms of policy shaping and policy enforcement, etc. All these features contribute to funding decisions for the film industry.

The chapter's structure is as follows: First, the notion of governance is discussed in the way it has been addressed and developed in public policy literature. This is followed by presenting an analytical governance framework that was previously suggested for the media sector at large. Next, there is a brief review of the literature about governance of culture and films. The final section summarizes the issue of governance and relates the governance model to the topic of film funding.

2 Governance and Public Interest: Reviewing the Literature

Traditionally, two main rival modes of governing have been considered when discussing the relationships between the state and its various institutions, on the one hand, and society and its different economic and societal organs on the other. The first is the state "command and control" mode, and the other is the "market" mode. While the former has been dominant in Europe for decades, and is characterized by its hierarchal structure, the latter, mainly in the United States, has been characterized by supply and demand rules.

However, in the last decades, two main developments have challenged these traditional modes of governing (Levi-Faur, 2012; Peters & Pierre, 1998). The first development is the globalization process which is reflected in the increasing importance of the international environment and the decreasing capability of national governments to insulate their society and economy from global pressures. The second development is the shift of power between the various actors: changes in the relationship between governments and the private sector and changes in the strength and influence of societal actors (mainly NGOs) with regard to shaping public policies. One of the most outstanding outcomes of these two rival processes is a new reality in which national governments are not the only actors, and not even the main actors, in the social order.

"Governance without government," as Rhodes (1996) referred to this new reality, is a new mode of governing alongside the two traditional modes mentioned above. Börzel and Risse (2010, p. 114) defined governance as "the various institutionalized modes of social coordination to produce and implement collectively binding rules or to provide collective goods." Levi-Faur (2012, p. 14) addressed governance as "a hybrid of different systems of regulatory control" and referred to four dimensions of governance: (1) different structures of governing, (2) various actors involved, (3) various processes through which policy is formulated and implemented, and (4) different levels in which these processes are conducted and in which the various actors operate.

In the same vein, Treib, Bähr, and Falkner (2007) see governance as encompassing:

(a) Politics—the power relationships between actors and their influence on policy-making
(b) Polity—which refers to the institutional system in which policy is formulated
(c) Policy—which addresses the steering instruments through which particular policy goals should be achieved

Governance, as described above, is a complex social control system, quite different than the two traditional modes: "command and control" and the "market." It is much more pluralistic and flexible than the traditional control systems, and therefore it reflects in a more realistic way the complex relationships between various stakeholders, both institutional and individual. One important insight from this analysis is that different stakeholders have different incentives to cooperate, set alternative regulatory mechanisms, and even to achieve voluntary agreements that are closer to the common good than to particular self-interests. This is mainly because, through these actions, private actors can reduce or even eliminate governmental intervention. Some scholars named this reality "the shadow of hierarchy" (e.g., Börzel, 2010; Börzel & Risse, 2010; Héritier & Lehmkuhl, 2008). This means that even though the government does not directly intervene, the threat of intervention is a sufficient incentive for other stakeholders—mainly private—to act and not necessarily to act in accordance with their full self-interests. The institutional aspect of such initiatives is conceived in the literature as "policy networks" (Blom-Hansen, 2002; Marin & Mayntz, 1991). Within these policy networks, various actors—public and private and national and supranational—can voluntarily cooperate and agree on the formulation and implementation of policies. The link between governance and the policy networks blurs the distinction between state and civil society and thereby demonstrates the shift from the *hierarchical* mode of governing (government) to the new *horizontal* mode (governance).

Within the complex social order represented by the governance perspective, public interests compete with private (mostly, economic) interests. Traditionally, regulation, and in particular state regulation, aims at achieving and/or preserving various public interests, or what are known as the "common good" (Christensen, 2011; Croley, 2008; Grofman & Feld, 1988). This common good can be the correction of market failure or addressing instances of market absence (Baldwin & Cave, 1999; Breyer, 1998; Ogus, 2004) or achieving social justice and distributional justice (Morgan & Yeung, 2007; Ogus, 2004). However, many have argued that the public interest perspective on regulation is naïve. This follows many empirical studies demonstrating that regulation is doomed to fail in achieving the public interest; rather, it serves private interests, either of the regulated industry itself or of the regulator (e.g., Horwitz, 1989; Posner, 1974).

An analysis that combines theories about regulatory goals—public interest versus private interest—and theories regarding regulatory processes, institutionalism versus actor-centered theories, suggests four different types of regulation and regulators. The first two types—"selfish" and "manipulative"—are acting in favor of private interests. The other two types of regulators—"combative" and "coordinator"—advance the public interest (for a more detailed analysis, see Ginosar, 2014).

Here, I would like to suggest that the fourth type of regulator, the *coordinator*, is best suited to the pluralistic and horizontal nature of the governance mode of governing. This is because the coordinative regulator, as the state representative, aims at achieving public interest in a consensual way by including a broad spectrum of insights and positions, by openness, and by considering a second review of views and positions (Christensen, 2011). Such procedures minimize the effects of power inequalities and enhance the legitimacy of a specific policy in the eyes of other relevant stakeholders (Croley, 2008; Morgan & Yeung, 2007).

Since governance relates to a multi-actor environment in which the state regulator is only one actor, other actors, such as members of the policy network, influence the policy as well. The coordinative type of state regulator enables the participation of other actors in the process. However, there are instances when the state regulator plays no role in the specific policy network of a certain sector. In such cases, the industry actors and the societal stakeholders (mostly NGOs) together play a major role in the policy process, and through this collaboration the industry's private interest is balanced with the public interest that is represented by the societal actors. In recent years, scholars of regulatory governance have paid more attention to another type of actor in the regulatory process: the intermediary (Abbott, Levi-Faur & Snidal, 2015). Usually, intermediaries stand between the regulator and the regulatory target and play a role in enforcing and monitoring compliance through regulatory policy (Grabosky, 2013). *Regulatory intermediaries* can either be NGOs, or consulting firms, or even expert groups. Whether this multi-actor regulatory environment benefits the public interest is still open to question. However, the cooperative atmosphere within such multi-actor environments enables not only public interests to be brought into industry considerations but also enables the industry to gain public legitimacy for its own interests.

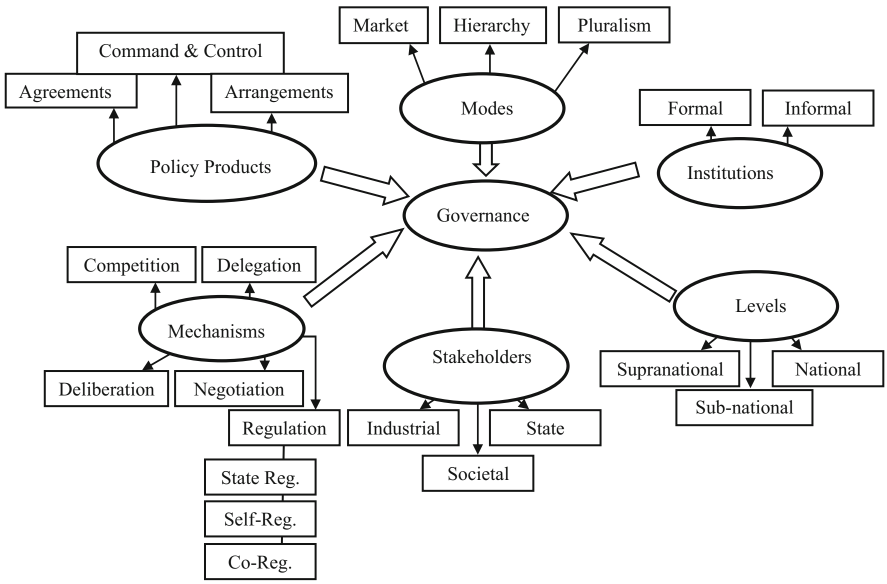

Fig. 1 A conceptual framework of governance. Source: Ginosar (2013)

3 Governance: A Conceptual Framework

Based on the core principles of the governance perspective for societal systems control, as outlined above, I suggest an analytical framework (see Fig. 1) for analyzing such systems (Ginosar, 2013).

As can be seen in Fig. 1, the framework consists of six components: *mode*, *institutions* (or structures), *level of activity*, *types of stakeholders*, *mechanisms of operation*, and *products* (or outcomes) of the policy process. Each of these components contains more than one category, and therefore the combination of components and categories creates several types of governance.

Originally, this framework was related to media systems in general, although it can be used to analyze any other social system and, hence, any specific system within the media sector, including the film sector. Therefore, before discussing the governance of film specifically, I would like to briefly present the main features of the framework.

3.1 Modes

In this context, it refers to the values and norms that dominate the relevant policy network as a whole as well as each of its individual members. There are three main categories of modes*: hierarchy*, *market*, and *pluralism*. Hierarchy and market lead to the traditional modes of governing, while pluralism is the basis for the pluralistic mode. In cases where either the state holds a centralized view or the private corporations have strong positions on politicians, the mode of governing is *hierarchical* or *market*, respectively. In such cases, there is no chance for real cooperation between the stakeholders from the different sectors, and thus the pluralistic mode cannot exist. Governance, in its pluralistic sense, exists when there is a tendency by the political and the industry sectors to cooperate and coordinate their activities. This tendency can be the result of either a pluralistic ideology of the political sector or a weakness of the industry. An important incentive for governance in its pluralistic form is the existence of strong societal organizations which act alongside the state and the private/industrial corporations and associations and which have political influence over the shaping of policies. A strong, influential civil society is an important agent of governance.

3.2 Institutions

The three main categories of institutions are *formal*, *informal*, and a *combination of both*. As mentioned earlier, policy networks, which according to some views are at the heart of governance, are not formal institutions. Yet formal state institutions such as state regulatory authorities, industrial and/or societal organizations, and associations that are also formal institutions can cooperate with each other within informal institutions. This means that informal institutions can consist of both formal and informal members. Such institutional activities can be conducted regularly or in an ad hoc manner. In either case, both formal and informal institutions are the arenas for discussing and shaping mutual values, solving controversies regarding specific emerging issues, and formulating joint and agreed policies. In some cases, the joint institution serves as a platform only for formulating policy; in others it is a platform for implementing policy as well.

3.3 Level of Policy Activity

Policy activities consist of formulating, enforcing, and implementing policy. Unlike the traditional hierarchical mode, according to the governance concept, these three phases of policy process are not conducted only at the *national level*. Rather, policy formulation and implementation can be done at *subnational levels* (local and regional) as well as at *supranational levels* (regional and international). Furthermore, according to the idea of governance, policy in all its phases can be conducted simultaneously at different levels. For example, national organizations and institutions can adopt standards that were formulated by international organizations and enforce them within their own jurisdictions. This adoption and enforcement of standards can be done by state regulatory authorities as well as by self-regulatory bodies of national industry.

3.4 Stakeholders

Stakeholders are the most distinctive feature of the pluralistic nature of governance. They may not only be active at different levels of policy activity, as shown in the last paragraph, but they may also be from various sectors in each of the levels. Actors can be traditional state institutions, such as governmental departments, parliamentary committees, courts, and regulatory authorities, formal supranational institutions, such as the UN organizations, and the EU's various institutions, private corporations, both local and international, national and international industry and professional associations, and public and societal organizations. This mixture of actors can be involved in each phase of the policy process. However, there can be cases when some of them only take an active part in one or two phases of the process while being passive in the others.

3.5 Mechanisms of Operation

In the traditional hierarchical mode of governing, there is one dominant mechanism, "command and control." In the "pure" market mode of governing, competition is the only mechanism of operation. In contrast, in nonhierarchical modes of governing, there can be various mechanisms of operation which are the consequences of the multilevel and multi-actor nature of governance. The main categories are regulation in its various forms—*state regulation*, *self-regulation*, and *co-regulation–negotiation*, *delegation*, and *deliberation*. Two or more of these mechanisms might be conducted simultaneously. For example, industry self-regulatory institutions can be built and operated either by the industry itself or through a process in which the industry and the state negotiate—and agree upon—the structure, the agenda, and the mode of activity of such an institution. There can be cases in which state actors delegate some of their authorities to societal or industry actors, while in other cases industry actors voluntarily act according to non-binding standards that are set by state actors. Such dual cases are the foundations of "co-regulation."

3.6 Policy Products

The three main types of policy products are *compulsory state policy* ("command and control"), *formal agreement* (sometimes with the backing of the law), and *informal arrangement*. Usually, policies—in the narrow and traditional meaning of the term—are the products of formal institutions at all levels and are compulsory in spite of the disapproval of all the relevant stakeholders. The question is how do stakeholders react to these policies? Is there compliance or rejection? Was the policy formulated only by state institution or through a deliberative process, with cooperation from industry and/or societal actors? How, if at all, can the policy be enforced? The other two possible outcomes of a policy process are less problematic in terms of governance. That is because both formal agreements and informal arrangements have advance consent of most or all stakeholders, and therefore implementation is much easier. The characteristic shared by all three types of policy products is the legitimacy of a new policy, which is either compulsory or is agreed to by most of the relevant stakeholders.

4 Governing the Film Industry

The notion of governance and the pluralistic concept of governing that this notion represents have been adopted in many social sciences, including culture studies and film studies. However, in each field of social research, governance is perceived differently according to its unique features. The governance framework in Fig. 1 enables the analysis and comparison of governance in different fields by employing the same components.

In our case—the governance of culture industries and the film industry within it—the framework's components can be easily identified:

(a) Mode—although the film industry has traditionally been built upon private enterprises and market rules control it, government's resolutions and different civil society inputs have had an effect on the industry. It is therefore reasonable to argue that a pluralistic mode of operation—rather than the market alone or governmental hierarchal modes—is the relevant mode of operation in this field.
(b) Stakeholders—following the above argument, it is also argued that private industry actors, such as investors, producers, and creators, are not acting in isolation. Rather, state actors such as policy-makers and bureaucrats, alongside civil society's actors such as NGOs, take part in the relevant policy processes and have an effect on decision-making, including making decisions regarding the amount and distribution of public money invested in the industry.
(c) Institutions—some of the policy processes are conducted within formal institutions. Two of the most salient examples are legislation regarding the establishment of public funds and formal decisions regarding channels for allocating public money. Other processes, however, such as different policy networks' procedures, are conducted through informal institutions.
(d) Mechanisms—due to the pluralistic and multi-actor nature of the field, public policies are shaped not only by direct state regulation but also by co-regulation through the mechanisms of negotiation, delegation of authority, and other deliberative processes.
(e) Policy products—governmental resolutions are as necessary as they are in other fields of public policy.

However, formal agreements and various forms of arrangements between the state and public actors on the one hand, and the industry actors on the other hand, are part of this pluralistic arena. A brief review of the literature on the governance of culture and film is presented in the rest of this section. This is in order to demonstrate to what extent—if at all—the different dimensions of governance are taken into consideration while researching and analyzing the issue.

The cultural industries as a sector—and the film industry within it—are characterized by both economic and artistic and cultural dimensions. The economic dimension represents a commercial orientation aimed at profit and should therefore not deserve public subsidies. The artistic and cultural dimensions are usually related to different forms of elite culture funded by public money (Dickinson & Harvey, 2005; Pratt, 1997, 2005). This dual viewpoint of this sector signifies an interface between business, policy, and art. However, at the same time, it points to the multi-actor nature of the sector, which means the involvement of various types of private and public stakeholders. This insight reflects one of the main components of the governance perspective discussed earlier and is the base for the discussion on the governance of culture. Pratt (2005) argues that "governance encompasses policy, the definition of artefacts and their production as well as the legitimization and implementation of policy" (p. 15). Yet Pratt points to "a new conception of governance" according to which state policy not only acknowledges the existence of the market but "is actively involved in the shaping of that market. Moreover, it should also involve the discussion of what the market is failing to do, and what can be done by other means" (p. 18). Such a view implies that the state should have a major role in the governance of culture, although there are also different views on the issue. Paquet (2003), for example, while supporting the idea that the state has an important role within the governance of culture, warns that this role "must remain subsidiary because it may create distortions and do more damage than good by intervening imprudently in cultural affairs" (p. 2).

The role of the state within the multi-actor environment of the cultural industries is an important component for the analysis of governance. However, as already shown, another core component is the multilevel nature of the social order. This is true for both the culture sector and the film industry. The policy activity component regarding culture and films should be analyzed through a three-level lens: national, regional, and international. The national level—the relationship between government and local culture industries—is understood worldwide. National governments justify their intervention in the market by protecting national film production (Dickinson & Harvey, 2005). This protection is mostly needed against the strength of the global market in general (Kim, 2003) particularly in small countries with small film industries that stand against the giants of Hollywood (Kong, 2004; Sand, 2016; Salvemini & Delmestri, 2000). One outstanding example of collaboration between the state and the film industry in order to protect and promote the local film industry has been the *UK Film Council*, which was established in 2000 and modified in 2010. The council, which was established as part of the political agenda of the New Labour government, reorganized public funding for film into three separate streams, with an industry professional at the head of each of stream (Kelly, 2016). This is a good example of a state's acknowledgment of the pluralistic nature of this industry. Norway is another example of governmental involvement in the market. Here, the national level is not the only one to be addressed by the government. Rather, the state referred to the regional level as well and between 2000 and 2010 established 11 regional film agencies (Bjerkeland, 2015). This unique policy created tensions between the country's center and its periphery with respect to the allocation of funding (Sand, 2016).

In Europe, the national and regional levels do not describe the whole picture as the European supranational level is relevant to the discussion as well. Culture was recognized as a medium for the management of European integration and was therefore part of the 1992 *Treaty on European Union* (Barnett, 2001). This means that since then, the EU cultural policy has only been one tool among others in the service of a political goal: European integration. Yet the European cinema and European cultural policy are not only political tools, rather, they stand by themselves. On the one hand, the EU cultural policy has been influenced by globalization, transnational collaboration, and the strength of Hollywood, while on the other hand, the policy promotes and enhances the role of European film and television in other parts of the world (Bondebjerg & Novrup Redvall, 2015). These European efforts can be quite easily achieved due to the relative wealth of European resources. However, this is not the case for other parts of the world. When thinking globally, poor countries, mostly in the southern hemisphere, do not have such economic resources for supporting their local film industries. The *International Fund of Cultural Diversity* (IFCD), which was established following the 2005 UNESCO *Convention on the Protection and Promotion of the Diversity of Culture*, is one of the outstanding examples at the international level that aims at dealing with this reality. Most of this fund's resources are aimed at supporting nongovernmental organizations to function within the cultural industries in developing and underdeveloped countries (Albornoz, 2016). This is a good example, not only for the supranational level analysis of the governance of culture but also for the pluralistic nature of the field. It encompasses the supranational level alongside the national level, formal institution operating side by side with informal ones and stakeholders from both civil society and the industry.

Previously, I suggested relating the analysis of governance with the identification and definition of the relevant public interests in a given field. Now, the question is whether the governance analysis of the culture and film sector, as presented here, is aligned with this suggestion. The IFCD example above provides us with one answer to this question. Albornoz (2016) argues that this fund's goal is to strengthen the cultural sphere of the poorest countries and can be seen as a public interest that was defined by a formal international institution. The discussion on the European level presented earlier (Barnett, 2001; Bondebjerg & Novrup Redvall, 2015) points to other types of supranational public interests: the EU culture policy is either a political tool for European integration or a cultural facilitator for enhancing European culture against globalization forces. The same public interest is relevant at the national level as well, with each country shaping its policies, including its funding policy, in order to protect its national industry against the global giants and to support local forces and its national heritage. This was well articulated by the British *Department of Culture Media and Sport* (DCMS) that gave five reasons for subsidizing cultural organizations and individuals: ensuring excellence, supporting innovative work, assisting access, providing a seedbed for the creative industries, and contributing to economic and social regeneration (Selwood, 2001). It can be argued that (a) these reasons for public subsidies reflect public interests as they were identified and formulated by a formal political institution and (b) these public interests can be applied to other countries as well.

5 Film Governance: Need for an Integrative Framework

This chapter suggests using a governance perspective while analyzing the film sector in general and specifically the issue of film funding within that sector. The sector consists of multiple stakeholders, operating at multiple levels, in several types of institutions, and subject to various types of policy mechanisms. This reality allows the governance framework presented here to be applied as an analytical framework both to describe a given film governance system and to compare such systems—for example, comparing two countries.

Researchers who attempt to investigate the governance of the film sector and film funding should begin their work by identifying the relevant interests and/or stakeholders involved in the given policy process. Usually, scholars will find that they should address various types of such stakeholders and interests. Some of them will be private or commercial interests represented by both economic and artistic industry actors, while others will be in the general public interest, such as strengthening the national culture or ensuring a high rate of employment in the film or other creative industry, and represented by different state actors. Others still will be specific group interests represented by a mixture of state actors, interest groups from the public, and various NGOs. Identifying the stakeholders and their various interests enables the researcher addressing the formal and informal institutions in which policy processes will be conducted. Taking into consideration all these analytical components enables us to understand the “big picture” of film funding.

While this volume addresses the topic of film funding, the governance perspective presented in this chapter suggests considering film funding not only as an economic and political issue. Rather, the governance perspective suggests looking at film funding through a much wider lens and taking into consideration various features that indirectly affect funding procedures and that will eventually affect funding decisions.

Two components of those which were discussed in this chapter are most prominent in the film industry and the public policy regarding this industry: (a) the involvement of various types of stakeholders (the artistic actors, the producers, the investors, the industry associations, and the political and other public actors; each group of these stakeholders represents different types of interests and values, and the identification and presentation of these contradictory interests are fundamental features of the governance analysis of film public funding) and (b) the different levels in which the policy activities are conducted. It is dependent of course on the political atmosphere in a given country and on the relationships between the different groups of stakeholders within this country. However, in many cases, the policy processes regarding public funding of films are conducted simultaneously in the national level, local level, and the supranational level, while private and public stakeholders are involved in more than one of these levels. The analysis of the policy processes in all relevant levels is essential for the understanding of funding decisions and procedures.

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State Subsidies to Film and Their Effects at the Box Office: Theorizing and Measuring Why Some Genres Do Better than Others

Gianpiero Meloni, Dimitri Paolini, and Manuela Pulina

1 Do State Subsidies to Film Help at the Box Office?

"Any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market" (Art.107, European Treaty, 2012). An exception to this law is public aid for movies, which is permitted for cultural goals, that is, to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to the extent that is contrary to the common interest. As remarked by Katsarova (2014), in 2010, the European film industry was rather dynamic, accounted for over 75,000 companies, and made 60 billion euros in revenue. Amongst the EU countries, France, Germany, the UK, Italy, and Spain accounted for approximately 80% of releases, industry turnover, and persons employed (more than 370,000 people).

Considering these main European countries, in terms of movie production, direct public subsidies from government agencies are an important source of film funding. In 2012, the governments of Germany, France, Italy, and the UK provided funding in the amounts of 201.3 million euros, 720.1 million euros, 75.8 million euros, and

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134.2 million euros, respectively (see Lange, 2012). Moreover, film productions can receive indirect subsidies in the form of tax shelters incentives for investors, valued in 2011 at 222 million euros for the UK, 90 million euros for Italy, and 100 million euros for France (see Lange, 2012).

From the perspective of the public agent, on the one hand, several explanations may support public intervention in the movie industry. First, movies can be viewed as "merit goods", that is, public goods for which often there is no demand from the public but are provided by the government on paternalistic grounds given the benefits in promoting their fruition (Fiorito & Kollintzas, 2004; Musgrave, 1959; Pratt, 2005). In this respect, a subsidy may increase the revenue received but may also decrease the costs for producers, who may be encouraged to become more efficient and to produce at a more socially oriented level. Second, public intervention is desirable in the presence of positive externalities, which are the positive effects that an activity exerts on an unrelated third party. For example, movies often play an important role in aiding the educational development of schoolchildren by strengthening their critical skills and allowing them to witness dramatic historical episodes. Informational and documentary movies can also be important for lifelong learning in adulthood. Ultimately, increased education can enhance individuals' public participation and lead to a higher level of welfare. Finally, public subsidies for the movie industry are likely to enhance social and cultural benefits that range from regeneration, social inclusion, and an affirmation of national identity (see Pratt, 2005). In this sense, evaluating public interventions in cultural products is not a simple task.

On the other hand, several explanations may discourage public intervention in the movie industry (e.g. Bagella & Becchetti, 1999; Christopherson & Rightor, 2010; Collins & Snowball, 2015; McKenzie & Walls, 2013; Tannenwald, 2010; Teti, Collins, & Sedgwick, 2014). Inefficient outcomes in terms of negative rates of return and poor quality of the production can be seen as a valid reason not to support this industry. Moreover, governments face trade-offs in allocating public resources. Public financing to a specific economic sector may prevent public money allocation to more efficient uses. A further argument relates to the economic concept of crowding out effect. In this respect, government funding can cause a decrease in private investments given a rise in interest rates that are likely to occur because of an increase in demand for loanable funds. Ultimately, an overall rise in public spending can lead to a contraction of the economy and/or a higher taxation.

So far, there are not many studies that explore the impact of public subsidies on the film industry adopting more sophisticated quantitative approaches (e.g. Bagella & Becchetti, 1999; Chisholm, Fernandez-Blanco, Ravid, & Walls, 2015; Collins & Snowball, 2015, 2016; Jansen, 2005; McKenzie & Walls, 2013). The aim of this chapter is to highlight a range of theoretical constructs that can help to analyse the factors that influence the movie industry. A focus is dedicated to parametric tools such as panel data that allow to investigate the impact of a set of explanatory variables, amongst others subsidies, on film box office. Given the data availability, a stochastic frontier can also be implemented to analyse movie industry's productivity and efficiency and to address in what measure a set of exogenous variables may affect the overall performance expressed in terms of economic (in)efficiency (see seminal works by Aigner, Lovell, & Schmidt, 1977, and by Meeusen & van den Broeck, 1977).

Amongst other methods, *data envelopment analysis* (DEA)[1] can be used to evaluate the relative efficiency across time and amongst a sample of decision-making units (DMUs). This well-established non-parametric approach has the advantage to reduce multiple inputs and multiple outputs to a virtual one input and one output without the need for setting a priori underlying functional form (seminal works include Banker et al., 1984; Charnes et al., 1978). A post-DEA can also be implemented to explore the factors that influence the economic efficiency.

In this chapter, an empirical application is also provided on the impact of public subsidies on box office revenues, while controlling for their possible impact on the quality of financed movies as well as for "*genre heterogeneity*", that is, disentangling the effects of different types of movies such as drama, thrillers, or comedies. To test these hypotheses, Italy is considered as a case study—as one of the big players in the EU (see Katsarova 2014)—and the time span under analysis is from 2002 up to 2011. The Italian legislation concerning economic and financial support by the public for various forms of cultural activities, such as music and theatre, was issued with "Law 163, April 30, 1985", which represented the "new discipline of interventions in favour of the performing arts" (Forte & Mantovani, 2013) and 25% delineated the total funds to be granted to the movie industry. A further regulation on motion pictures was issued in 2004 that established that public funding could be allocated either directly to the production of a new movie or indirectly by subsiding movies or authors based on their quality as defined by a set of criteria. In addition, another type of contribution can be allocated to movie producers and authors based on box office performance (see the Appendix for a more detailed discussion). In this chapter, we consider Italian movies released in the domestic market between 2002 and 2011. The focus of the empirical analysis is only on the domestic market, because amongst the sample only a small quota received an international distribution. This is coherent with the sample of market share for Italian movies employed by Waterman and Jayakar (2000).

From a methodological perspective, a fixed-effects and random-effects panel data analysis is employed to explore the impact of public subsidies on box office revenues. Besides, a panel Poisson is run to investigate to what extent public subsidies and genre influence the number of prizes won, which can be regarded as a proxy for implicit quality in the Italian movie industry.

The chapter is organized as follows. Section 2 presents the related literature, while Sect. 3 highlights the methodological framework. In Sect. 4, the case study is presented along with a description of the data and the findings that emerge from the empirical investigation. Concluding remarks are presented in the last section.

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[1]DEA is a non-parametric approach that constructs a production frontier to evaluate the relative economic performance of a sample of decision-making units characterized by homogeneous technology.

2 Reviewing Research on Movie Performance

Movie industry has attracted research attention from economics and marketing scholars, due to its economic relevance and complex characteristics, in particular, high production costs and uncertainty of demand (De Vany, 2004; Ebbers & Wijnberg, 2012; Fernandez-Blanco, Ginsburgh, Prieto-Rodríguez, & Weyers, 2014), timing strategies, and seasonality issues (Belleflamme & Paolini, 2015; Chiou, 2008; Einav, 2007, 2010). Moreover, copyright industries, such as cinema, face fixed export costs due to cultural and geographic distances with importing countries, along with trade barriers. Meloni, Paolini, and Tena (2014) study how these costs impact the number of products exported and the relative value per trade with a microeconomic approach by estimating a hedonic model of US movies revenues in foreign markets. Holbrook and Addis (2008) claim that market performance and artistic excellence, measured by industry recognition (i.e. Oscars and other awards), are uncorrelated aspects of movie success. Several papers have estimated the impact of critical reviews (Basuroy & Ravid, 2014; Eliashberg & Shugan, 1997) and awards (Lee, 2009) on movie revenues, but none of them consider these types of variables to evaluate the quality of cultural products.

Bagella and Becchetti's (1999) work is one of the first and one of the few studies that investigates some critical issues within the Italian movie industry over the period between 1985 and 1996 using a sample of 977 Italian films. Using a GMM-HAC (*generalized method of moments heteroskedasticity and autocorrelation consistent*[2]) approach, the authors find that public subsidies do not influence total admissions, daily revenues, or per screen daily admissions. In addition, the positive and statistically significant effect of the genre "comedy" on total admissions shows that the decision to produce films in this type of genre has an independent, positive effect on box office revenues regardless of ex ante cast and director popularity. Along the same line, McKenzie and Walls (2013), for the case of Australia, find that government subsidies have no impact on a film's financial success at the box office.

They find, moreover, that even though Australian films are generally advertised more heavily and released more widely than non-Australian films, *ceteris paribus*, they earn less at the box office. Jansen (2005) examines the case of the movie industry in Germany and finds that public subsidies tend to support producers who have consistently had above-average success in their movie performance.

Hence, this finding stands in contrast with the author's prior belief that public funding tends to distort producers' incentives to make movies that match viewers' expectations. To sum up, despite a large body of literature in the field—see McKenzie and Walls (2013) and Chisholm et al. (2015) for a detailed survey—only a few papers consider how public intervention affects box office performance and, to the best of our knowledge, this chapter is the first to analyse its impact on quality.

[2]*Generalized method of moments* (GMM) is an estimation procedure that allows economic models to be specified while avoiding unnecessary assumptions, such as specifying a particular distribution for the errors.

3 How to Measure Movie Performance?

From a methodological perspective, several constructs can be implemented according to data availability that can be used to test different theoretical hypotheses.

3.1 Stochastic Frontier

The stochastic frontier model is used in a large number of studies of production, cost, revenue, profit, and other models of goal attainment. The model, as it appears in the current literature, was originally developed by Aigner et al. (1977) and Meeusen and van den Broeck (1977).

The film industry, as any other economic industry/sector, is characterized by a production process where a set of factors of production, capital, and labour (i.e. inputs) lead to a given output. In this respect, it is possible to implement a stochastic frontier that assumes that in the production process a parametric function exists between inputs and outputs. Deviations from the ideal frontier represent decision-making units's (in this case movies) economic inefficiency. The generic equation for a panel (i,t), in logarithm terms (L), can be expressed as follows:

$$LY_{it} = \alpha_0 + \sum_{j=1}^{k} \alpha_j LZ_{jit} + \varepsilon_{it} \tag{1}$$

where L denotes logarithm, Y is the output (e.g. box office revenues), and Z are the K inputs (e.g. budget of production). The residual is $\varepsilon_{it} = \nu_{it} - \upsilon_{it}$; specifically, the SF is characterized by a composite error term (ε_{it}) that can be further decomposed into two parts: the standard idiosyncratic disturbance which captures measurement errors and noise (υ_{it}) and a disturbance term which represents the effects of inefficiency relative to the stochastic frontier (ν_{it}). As reported in Belotti, Daidone, Ilardi, and Atella (2012), a set of exogenous variables that are not inputs may also affect the distribution of inefficiency, and hence the films' performance, because they can cause either a shift or rescale of the frontier function or even both the effects. Such an uncontrolled impact may affect the inference of the SF models leading to bias (in)efficiency estimates (e.g. distributor, film genre, release date, runtime, number of nominations, public subsidies).

3.2 DEA and Post-DEA

Within the production function, a non-parametric specification can also be implemented such as the *data envelopment analysis* (DEA) . This approach was developed by Charnes et al. (1978) and Banker et al. (1984).[3] DEA is a linear

[3]See also Coelli (1996).

programming technique; it defines the best-practice frontier that serves as a benchmark and computes the relative distance between each unit and the frontier. This distance can be interpreted as the relative economic performance of the units in the sample.

The outputs, expressed as y_{in} (i.e. the quantity of output n produced by the DMU i), can include box office revenues, number of nominations, and number of awards. The factors of production, expressed by x_{in} (i.e. the quantity of input k employed by the DMU i), can include the monetary value of capital and labour—for example, the budget of production—public subsidies. DEA reduces such a multivariate construct to a virtual unique input–output framework through a linear programming. In standard full frontier models, a subgroup of DMU will achieve a relatively level of efficiency equal to 1, whereas the residual DMU will be considered as inefficient with the score <1. The generic maximization problem can be expressed as follows:

$$\text{Max}\theta_i(y_i, x_i, u_i, v_i) = \frac{\sum_{n=1}^{N} u_{in}y_{in}}{\sum_{k=1}^{K} v_{ik}x_{ik}} \tag{2}$$

subject to:

$$\sum_{n=1}^{N} u_{in}y_{in} = 1 \tag{3}$$

$$u_{in} \geq 0$$
$$v_{ik} \geq 0$$

$$\begin{aligned} n &= 1, 2, \ldots.., N \text{ outputs;} \\ k &= 1, 2, \ldots\ldots., K \text{ inputs;} \\ i &= 1, 2, \ldots\ldots, M \text{ firms} \end{aligned} \tag{4}$$

where θ is the efficiency for the DMU I, u_{in} is the weight of output n for the DMU i, and v_{in} is the weight of input k for the DMU i.

As an extension, a post-DEA can also be implemented to investigate the factors that can influence economic efficiency. As emphasized by Assaf and Josiassen (2015), the main limitation of DEA is that it does not take into account random errors, is highly sensitive to outliers and sample size, and does not allow for statistical inference on the efficiency results. To overcome such limitations, a post-DEA can be implemented, as a further extension to this non-parametric method, based on the methodology proposed by Simar and Wilson (2007). Thanks to a bootstrapping procedure, it is possible to identify the factors that affect the economic (in)efficiency. These combined parametric and non-parametric approaches provide more insight for economic agents who may formulate policy aimed at improving the overall efficiency. The generic specification is given by the following expression:

$$\theta it = Z_{it}\beta \, \varepsilon_{it} \geq 1 \qquad i = 1, \ldots, n \quad t = 1 \ldots.. T \tag{5}$$

where θ_{it} is the i-th DMU's efficiency score at time t (DMUs are technically inefficient when $\theta_{it} < 1$); Z_{it} contains factors that are assumed to influence the DMUs' efficiency; β is the vector of parameters to be estimated; and ε_{it} is the residual that is assumed to be white noise.

3.3 Panel Data: Fixed and Random Effects

Alternative methods can be also implemented according to the data availability. For example, for the film industry in Italy, from the official statistics no information can be gathered on the monetary value of inputs (e.g. the budget of production). In this case, a panel data approach (see, for example, Gujarati & Porter, 2009), with individual and time dimension, can be employed.

Panel data (also known as longitudinal or cross-sectional time-series data) is a dataset in which the behaviour of entities is observed across time. Specifically, the fixed-effects model controls for individual heterogeneity as well as assumes that those time-invariant characteristics are unique to the individual and are not to be correlated with other individual characteristics. In this manner, each individual is regarded as different and the individual's error term and the constant, which captures individual characteristics, are not correlated with the others. If the latter assumption does not hold, the random-effects model needs to be employed.[4]

As an example, a baseline specification consists of a movie's revenue i as a function of public subsidies and genre, that is, comedy, drama, thriller, and documentary treated as the reference category. The continuous variables are expressed in logarithm terms and are adjusted for inflation. The generic model is specified as follows:

$$\begin{aligned} Lrevenue_{i,t} = \beta_0 + \beta_1 Lsubsidies_{it} + \beta_2 comedy_{it} + \beta_3 drama_{it} + \beta_4 thriller_{it} \\ + \varepsilon_{it} \end{aligned} \tag{6}$$

where L denotes logarithm, β_r for $r = [1,4]$ are the parameters of the model to be estimated, and $\varepsilon_{i,\,t}$ is the white error term. The relevant variables are expressed in logarithm terms to measure parameters in terms of elasticity.

[4]To discriminate between these fixed effects and random effects, a Hausman test can be used where the null hypothesis is that the empirically preferred model is random effects and the alternative hypothesis the fixed effects.

3.4 Poisson Models for Count Data

A further specification can be expressed in terms of the number of awards, or nomination, obtained by each film. Since these types of variables are count variables, a Poisson distribution[5] needs to be considered as follows:

$$\text{Prob}(Y_i = y_i) = \frac{e^{-\mu}\mu^{y_i}}{y_i!} y_{i=0,\ldots\ldots N} E(Y) = V(Y) = \mu \tag{7}$$

The parameter μ represents the number of the occurrence of the event, and by assumption, the average and the variance are equal.[6] In the literature, several extensions of the Poisson model are considered according to the characteristics of the empirical data as well as the dispersion hypothesis that is the possible inequality of the mean and the variance. In fact, this latter hypothesis can be further tested against a negative binomial model through a likelihood ratio test: the null hypothesis is that the variance is statistically equal to the mean and the alternative hypothesis is that the variance is statistically different. This approach is called count model, because the observations of the dependent variable can take only the non-negative integer values {0, 1, 2, 3, . . .}, and where these integers arise from counting rather than ranking (Cameron & Trivedi, 2013; Greene, 2003).

4 Film Subsidies and Genre Success: The Case of Italy

4.1 The Italian Law on Movie Industry: An Overview

The Italian Ministry of Culture in 1985 created a special state fund so-called FUS (*Fondo Unico per lo Spettacolo, that is, Italian National Funding for Entertainment*). The FUS is revised every year by the budgetary law, to aid the Italian performing arts, with a special section for the movies. According to the Law issued in 1985, 25% of its funds were destined to movie production. From 1990, the FUS constantly diminished in real terms and as a percentage of GDP. Initially, the amount given to the movies production was 150 billion lire (approximately 75 million euros). As Forte and Mantovani (2013) underline, a remarkable amount considering that the aggregate revenue of the Italian movies in 1985 was approximately 80 million of euros (153 billion lire). In 1990, the fixed percentages for various sectors were abolished. From then on, Italian movies obtained a yearly percentage of approximately 18%. The funds were mostly used to finance new films on the basis of a project presented to the ministerial committee of experts. A section was reserved to new debutants and producers. A minor share was reserved to short

[5]Poisson regression is a form of regression analysis used to model Count Data.

[6]The Poisson model is non-linear; however, it can be easily estimated by the maximum likelihood technique.

films, film festivals, and prizes for the best movies. The share of new movies that obtained FUS funds on the total new movies produced per year is rather large: often above 50% of the total.

The financial aid to the production of new movies, originally, was mostly given by loans at a very low interest rate. But the received funding had to be reimbursed only if there were returns net of production and only partially. Furthermore, often the company producing the movie was dissolved after the production and no sanction was given for the violation of the obligations of reimbursement. Thus, only a small share of the loans was recovered. Subsequently, a variety of grants were added to the loans. The criteria for the assignment of the aid have had continuous changes in the attempt of improving its effectiveness. Broadly speaking, initially the relevant parameters besides the cultural quality of the movies were the coherence and articulation of the subject, the reputation of the director and artists, and their technological and organization features. In 1997, the Committees for the assignment of the funds were reformed. A major change occurred in 2004, with the Law January 22/01/2004 n. 28 entitled "Reform of rules for the matter of the cinematographic activities". Giuliano Urbani, the minister of Ministry of Cultural Heritage and Activities and Tourism, during the *Berlusconi* Government, promoted this reform. The main change in this law was the introduction of a contribution on the movies' revenues to boost the production of quality movies.

4.2 The Empirical Data

As an empirical illustration, panel data for 754 Italian movies exhibited during the 2002–2011 time span are employed (see Meloni, Paolini, & Pulina, 2015). In Appendix 2, a detailed description of the variables is provided.

The dependent variable, as reported in Eq. (5), is box office revenue (expressed in euros and adjusted for inflation, base year 2011), which is obtained for each movie and genre from several sources.[7] Public subsidies, which are used as an explanatory variable, are obtained from MiBACT (*Ministero dei Beni e delle Attività Culturali e del Turismo, that is*, *Ministry for Cultural Heritage and Tourism*). Awards won at film festivals, which are used as the dependent variable, are collected from www.cinemaitaliano.info. Table 1 presents the descriptive statistics for the whole sample.

The sample shows a strong predominance of dramas and comedies over thrillers and documentaries, with the former accounting for 45% of the sample and the latter 43%. Notably, 311 of a total of 754 movies were granted public subsidies from MiBACT.[8] Over the time span under analysis, the average public financing per movie was 636 thousand euros, with a maximum of 4.2 million euros. When

[7] In particular, http://www.imdb.com, http://www.comingsoon.it, http://www.boxofficemojo.com/

[8] *Ministero dei Beni e delle Attività Culturali e del Turismo*, that is, Ministry for Cultural Heritage and Tourism.

Table 1 Descriptive statistics of movies

Variable	Mean	Std. deviation	Min	Max
Whole sample				
Subsidies (adjusted)	636,898	1,011,733	0	4,200,919
Genres				
Drama	0.448		0	1
Comedy	0.435		0	1
Documentary	0.059		0	1
Thriller	0.058		0	1
Observations	754			
Subsidized movies				
Genres				
Drama	0.534		0	1
Comedy	0.334		0	1
Documentary	0.061		0	1
Thriller	0.071		0	1
Festivals	25.70	27.96	0	139
Awards	5.57	9.16	0	51
Observations	311			
Data on festivals				
Festivals	22.69	25.56	0	139
Awards	4.94	8.16	0	51
Observations	529			

considering the subsample of financed movies, dramas account for 53% of the total public financing, while comedies account for 33%. This difference in the allocation of public resources can be explained by multiple factors: first, comedies are less likely to contain cultural aspects of public interest; second, as shown by Bagella and Becchetti (1999) and Meloni et al. (2015), Italian movie viewers exhibit a strong preference for comedies; thus, box office revenues for such movies are above the mean, and production companies are less likely to seek for public financing. For a subsample of 461 movies, information on participation at film festivals and awards won is available; 279 of these movies received a public subsidy, which accounts for 90% of the subsidized movies sample. To see interesting features regarding the statistical distribution of these variables, you can check Tables 2 and 3 by Meloni et al. (2015).

On average, each movie in the subsample competed in 26 festivals, winning 5.67 awards. These values slightly increase for publicly financed movies to 28.64 festivals and 6.21 awards. However, for both groups, there is a predominance of zero awards associated with a rather low median value (that is, the median is equal to 2 for the whole subset, and the median is equal to 3 for subsidized movies). Moreover, the analysis of the percentiles shows that the distribution of the awards is heavily skewed towards the right, which implies that only a small number of movies obtained the majority of the awards. The third column of Tables 2 and 3 shows the

Table 2 Italian movie revenues: baseline specification

	Fixed effects	Random effects
ln subsidies	0.0352** (−2.95)	−0.0676 (−4.96)
Drama	1.145** (3.22)	1.146** (0.24)
Comedy	2.490*** (6.99)	2.484*** (7.05)
Thriller	1.361** (2.88)	1.319** (2.81)
Documentary	(Omitted)	(Omitted)
R^2		
Within	0.149	0.143
Between	0.308	0.303
Overall	0.119	0.125
N	754	754

t statistics in parentheses
$*p < 0.05$; $**p < 0.01$; $***p < 0.001$

Table 3 Poisson model for awards

	Coefficients	Incidence ratio
Festivals	0.0283*** (55.48)	1.02
ln subsidies	0.0152*** (−4.84)	0.98
Comedy	0.656*** (6.30)	1.93
Drama	0.868*** (8.57)	2.38
Thriller	0.731*** (5.23)	2.08
Documentary		(Omitted)
N		461
Pseudo R^2		0.524

$***p < 0.001$

ratio between awards won and festival participation. While a simple correlation analysis of the two variables indicates strong reciprocity (0.8), the mean and median values are approximately 16% to 19%, respectively; hence, frequent participation at festivals does not automatically lead to more awards.

4.3 The Empirical Analysis

As stated in the methodological section, two separate specifications are run: a panel random-effects model and a panel fixed-effects model. The statistical test suggests that the fixed-effects model is an empirically appropriate specification.[9] Overall, the results are rather congruent in terms of magnitude of the coefficients and in terms of sign in both the random- and fixed-effects specifications (Table 2).

Public subsidies have a negative impact on box office revenue. Furthermore, comedies appear to play a leading role in attracting demand, followed by thrillers

[9]To establish which model empirically fits the data better, a Hausman test is run. In this case, the calculated value Chi-squared = 21.48 (0.000) implies that the fixed-effects model under the alternative hypothesis is empirically a better specification.

and dramas, when compared with the reference category. These findings are all consistent with the results obtained by Bagella and Becchetti (1999), thus reinforcing the relevant role played by the comedy genre in driving the box office performance of Italian movies as well as the negative effects exerted by public intervention.

As a further example, awards won at film festivals, which are used as the dependent variable, are collected from www.cinemaitaliano.info. From the descriptive statistics, it emerges that 279 of the 311 financed movies participated in at least one festival. Hence, by taking into account only film festival participation and prizes won, a subset of 461 movies is considered. These count specifications, as reported in the methodological section, can be used to assess the factors that may impact the quality of the quality of the movies. For example, the dependent variable can be expressed as the number of awards obtained by each film. Since this variable is a count variable, a panel Poisson model must be estimated. As a robustness check, this hypothesis is further tested against a panel negative binomial model through a likelihood ratio test where the null hypothesis is that the variance is statistically equal to the mean and the alternative hypothesis is that the variance is statistically different. The baseline model is specified as follows:

$$\begin{aligned} awards_{it} = \beta_0 + \beta_1 festivals_{it} + \beta_2 Lsubsidies_{it} + \beta_3 comedy_{it} + \beta_4 drama_{it} \\ + \beta_5 thriller_{it} + \varepsilon_{it} \end{aligned} \tag{8}$$

where L denotes logarithm; *awards* is a function of the film i participation at festivals, public subsidies, if any, and different genres; β_ρ for $r = [1,5]$ are the parameters to be estimated; and $\varepsilon_{i,\,t}$ is an error term. The final results are reported in Table 3.

As a matter of interest, the Poisson results are congruent with the results obtained when employing a negative binomial specification (full results are available upon request). The incidence ratio[10] (IRR) magnitude for the festival participation variable confirms that participation at festivals does not automatically lead to more awards. Moreover, as in the previous baseline model, public subsidies show a negative and statistically significant sign on the coefficient, and the IRR shows that awards are expected to decrease by a factor of 0.98 when holding all other variables in the model constant. Moreover, the genre with the best performance is drama; this result is coherent with the belief that quality may be better perceived in movies with an insightful and dramatic characterization.

As an extension of the Poisson model, assessing the iteration between genres and public subsidies can pursue the impact of public intervention for different types of movies on film quality. The following expression can be estimated:

[10]The incident ratio is the rate at which events occur.

Table 4 Poisson model for awards: budget interaction with genres

	Coefficients	Incidence ratio
Festivals	0.0284*** (53.31)	1.03
Non-subs comedy	0.898* (1.72)	2.45
Subs comedy	0.0645* (1.69)	1.06
Non-subs drama	1.316** (2.54)	3.72
Subs drama	0.0684* (1.89)	1.07
Non-subs thriller	0.598 (1.06)	1.81
Subs thriller	0.0758** (1.99)	1.08
Non-subs documentary	0.547 (1.02)	1.73
Subs documentary	0.000470 (0.01)	1.00
N		461
Pseudo R^2		0.530

$^*p < 0.05$; $^{**}p < 0.01$; $^{***}p < 0.001$

$$awards_{it} = \beta_0 + \beta_1 festivals_{it} + \gamma_k subsidies\_genres_{it} + \delta_k non\_subsidies\_genres_{it} + \varepsilon_{it} \tag{9}$$

where *festivals* are the number of organized presentation of films often held in a city or region (e.g. Cannes film festival, Venice film festival); notably, from the descriptive statistics it emerges that the frequent participation at festivals does not imply an award. *Subsidized_genres* are the iteration variables between the four genres and public subsidies, expressed in logarithm and real terms. Moreover, *non_subsidized_genres* are the interaction dummy variables that take the value 1 if a movie with no public funding belongs to a certain genre, and zero otherwise; β, γ, and δ are the parameters to be estimated, and ε is the error term.

Table 4 shows that the impact of subsidies on quality for each of the genres is rather negligible when compared with non-subsidies. The incidence rate ratios indicate that subsidized thrillers and dramas are the types of movies that lead to a relatively higher performance in terms of quality and, therefore, should also be supported more by the public.

5 Concluding Remarks: Subsidies for Drama and Thrillers Are More Effective

This chapter has offered a conceptual framework to outline different parametric and non-parametric approaches that can be used to analyse, amongst other factors, the impact of public intervention on the movies. Based on data availability, stochastic frontier as well as data envelopment analysis (DEA), followed by post-DEA approaches, can be implemented. Based on data availability, panel fixed-effects and random-effects models can be estimated by employing box office revenues as a dependent variable. Moreover, a Poisson specification can also be implemented for count variables such as number of awards and/ or nomination. In this manner, it is possible to explore the impact of public intervention on film quality taking also into account different movie genres.

Two main examples have been provided on Italian movies, used as a case study. Specifically, two main indicators have been employed as the dependent variables that are quantity expressed by revenues and quality defined in terms of awards won at film festivals. The findings have shown that public funding exerts a negative impact on performance and quality. This result is in line with that of McKenzie and Walls (2013) for the Australian market and Bagella and Becchetti (1999) and Meloni et al. (2015) for the Italian movie industry.

As a further step into the investigation, the empirical example has assessed that non-financed movies denote a relatively larger impact than subsidized movies on the performance. With respect to public intervention, only thrillers and dramas have presented a relatively higher performance.

Overall, comedies have proved to outperform the other types of movies in terms of both productivity and quality despite support from the public as arguably it is the most preferred genre by Italian consumers. Hence, the empirical evidence suggests the need to allocate public resources towards drama and thrillers that can be thought to be more educational productions for the public. As shown in Bagella and Becchetti (1999), Italian movie-goers have a strong preference for comedy movies and the impact of the genre on box office revenues reflects this bias.

As highlighted by Collins and Snowball (2016), the movie industry is still under-researched and particularly the investigation on the effects of direct and indirect public subsidies on this activity. Arguably, the film industry may have concern that empirical evidence may not support public intervention, hence reducing the probability to offer actual data for independent evaluation. Nevertheless, the allocation of public financing needs to be supported on several grounds and especially on various economic indicators such as job creation, employment type (e.g. gender, cultural minorities), and possible spillover effects amongst other sectors and multiplier effects.

Appendix 1[11]: Trend of State Subsidies in the Italian System

The revenue market share of the Italian movies on the aggregate revenue was 39.00% in 1983, 33.12% in 1984, and 30.06% in 1985 when the FUS was issued for the first time. From 1986 to 2010, it oscillated in the range of 20.65–27.84%, with two exceptions slightly above in 1987 and in 1997 and two slightly below in 1993 and 2000. Basically, the market share of the Italian movies, in the entire period after FUS, remained at a slightly lower level than that of the first year of the FUS, with a limited recovery on the last decade of the considered period. Meanwhile, FUS funds for movies declined from 0.026% of GDP to 0.005% of GDP in 2010.

[11]From Forte and Mantovani (2013).

Other types of public finance aids to movies were issued from the end of 1990 onwards. The trend of the share of the Italian movies in terms of the number of new movies presented in the Italian cinemas, after FUS, was similar to that of the revenue market share until the end of 1990, although higher in the last decade. The number of new Italian movies as a share of the total number of new movies released in Italian cinemas, that was between 33.5 and 31.8% in the 3 years before 1985, went down to an average level of 25.8% in the first 5 years of the FUS. Then, it declined with a certain volatility to <25.0% until 1996 and reached the maximum level of 40.96% in 2008, after the new law was issued, which provided tax incentives. The share of the market in terms of revenue of the Italian movies was smaller than that of the foreign movies, but still they had a recovery because of the new ways of financing other than the FUS.

Appendix 2: Dataset

Data providers:

- www.cinemaitaliano.info (movie characteristics and revenues)
- www.comingsoon.it (movie characteristics and revenues);
- http://www.cinema.beniculturali.it/ (public subsidization data)

The dataset consists of 754 movies produced in Italy and exhibited during the period 2002–2011.

For each movie, the following variables were collected:

box-office: amount of money earned by each movie, expressed in euros and adjusted for inflation;

subsidization: amount of public subsidization granted from MiBACT (Ministero dei Beni delle Attività Culturali e del Turismo), expressed in euros and adjusted for inflation;

festivals: variable that accounts participation at film festivals when a movie is eligible for awards. Out of competition appearances are not recorded;

prizes: prizes won at film festivals;

comedy: factor variable which takes value 1 if a movie belongs to comedy, romantic comedy, family movies genres or if it is an animation movie (and 0 otherwise);

drama: factor variable which takes value 1 if a movie is of dramatic genre and 0 otherwise;

documentary: factor variable which takes value 1 if a movie is a documentary and 0 otherwise.

thriller: factor variable which takes value 1 if a movie belongs to thriller or horror genres and 0 otherwise.

Appendix 3: Syntax

```
iis year
```

The seldom used *iis* command declares the time dimension of the dataset without the need of declaring also the panel variable as in *xtset*.

```
foreach var of varlist comedy-documentary {
qui gen subs_'var'='var'*log_subs
qui replace subs_'var'=0 if subs_'var'==.
}
foreach var of varlist comedy-documentary {
qui gen nosubs_'var'='var'
qui replace nosubs_'var'=0 if subs_'var'!=0
}
```

The first loop generates iteration variables between genre and subsidization. The command *foreach* calls variables from the list comedy, drama, thriller, documentary. The second loop is then used to generate a dummy variable that takes value 1 if a movie belongs to a given genre but did not received public funding and 0 otherwise.

```
xtreg log_box log_subs drama comedy thriller, fe
est store fe_reg
xtreg log_box log_subs drama comedy thriller, re
est store re_reg
```

xtreg command fits regression models to panel data. The *fe* option fits fixed-effects models (by using the within regression estimator), while the *re* option fits random-effects models by using the GLS estimator (producing a matrix-weighted average of the between and within results).

```
hausman fe_reg re_reg
```

To discriminate between random and fixed effects, the Hausman test is performed.

```
xtreg log_box subs_comedy nosubs_comedy
subs_drama nosubs_drama subs_thriller nosubs_thriller
subs_documentary nosubs_documentary, fe
est store re_iter_reg
```

```
xtreg log_box subs_comedy nosubs_comedy
subs_drama nosubs_drama subs_thriller nosubs_thriller
subs_documentary nosubs_documentary, re
est store fe_iter_reg

hausman fe_iter_reg re_iter_reg

poisson prizes festivals log_subs comedy drama thriller
documentary if festivals>0, irr
est store prizes_pois
```

Poisson regression fits count models, that is, the number of occurrences of an event. Here, the condition if *festivals* > 0 limits the estimation to those movies that competed at film festivals. The *irr* option reports estimated coefficients transformed into incidence-rate ratios, that is, β_r rather than β_i. Standard errors and confidence intervals are similarly transformed.

```
nbreg prizes festivals log_subs comedy drama thriller
documentary if festivals>0, irr
est store prizes_nbreg
```

With the same restriction as above, the model is estimated with a negative binomial. In this model, the count variable is believed to be generated by a Poisson-like process, except that the variation is greater than that of a true Poisson.

```
poisson prizes festivals  nosubs_comedy subs_comedy
nosubs_drama subs_drama nosubs_thriller subs_thriller
nosubs_documentary subs_documentary if festivals>0, irr
est store prizes_poiss_iter

nbreg prizes festivals subs_comedy subs_drama  subs_thriller
subs_documentary nosubs_comedy nosubs_drama
nosubs_thriller nosubs_documentary if festivals>0, irr
est store prizes_nbreg_iter
```

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How Financing Shapes a Film Project: Applying Organizational Economics to a Case Study in Norway

Terje Gaustad

1 Film Financing and Project Strategy

We know from project management theory and practice that a good plan and strategy is a crucial element of a project's success (Portny et al., 2008). And intuitively, we may also agree that planning a project precedes organizing for its financing and that private investors pick those projects that best fit their objectives, naturally and predominantly those with the expectation of a future financial return. But because investors are key stakeholders in a project, they also want to influence its strategy (Artto, Kujala, Dietrich, & Martinsuo, 2008). And, essentially, this also counts for film. There, an investor may want certain elements adjusted to improve a film's commercial prospects, while a film commission providing public funds may want other adjustments based on its cultural policy objectives. That is to say, film financing causally affects a film's production and distribution strategy, its implementation, and therefore the film's performance.

This chapter explores the relationship between film financing and project strategy from the perspective of organizational economics (OE), a research approach that involves the use of economic logic and methods to understand the existence, nature, design, and performance of organizations (Gibbons & Roberts, 2013). I will apply OE to issues of film project management, drawing on two of its major subfields: agency theory and transaction cost theory. By this, I examine contracting problems that may arise between investors and producers when they attempt to form and then implement a film project strategy.

As financing affects a film project's strategy and performance, the contracting between producers and investors matters. These contracts determine investor influence and, thus, affect the degree to which projects eventually meet investor objectives. Moreover, for co-financed films, investor–producer contracting

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determines both the distribution of influence among investors and producers, and the degree to which various investor objectives are aligned into one coherent strategy for a film's production and distribution. In this study, contracting is examined in its entirety, taking in both the ex ante (selection and negotiation) and ex post (execution and enforcement) phases of the relationship between producer and investor (Saussier, 2000; Williamson, 1985, 1988).

I explore contracting problems that can arise as a "natural" part of the financing process and can harm the film's project strategy in two important ways: (1) Through an incomplete alignment of objectives, which may lead to the formation of ambiguous strategies and (2) through a weak governance structure with insufficient contractual safeguards for the strategy implementation, which may result in deviations from the agreed strategy. Understanding how contracting affects strategy is not only important when assembling individual film projects but also a key rationale for film policy makers when they design film funding and support schemes. Just as certain types of financing structures may affect production and distribution strategy favorably or adversely for a single film project, so too can certain types of funding schemes affect project strategies applied in film production and distribution across the sector.

The so-called Europudding metaphor for films eloquently illustrates this. The term was coined to label the production and distribution of a wave of television and theatrical films, particularly in the 1990s, when funding schemes encouraged producers to apply transnational strategies combining investors, talent and other elements from many different nations. However, these films ended up combining too many different national elements (such as starring people from several different European nations) and hence were often considered to be lacking in coherence, individuality, or authenticity. This created a "potluck" effect where the parts did not add up to a coherent whole. And, referring to our problem, while the inclusion of each national element may have satisfied particular objectives of each national investor, it was evidenced that this mash-up of film contents did not appeal to any of the referenced national audiences (De Vinck, 2009).

In this chapter, my examination of the producer–investor relationship sets a focus on both strategy formation (ex ante contracting) and implementation (ex post contracting). That is to say, it throws light on how the choice of project partners (producers and investors) and their objective alignment affects project strategy formation, and how the administration of investor–producer relationships can affect a strategy's implementation. My examination of these relationships reveals how individual film projects adapt to financing environments and which types of strategies are likely to dominate within a given system. Moreover, since strategy is likely to affect performance, such an examination may identify inefficiently organized projects and flawed investment decisions before they happen.

The chapter is organized as follows: Firstly, I review some of the key terms pertinent to "film project financing" developed in the project strategy literature (Artto et al., 2008; Cleland, 1998; Patanakul & Shenhar, 2012). I then turn to the specifics of investor–producer relationships where I briefly present contracting theory, as it is informed by transaction cost theory (Klein, Crawford, & Alchian, 1978; Williamson, 1975, 1985) and agency theory (Fama, 1980; Holmstrom, 1979;

Jensen & Meckling, 1976), both taken from the OE domain. Here I explore how producers and investors create joint value and reveal how investor–producer contracting impacts on both strategy formation and implementation. Following on from this analysis, I suggest a model comprising four generic project strategies, where each strategy is based on a combination of strategy formation factors (objective misalignment) and strategy implementation factors (project independence). After this, the model is applied to a case study of the current Norwegian film support system, a system consisting of a combination of private and public funding schemes that is typical for Scandinavian film financing. This Scandinavian context exposes the tensions between public and private investment objectives and highlights the challenges for both project strategy formation and implementation. Concluding remarks follow in the final section.

2 How Financing Affects Project Strategy and Value

Project strategy may be defined as "a direction in a project that contributes to the success of the project in its environment" (Artto et al., 2008, p. 8). For a film project, the "direction" will include the objectives behind making and distributing the film and also the plans and methods employed to reach these goals. The "success" refers to how well the film achieves its goals, while "contributes" assumes that the direction has an effect; that is to say, that it matters and makes a difference. A film project's "environment" is the world outside the project's boundaries. Its immediate environment includes production and distribution companies, investors and other direct stakeholders. Its wider environment will include domestic and international markets with their respective regulations, as well as competing films and audiences.

Objectives may be of a strategic or operational nature. *Strategic objectives* are those which create targets beyond operational efficiency and are a measure of a project's value creation. Strategic objectives might be, for example, creating awareness of a specific region, securing a first class director, or outperforming competing films for target audiences. *Operational objectives*, on the other hand, might be completing a project on time or within budget. Focusing on strategic objectives does not mean ignoring operational objectives. On the contrary, the strategic perspective complements and comes in addition to the traditional operational project management perspective (Patanakul & Shenhar, 2012). That is to say, operational effectiveness alone is not a strategy (Porter, 1996).

The importance of strategic project management to film financing can hardly be overstated. Indeed, some scholars have identified financing strategy (as part of project strategy) as the key variable that shapes the industry (Loeb, Veblen, & Desai, 2002). The individual film project makes up the industry's central organizing unit. In fact, the film industry, with its project-focused organization, is sometimes used as a template for other similar industries (Lo & Pisano, 2016). It follows that film financing is best viewed as a type of project financing as it is usually done for a single or small number of films at a time (Ravid, 1999).

A film project creates value for its producer, investors and other stakeholders by achieving its goals or by meeting the objectives of each stakeholder. It follows that stakeholders may perceive a film's value creation quite differently. A box-office failure that wins prestigious awards may create value for the producer, while the same value will not be perceived by the film's financial investors. Joint value creation and claiming among a film project's producer(s) and investor(s) is thus dependent on harmonization and alignment of incentives and objectives.

As illustrated in the Europudding example above, a film project is set to create value for its investors at two different stages. First, value is created from *downstream* sources in the form of market revenues for commercially successful films or in the critical acclaim for artistically successful films, or both. Second, the producer's *upstream* allocation of project resources may also create value for some investors. For the investors behind so-called production incentive schemes, for example, who typically invest in a proportion to the production resources spent in a region or country, investor objectives are usually to create activity in the local production sector and to boost local tourism (Sewordor & Sjoquist, 2016). The strategic challenge is to align objectives so that stakeholders at one level do not benefit at the expense of stakeholders at the other.

Due in large measure to the complexity of film production (Caves, 2000), film projects are high-risk investments opportunities (De Vany, 2004; De Vany & Walls, 1999). Misaligned objectives and ambiguous project strategies can further increase the risk. For instance, directors chosen on the basis of their nationality (upstream objective) who fail to meet the artistic and commercial objectives of the film project (downstream objectives) may adversely affect the outcome of the entire enterprise. Director problems moreover cannot be resolved by compensating in other areas,[1] for example, by improving the cast or increasing advertising. Film projects are therefore vulnerable to problems created by misaligned objectives.

Co-financing is often proposed for the purpose of mitigating risk (Goettler & Leslie, 2005; Palia, Ravid, & Reisel, 2008), However, if investor objectives are not aligned, co-financing may on the contrary increase risk. Since investors' objectives may be both financial and cultural in nature, this co-financing implication is equally significant to those seeking an artistic or cultural return as to those seeking a financial return.

2.1 Strategy Formation: Incentives and Objective Alignment

Aligning incentives and objectives among producers, investors, and other stakeholders is central to ex ante contracting and strategy formation. Once an investor contracts with a producer for a film project, the parties enter into a bilateral (or, if co-financed, multilateral) dependency situation (Williamson, 1985). Ideally,

[1]Due to the multiplicative production function relationship found between inputs in film production, where every input must be present and do its job above some level of proficiency and in conformance with other inputs for a viable film to result (Caves, 2000).

the project strategy should then reflect the objectives of the producer, the investor (s) and the other stakeholders.

Strategy formation is most straightforward in the relatively rare cases where one organization fully finances the production and distribution of a film, for example, when *Disney* produced and distributed *The Jungle Book*. The project strategy then typically adapts to that of its parent organization (Patanakul & Shenhar, 2012). In most cases, however, a film project requires a number of investors, all of whom have their own objectives. Investor objectives may be described as *external*, those originating outside the boundaries of the film project. *Internal* objectives, on the other hand, are those originating from within the project. These objectives often emerge from the project's parent organization, typically the production company that first initiated the project. Internal objectives may also be influenced by the film's core creative team of writers, director and producer. These objectives may be content-oriented, like targeting a certain genre or type of audience, or market-oriented, aiming to create for example a blockbuster or an artistic award winning film. In the project financing process, when internal objectives meet external objectives, alignment (and often realignment) is required for a coherent project strategy to take form.

The alignment process consists typically of both market and cooperative adaptations (Williamson, 1996). Ex ante alignment through market adaptation occurs when investors seek out projects that fit their objectives, and, conversely, when producers seek out investors. Further alignment is likely to take place between producer and investors through project investment negotiations, which represent ex ante cooperative adaptation. In thin film financing markets, where investors are few and options are limited, alignment relies more on cooperative adaptation. But, negotiations require flexibility, which may also be limited. For instance, sometimes public funding is not invested into film projects at flexible terms based directly on the objectives set out in the governing film policy, but rather based on a set of rigid funding requirements. Based on the more general policy objectives, rigid requirements typically aim to provide fair and equal treatment of all applicants, but limits flexibility. Effective objective alignment, therefore, is challenged by both market and cooperative constraints.

Two problems may arise when external and internal objectives are misaligned. First, a *bilateral agency problem* occurs when a producer (agent) with objective functions different from the investor (principal) behaves in ways that deviates from the investor's objectives (Holmstrom, 1979; Jensen & Meckling, 1976). Second, a *delegated common agency problem* (Bernheim & Whinston, 1986) arises in co-financed films when there is misalignment among the investors' objectives, and the producer (the delegated common agent) is obliged to deal with a heterogeneous group of uncoordinated investors (principals).

The greater the investor heterogeneity, the greater the likelihood of investor objective misalignment. For example, public investors typically adhere to government policy objectives, while most private investors aim at purely commercial objectives (Jansen, 2005).

When producers endeavor to align such diverse objectives, they typically face both delegated common agency problem and bilateral agency problems, where the producer and at least one investor are involved. Misalignment combinations and the related agency problems are summarized in Table 1.

Table 1 Objective misalignment and agency problems

		Producer–Investor objectives	
		Aligned	***Misaligned***
Investors' objectives	***Aligned***	No agency problem	Bilateral agency problem
	Misaligned	n/a	Bilateral agency problem and delegated common agency problem

Source: The author

The producer's challenge as the project manager is to integrate the various internal and external objectives into one coherent project strategy. The difficulty of this task will depend on the initial degree of misalignment among the parties' objectives and the challenges posed to the alignment process. It follows then from the discussion above that the degree of misalignment is likely to rise with (1) the number and heterogeneity of investors, (2) the number and heterogeneity of each investor's objectives, (3) the thinness of the film financing market, and (4) the rigidity of each investor's investment criteria. In cases where ex ante alignment is not achieved, a likely outcome is the formation of an *ambiguous project strategy*. This enables the accommodation of conflicting objectives from multiple investors (despite their differences), to form a *unity in diversity* (Abdallah & Langley, 2014). Ambiguous project strategies, however, are likely to create ex post contracting problems, and, as a result, implementation challenges.

2.2 Strategy Implementation: Managing Investor–Producer Relationships

When implementing a project strategy, a producer will naturally be inclined to prioritize a project's internal objectives, as these include the producer's own objectives. Agency problems arise, however, when internal objectives are not aligned with external objectives. In such cases, according to transaction cost theory (Williamson, 1975, 1993) and agency theory's concept of moral hazard (Holmstrom, 1979), opportunistic behavior may occur and producers may ignore objectives that conflict with their own.

Because most projects are governed by contract, agency problems are of particular interest to film financing and strategy implementation. Only in the relatively rare cases when one organization fully finances both the production and distribution of a film, the investor is able to invoke fiat with the producer. But even in these cases, the producer is often independent and contracted by the financing organization (Gaustad, 2013). Generally, film projects lack administrative owner governance structures (such as a board of directors) that can control the project manager on behalf of the investors. Investors' influence on strategy implementation is thus limited to contractual and relational safeguards.

Contractual safeguards include credible commitments (Williamson, 1983), an undertaking made by producers to investors that a project strategy will be implemented according to external objectives. These commitments include "hostages," such as an investor's right to withhold funding if producers fail to employ agreed upon essential elements (lead cast, director, etc.) (Baumgarten, Farber, & Fleicher, 1992). Relational safeguards (Macaulay, 1963) pertain to the level of trust between parties from past relationships, as well as, and combined with, possible sanctions from investors looming under the *shadow of the future*, including, but not limited to, negative reputation effects and loss of future financing opportunities (Carson, Madhok, & Wu, 2006; Poppo, Zhou, & Ryu, 2008).

Producer's latitude in pursuing internal objectives at the expense of external objectives may be expressed in a film project's degree of *independence*. Independence might be seen as the degree of autonomy a film project has in its relationship with its stakeholders (Artto et al., 2008). While some investors tightly restrict film project autonomy by insisting on strong investor safeguards, other investors may allow greater autonomy by relaxing demands. Fee (2002), for example, has shown that filmmakers desiring to retain control of their films due to their own artistic identification with the project tend to seek independent (non-studio) financing because studio financing involves relinquishing control rights, that is to say, conceding stronger investor safeguards.

Project-specific variables can also affect independence. Celebrated, successful filmmakers, for example, may incite more trust and be given more independence. Sometimes they may also assume more independence than their investors intend. This was amply borne out in the case of Michael Cimino's *Heaven's Gate*, where despite the inclusion of stringent governance mechanisms, its investor, *United Artists*, failed to curb filmmaker opportunism and the filmmakers ended up bringing down the entire studio (Bach, 1985). Opitz and Hofmann (2014) describe other, more recent, examples of opportunistic behavior. Their findings indicate adverse selection problems preceding investment decisions and moral hazard type problems ex post.

The implementation of ambiguous project strategies poses particular challenges (Abdallah & Langley, 2014). These strategies are likely to be highly volatile, particularly when film projects have a low degree of independence. Strategy may change unpredictably as producers navigate the troubled waters of conflicting investor objectives. For when objectives have been misaligned from the outset (from the strategy formation stage), the most likely outcome of an ambiguous strategy is that it, at least partly, fails some, most, or even all, investors.

2.3 Modelling Four Generic Film Project Strategies

The combination of project strategy formation and implementation issues discussed above shapes the types of strategies pursued for a film project.[2] I distinguish

[2]This approach to generic project strategies builds on the research of Artto et al. (2008), who use project independence and number of strong stakeholder organizations as distinguishing parameters.

between *specific* project strategies, which address issues such as what creative choices and what resource allocations that will best achieve project objectives, and *generic* project strategies, which address how a project best adapts and relates to it environment, specifically its investors. Generic project strategies create the framework that allows available specific strategy choices to emerge.

At the outset, neither the strategy formation nor implementation is given. Producers and investors are likely to pursue financing mixes that minimize misalignment and maximize a notional degree of project independence. However, their environment will limit their options, and to close a project financing they are likely to settle for a compromise. At this point, a producer has to compare and choose among available financing options, considering for each: (1) how objectives may or may not be aligned and (2) the project independence offered. Investors face similar choices, just from a different point of view. Based on the degrees of objective misalignment and project independence in a film project, I propose four distinct types of generic strategy: the harmonious partner, the independent partner, the lone ranger and the flexible navigator (see Fig. 1). I will now elaborate upon each of these strategies, emphasizing the key elements of *direction* and *success*.

The *harmonious partner strategy* displays a high degree of project–investor interaction. Investors are closely involved in both the definition and achievement of project goals and in the project operation. The specific project strategy is thus likely to be coherent, and success corresponds to the degree of the fulfilment of investor objectives.

The *independent partner strategy* displays less project–investor interaction and lower investor involvement in project goal definition. Investor objectives and

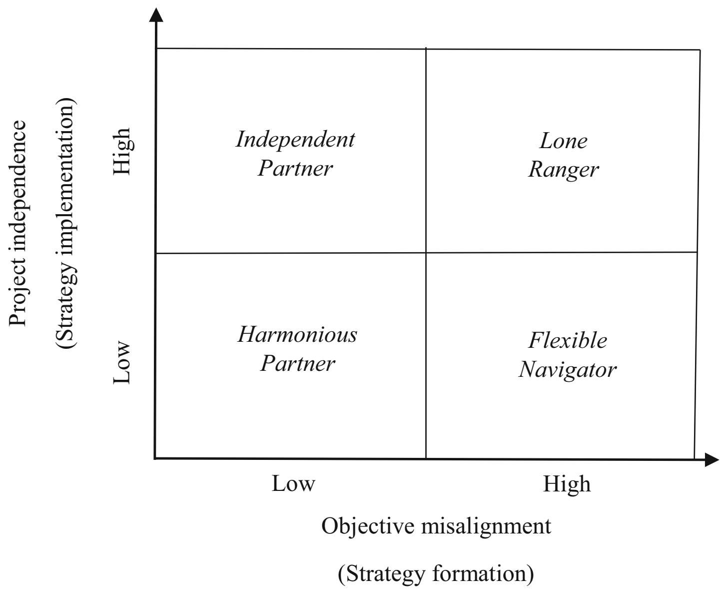

Fig. 1 A contracting-dependent model for generic film project strategies. Source: The author

internal project objectives may be acceded to without rigorous negotiation, as both parties pledge their support to secure agreement. The specific project strategy is thus likely to be coherent, and success corresponds to the degree of the fulfilment of internal objectives.

The *lone ranger strategy* displays a more reduced project–investor interaction. Recognizing competing and misaligned objectives, producers accord preferential treatment to internal objectives in the best interest of the film (Davis, Schoorman, & Donaldson, 1997) or out of more opportunistic motives (Jensen & Meckling, 1976). Specific project strategy is thus likely to be coherent, and success corresponds to the fulfilment of internal project objectives, typically at the expense of misaligned investor objectives.

The *flexible navigator strategy* displays a high degree of project–investor interaction, particularly in goal definition and planning. However, attempts by producers to accommodate wide-ranging investor objectives are likely to be at the expense of internal objectives. Specific project strategy is thus likely to be ambiguous. That a film is even being made is a measure of success, and whatever further success that may be achieved will correspond to the fulfilment of investor objectives.

It follows from the above that the success of a generic project strategy should not be confused with the success criteria determined solely by investor objectives. For the lone ranger and flexible navigator strategies, the success criteria will by definition deviate, and, therefore, no outcome can satisfy all stakeholders. Producers successfully pursuing a lone ranger strategy will still fail one or more investors. While projects are finite, producers' careers and businesses continue. Beyond a single-project perspective, producers are thus bound by relational contracting (Macaulay, 1963), likely to face future relational sanctions from investors. For producers successfully pursuing a flexible navigator strategy, relational investor sanctions will likely be fewer and milder, but forsaking internal project objectives may trigger relational sanctions from other stakeholders (e.g., talent and audience). The lone ranger and flexible navigator strategies are therefore problematic. Faced with objectives that cannot be aligned during the ex ante contracting and strategy formation process, producers may abandon a film project rather than choosing one of these. I will now apply this model to a case study of the Norwegian film support system to analyze the effect of available financing mixes on project strategies.

3 Case Study: The Norwegian Film Support System

The Norwegian film policy, as in Scandinavia generally, is primarily carried out through a set of objectives incorporated into the funding requirements for the various regional, national, and transnational film support schemes receiving funding from the Norwegian state (Bondebjerg & Redvall, 2011; Hanche, Iversen, & Aas, 2014). Policy objectives include explicit cultural elements (Hill, 2004), such as diversity, quality, and audience reach, as well as more industrial elements aimed at the development of a professional and financially viable domestic film industry (*Norwegian Ministry of Culture*, 2016).

My analysis begins by assessing the likelihood of misaligned objectives and ambiguous strategies. Now, for reasons of simplicity, I place objectives on a scale according to upstream or downstream value-creation relevance. This does not directly measure misalignment, but it does provide a useful indication of objective heterogeneity. Further, I assess the budget share taken up by each funding scheme or investor, as this determines the number of investors required for each project. Budget share is assessed as high, medium, or low. Investment criteria rigidity is similarly assessed as high, medium, or low. Film financing market thinness calculates the number of available investors and market alternatives for each type of scheme or investor. This number is assessed as none, few, some, or many. Project independence (as a measure of strategy implementation) is assessed as being lower or higher.

The following overview presents a brief evaluation of film project financing in Norway (Gaustad, Espelien, Paoli, & Theie, 2014; Ryssevik, Dahle, Høgestøl, & Myhrvold-Hanssen, 2014). An investment objectives scale appears in Fig. 2, while other assessments are summarized in Table 2. A concluding systems analysis follows.

The three main film support schemes offered by the Norwegian Film Institute (2016) are the "Artistic Evaluation" and "Market Evaluation" schemes, which cannot be combined for a project, and the "Matching Funds for Revenues" scheme, which can be combined with both the above schemes.

The Artistic Evaluation Scheme supports projects selected by a commissioning consultant, assisted by a production advisor assessing budgets and plans. Selection prioritizes artistic quality and the promotion of talented writers and directors, while the Norwegian language, Norwegian (and European) authorship, and cultural grounding are also important selection criteria. Production quality and market potential are also taken into consideration. Once a project is selected for development funding, the consultant follows its development up to a production decision, which can release production funding. Prevailing concerns about the inclusion of specific project assets (such as writer and director) place the *Artistic Evaluation Scheme* toward the upstream end (AE1) of the objectives scale. Market potential considerations, however, also produce a second downstream objective (AE2).

The *Market Evaluation Scheme* supports projects selected by a panel consisting of a marketing executive from the Film Institute and two representatives from the film industry (production, distribution, and/or cinema). The panel makes cinema attendance projections for each submission based on script, producer and director success, and marketing and release plans. Submissions are then ranked according to audience projections, budget-attendance ratios, gender balance, and specific audience objectives (e.g., films made for children or youth audience). The emphasis on audience attendance places the Market Evaluation Scheme at the downstream end of the objectives scale (ME1), while the prioritizing of gender issues and target audience adds an upstream second objective (ME2).

The *Matching Funds for Revenues* Scheme supports all Norwegian films that satisfy the minimum audience attendance requirement. The scheme matches the producer's film market revenues until project private capital is recouped or Film Institute ceilings have been reached. Films made for children or youth audiences receive double the market revenues. The Matching Funds for Revenues Scheme is therefore situated at the downstream end of the objectives scale (MF1), while provisions for certain genres create a second upstream objective (MF2).

Other important public and private sources of film financing in Norway are the regional film funds, *Nordic Film and TV Fund* (NFTF), *Eurimages*, distributor's P&A investments and minimum guarantees (MGs), and supplier and crew deferments.

Regional film funds support projects that spend a substantial budget share in particular regions and generally require favorable recoupment positions. Objectives are thus twofold: an upstream requirement for local spending (RF1) and a downstream goal to generate revenues (RF2). Both the *Eurimages* and NFTF support projects involving international collaboration. *Eurimages* requires co-production between at least two member states, while NFTF requires that film distribution be secured in at least two Nordic countries. For both, funding is contingent on project resource allocations (as distribution typically requires the involvement of some local elements). Such requirements situate these funding sources at the upstream end of the objectives scale.

Film distributors provide film production financing in the form of advances on producer revenues (minimum guarantees or MGs). Distributors also bear P&A costs, which are by far the largest distribution expense. Film distributors are, therefore, clearly on the downstream end of the objectives scale, as their objective, and their task, is to generate revenues.

Supplier and crew deferments come with two-fold objectives: First, there is an inherent upstream objective (DEF1) as project resources shifts towards suppliers and crew that are willing to defer payments and fees. Second, those accepting deferred payments expect project revenues sufficient to recoup the deferred amounts, creating a second downstream objective (DEF2).

Figure 2 reveals a significant upstream and downstream spread between investor objectives. This spread creates ample opportunities for misalignment and should thus be seen in connection with the factors summarized in Table 2.

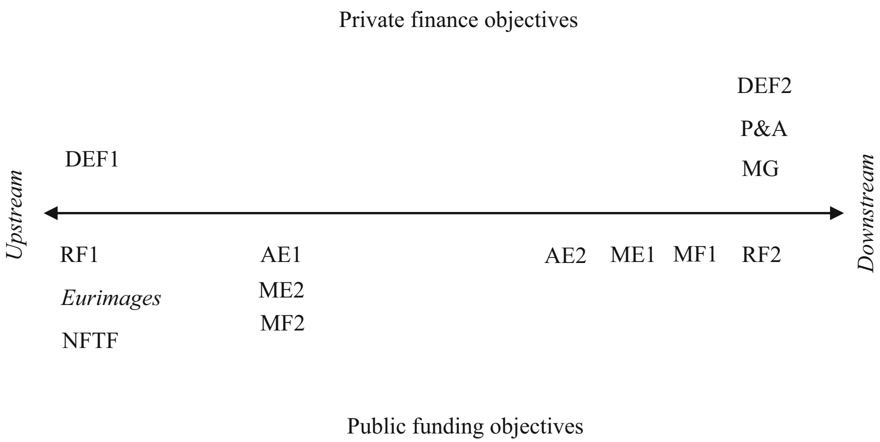

Fig. 2 An external objectives scale Norwegian film projects. Source: The author

Table 2 Strategy formation and implementation factors summarized

	Norwegian Film Institute			Transnational/regional		Private	
	Artistic evaluation	Market evaluation	Matching funds	NFTF/ *Eurimages*	Regional	Distributors	Deferments
Strategy formation							
Budget share	Medium to high	Medium	n/a	Low	Low to medium	Low to high	Low to medium
Objectives	More and spread	More and spread	More and spread	Few and focused	Few and focused	Few and focused	More and spread
Alternatives	Few	None	None	Few	Few	Few	Some
Rigidity	Medium	High	High	Medium	Medium	Low	Low
Strategy implementation							
Independence	Lower	Higher	Higher	Higher	Lower	Lower	H and/or L

Source: The author

The only financing sources likely to cover high budget shares are the *Artistic Evaluation Scheme* and distributors. In a Scandinavian context, film production volume is often prioritized because it is easily measured. Hence, if project strategy is ignored, investors may contribute as little as possible to each individual film project merely to maximize project volume (the number of projects they can support within their annual budget). When combined with a relatively thin financing market, producers may be left with few real financing options. This is confirmed by recent studies on Norwegian film financing (Gaustad, 2008; Ryssevik et al., 2014). Public funding, moreover, is often accompanied by rigid investment criteria, a constraint that leaves little room for objective alignment through negotiation. These factors all contribute to an increased risk of objective misalignment, which in turns leads to the lone ranger or flexible navigator strategies.

Which of these two strategies is adapted will be determined by the project's degree of independence. Projects co-financed by sources imposing low project autonomy (Artistic Evaluation Scheme, distributors, regional funds, supplier and crew deferments) are more likely to follow a flexible navigator strategy. And as most projects require more than just one or two investors, these financing sources are likely to be involved. Producers are, therefore, most likely to adopt flexible navigator strategies.

This case study, while limited, resonates strongly with broader reservations expressed about the current Scandinavian system; namely, that financial incentives are retreating rigid funding requirements are on the advance (Hedling, 2013). The case study also indicates that excessive requirements can have a similar debilitating effect on artistic incentives.

4 Contracting Matters for Strategy and Value

By applying a contracting lens to film financing, this study examines its effects on both project strategy formation and implementation. The ex ante analysis suggests that the risk of misaligned objectives and ambiguous project strategies increases with (1) the number and heterogeneity of investors and investor objectives, (2) the thinness of the film financing market, and (3) the rigidity of investment criteria. Misaligned objectives and ambiguous strategies may result in agency problems where producers pursue internal project objectives at the expense of external investor objectives or prioritize favored investor objectives over others. The nature of these problems depends on ex ante contracting issues. The ex post analysis suggests that project independence (contracted autonomy) can determine strategy implementation and generic project strategy choice.

The model presented here raises a number of important questions for industry practice. First, film policy makers who create piecemeal support systems may be educating filmmakers to create piecemeal project financing. This may lead to a production sector dominated by the flexible navigator strategy. That is to say, a film policy with fewer funding schemes that finance larger budget shares of fewer projects would be more effective than a policy focusing on production volume.

Second, to avoid objective misalignment, investors should assess not only internal project objectives but also the objectives of all the other investors. Third, investors should be wary of insisting on rigid investment criteria, for a project's success is a measure of its objectives, not of its investment restraints. Greater financing flexibility, in other words, can become a source of added value. Finally, producers should approach lone ranger or flexible navigator strategies with caution. A lone ranger strategy may trigger relational contracting sanctions, while a flexible navigator strategy may lead to an ambiguous project strategy, which in turn may impair performance. The model may be extended to include other key stakeholders, such as star talent and other suppliers of scarce resources. This would provide a more comprehensive overview of objectives and misalignments and thus make the choice of generic project strategy more predictable. Such an extension would also increase our understanding of the impact of such stakeholders on film performance (Elberse, 2007; Ravid, 1999), because performance would depend on strategy.

Likewise, project strategy may be a missing link in the stream of research seeking to explain film performance through film financing (Chisholm, Fernández-Blanco, Ravid, & Walls, 2015; Goettler & Leslie, 2005; Palia et al., 2008). This may explain why significant correlations are hard to identify. It has been claimed in this research stream, for example, that co-financing is conductive to risk mitigation, while the ex ante contracting analysis carried out in this study suggests that co-financing can in fact increase the risk of ambiguous strategies, which may in turn lead to impaired performance. Including project strategy as an intermediate variable between film financing and performance involves challenges in terms of method, as it requires more micro-analytic detail. However, some problems, such as explaining film performance, are so complex that they need to be dealt with on their own terms. The contracting approach to including project strategy offers one way forward.

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How Hollywood Applies Industrial Strategies to Counter Market Uncertainty: The Issue of Financing and Exhibition

Robert Alan Brookey and Zeyu Zhang

1 Hollywood Today: Industrial Strategies to Reduce Risk

The academy award-winning screenwriter and novelist, William Goldman (1982), once summed up the Hollywood film industry thusly: "Not one person in the entire motion picture field knows for a certainty what's going to work. Every time out it's a guess—and, if you're lucky, an educated one" (p. 39). In a very succinct manner, Goldman summarized one of the major challenges that confront the film industry: it is a high-risk business. Much has changed in Hollywood since 1983, when Goldman made this observation, and many if not most of those changes have been in reaction to the risky nature of the film industry. In other words, most of the changes that have occurred over the last two decades have been designed to establish a level of certainty in the film market and to reduce risk.

However, economic uncertainty has prevailed primarily because film is not a scalable industry and production cannot be slowly ramped up to meet increasing demand. Instead, all costs of production, and most marketing costs, are sunk up front before a film is released to the market, and it is only upon its release that a film begins to see a major return on the investment. Therefore, when a film fails, and some do, there are few options to mitigate losses and no opportunities to lower the cost of production. In addition, many film studios and independent producers bank on the box office of a successful film to help finance future productions. When a big-budget film fails in a big way, there are broader repercussions.

Therefore, the major film studios in Hollywood, and the producers who work with them, have established certain industrial strategies and corresponding strategies that maximize the profit potential for those films that do succeed. According to Sigismondi (2012), "The core business of the Hollywood studios is to finance, produce, and distribute entertainment content ranging from feature-

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length motion pictures to TV programs, including animation and live action series" (p. 19). In this chapter, we intend to provide an outline of those strategies. Although the focus on Hollywood studio strategies may seem myopic, as we will note these studios are part of multinational conglomerates that have a global reach (Miller, 2007).

We should first begin by defining what we mean by major "Hollywood studios." These are studios that have the ability to distribute and market a film on a global level, and this ability is largely contingent on extensive networks and established relationships with film exhibitors, so that a film can appear in theaters across continents on the same date, and at the same time. In addition, these studios have marketing systems in place so that audiences across these continents are aware when films are playing. Not many companies have the needed infrastructure in place to distribute and promote films on such scale; therefore the major Hollywood studios are limited to a relatively short list, commonly referred to as the "Big Six": *Columbia*, *Disney*, *Fox*, *Universal*, *Paramount*, and *Warner* (Schatz, 2008). There are what are referred to as the "mini-majors" (e.g., *Lionsgate* and the *Weinstein Company*), and there are several independent production companies in Hollywood. But these smaller studios and production companies often depend on the major studios for distribution and marketing support. Consequently, the market share for these "majors" makes up the majority of global box office revenue.

In his analysis of the strategies for these major studios, De Vany (2004) observed that uncertainty in the film industry is the primary driver of business strategies, an observation that has been supported more recently by Chisholm, Fernández-Blanco, Ravid, and Wells (2015).[1] De Vany performed a statistical analysis of box office data deploying various economic models. He was able to observe specific efforts in the industry to establish certainty, including the heavy use of sequels and prequels as well as genre formulas. In other words, De Vany discovered that the Hollywood film industry responded to uncertainty with homogeneity, in an attempt to reproduce the success of films that find an audience. However, after careful statistical analysis, De Vany (2004) came to a conclusion similar to the one that Goldman drew from his experience in the industry: he was skeptical of any supposed formula for a successful film. De Vany's study, however, focused on data that is well over a decade old, and the film industry has undergone some significant changes since then, particularly with the introduction of new digital technologies.

Our purpose here is very specific: we want to determine the current state of film financing and exhibition as practiced by Hollywood studios and answer the following two research questions: (1) How does the film industry currently manage market uncertainty? and (2) Has the emergence of digital technology significantly changed those strategies?

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[1]For the sake of brevity, here we only cite De Vany's *Hollywood Economics* book. His research on the Hollywood film industry is certainly more extensive, and we have included his other important publications in our references.

In this chapter, we argue that although digital technology has brought about changes, these changes have primarily been linked to established strategies in the film industry, particularly in relation to film franchises and genres. We reach this conclusion through a descriptive, yet critical analysis of the strategies of film financing and exhibition as they are discussed in both academic and trade literatures. Our review of the literature is meant to be representative, and not exhaustive, in part, because the number of studios is so few, their strategies are fairly standard, and the points within the literature become rather repetitive. Our analysis will be critical to the extent that we will argue that strategies of the industry are not so much to entertain and support creativity, as they are to establish certainty in the market. To this end, our analysis will align with those political economists who argue that market forces influence the production of content in the media industries (Hesmondhalgh, 2013; Miller, 2016; Mosco, 2009; Schatz, 2008).

In the next section, we will begin our analysis by outlining the strategies of preproduction, considering the development and financing that must be in place before a film can go into production. Then we will discuss those deals that are struck in the prerelease stage. Finally, we will sum up the strategies of film promotion and exhibition, considering the different release windows and revenue streams. To put it simply, we will begin discussing how money is raised to make a film and then discuss how a film makes money. In the conclusion, we will critique how the emergence of digital technologies has magnified these strategies so that Hollywood film production is now focused on specific types of film content.

2 Financing Strategies

Films are expensive and require a great deal of planning and a great deal of labor. Although the primary purpose of the commercial cinematic experience is to entertain audiences, and to that end hide the work that takes place behind the camera, films require work. Generally, this work can be divided into preproduction, production, postproduction, and exhibition. Preproduction is the stage in which financing is secured, talent is attached to a project, and shooting locations are obtained. Much of our analysis will focus on the strategies of raising film financing in the preproduction stage. Production occurs when the cameras begin rolling and end on the last day of shooting. Postproduction is devoted to laying in special effects, scoring and sound, and editing the final cut. The exhibition stage occurs when a film is released to theaters and then distributed to various secondary markets, including home video, streaming services, premium cable, and broadcast channels. Again, we will focus our analysis on the exhibition stage when we address revenue generation. Although these stages follow a temporal order, we should note that some strategies cross these stages, particularly those strategies involved in film financing and exhibition. For example, one of the primary means of raising money in the preproduction state is to presell exhibition rights.

2.1 Preproduction

Before cameras can begin rolling on a film production, financing must be in place, as well as some protections for those investing in the project. The majority of films are independently produced, in cooperation with a major studio. Therefore, one of the first options for a film producer to raise financing is to partner with a studio, and these partnerships can take several forms. One of the most common is for the independent producer to provide a developed project to a studio, and then the studio provides funds for production and marketing costs in exchange for the distribution rights for the domestic (US) market (Ulin, 2010). Studios can develop projects in-house, but in these cases the involvement of an independent producer is limited. In addition, the studio not only retains creative control over the project but also keeps most of the intellectual property rights along with the rights for distribution (Vogel, 2015). This is not to suggest that a studio only exercises influence over in-house productions, and studios will often offer notes and changes on scripts and productions before closing a distribution deal. In fact, some of the other forms of financing that we will discuss often exercise control over the creative process by requiring script approval before committing funds.

There can also be occasions where a studio will team up with another studio in order to finance a production. Perhaps one of the most well-known examples of this practice is the film *Titanic*. When the film's production began to swell to US$200 million, *Twentieth Century Fox* teamed with *Paramount* to complete the production. It was a partnership that paid off considering the film went on to gross over US$2 billion in global box office receipts.

In addition to studio financing, independent producers also can obtain financing from other sources, and often these sources of financing can be combined with studio support. Banks, insurance companies, and public and private investment funds have all provided financing for film production, although it should be noted that conditions of financing can vary from institution to institution and can constrain the producer's creative control and limit their profit participation (Epstein, 2012). In ways, when producers combine these multiple funding sources, they are setting up each film as a separate, freestanding company, and even studios will often set up in-house productions in the same manner. As Vogel (2015) explains, "Each film is essentially set up as a stand-alone financial entity that separately accumulates revenues and costs apart and different from those of the studio. This suggests that a film's company might generate losses even when the studio generates gains" (p. 206). Through this practice, production costs, and the rental of some studio equipment and production spaces, can be billed to a film's production company. On the other hand, when distribution is turned over to the studio, the studio also determines how revenue and distribution fees are attached to a specific film's account. Often studios will use this practice in such a way that a film's company appears to lose money, even though the studio itself is turning a profit on the film. This is just one of the creative accounting strategies that major Hollywood studios use to deflate profit participation payouts (Daniels, Leedy, & Sills, 2006; Sparviero, 2015).

After domestic (US) distribution is established with a studio financing deal, producers are then able to pursue funding by preselling distribution rights for their films to foreign markets. Johnson-Yale (2015) has noted Hollywood has been depending on foreign markets for several years. This dependence has become progressively more important over the years, and as Lee and Gillen (2011) point out, "approximately 60 percent to 70 percent of the theatrical earnings for the most popular U.S.-produced motion pictures are earned outside the United States," and some of the largest foreign markets for film include Japan, the UK, France, Germany, Spain, Italy, and Australia (pp. 37–38). These presale deals to foreign distributors can vary in their terms and can cover home video rights and television rights, in addition to the rights for theatrical release.

Once the presales of the distribution rights for both domestic and foreign markets are in place, producers must then secure completion bonds for their films. These bonds serve as insurance for those parties who have paid for distribution rights or invested in the film production in other ways. Completion bonding is a requirement for banks and other financiers to lend money to producers, and the bonds ensure that the picture will be completed on time within the budget and it will be delivered to the distributor. If a picture is not completed, or production is shut down for any reason, the guarantor will pay for the related losses. In addition, the completion guarantor plays an essential role in both independent and studio production financing because they verify important aspects about a film's development before it goes into production (Lee & Gillen, 2011).

For example, bonding companies will review a film's projected budget to determine if it is feasible, and their analysis proceeds from a business prospective rather than a creative vision. They also vet the above-the-line talent to determine if they have the experience to complete a production or if they have a history of delayed or disrupted production. Consequently, the bonding process has interesting implications for the production process, because bonding can influence who is hired and who is cast (Epstein, 2012). For example, if an actor proves to be undependable or erratic on the set or has too many personal and/or legal problems, that actor may not be bondable and therefore companies will not back productions in which they have been cast; Lindsay Lohan's career is a case in point. Other above-the-line talent may be held to the same scrutiny by bonding companies, directors, for example. Terry Gilliam's reputation was significantly damaged by a failed production of a *Don Quixote* film and resulted in a 7-year gap in his directing resume.[2] Therefore these bonding companies also exercise some creative control, because the above-the-line talent, especially the directors, can significantly change the creative vision of a film.

Often one of the final sources of funding that producers can tap into are bank loans, and banks are often the source for what is called "gap financing" (Ulin, 2010, p. 95). These bank loans are often secured to bridge the gap between projected production costs and the amount raised through studio deals and foreign market

[2]A quick perusal of Gilliam's IMBD page reveals the impact of this failed production.

presales. We should note, however, that some producers may try to secure these bank loans up front in order to better position themselves in negotiating terms for foreign market presales. In any case, the issues related to completion bonds still apply.

Crowdfunding has emerged as a new way of raising funds for independent production, but it is distinctly different from other forms of financing, because it seldom offers any investment interests. As Lee and Gillen (2011) describe the practice, "Crowdfunding films are an alternative model for both development and production financing by going online and soliciting donations. In other words, it does not include investments and only includes the donations, memberships, and preordering of products, giving none of the funders future profits in the film" (p. 170). Common crowdfunding services for this type of solicitation include *Kickstarter* and *Patreon*, but as Lee and Gillen note (Lee & Gillen, 2011), crowdfunding works best for projects that are unlikely to receive major studio distribution (documentaries and/or social issue films). In fact, when a producer has access to more traditional forms of studio and bank financing, using these crowdfunding sources can be controversial. For example, when Zach Braff used *Kickstarter* to raise $2.6 million in donations for his film *Wish I Was Here*, he received criticism when he later signed a $10 million deal with a traditional film financer for the same project (Child, 2013). At this point, it is unclear if crowdfunding will take the place of traditional forms of film financing.

Finally, some producers may augment their financing by taking advantage of various production incentives that are offered by several states in the USA and some countries that are looking to increase their film production. These incentives can take a variety of forms and can include rebates on production's costs that are expended on location, actual grants for specific location production, and tax credits. When a production spends money in a location that offers these incentives, those costs can be defrayed by these rebates and/or credits. Canada, for example, offers a variety of tax credits, and a good deal of Hollywood production (for both film and television) has been shot on locations in Canada in order to benefit from these credits (Epstein, 2012). Another highly visible example would be *The Lord of the Rings* trilogy of films directed by Peter Jackson. Jackson, himself a New Zealand native, shot all three films simultaneously in his home country in order to qualify for the government incentives that were available (Newman, 2008). Again, these incentives can augment a budget, and help a producer maximize resources, but primary funding often needs to come from the traditional sources that we have mentioned before production can commence. In other words, the producer often has to spend money in a location first, before production can receive a rebate or a tax credit.

2.2 Prerelease Deals

As we have mentioned before, most films incur most of their production costs up front and do not begin seeing a return on the investment until they are released to the theater. There are some exceptions to this rule, including revenue streams that are established during the production and even preproduction phases, although they may continue to generate revenue after the release of the film. Some of these strategies occupy a liminal area, because sometimes the revenue they generate is used to support the financing of the production, but they are merely supplemental and not primary sources of financing.

First, we should distinguish the strategies of product placements and partner tie-ins. Product placements are when actual consumer goods and services appear in a film, and their placement can either be visual, auditory (the product is mentioned in the film), or a plot point. For example, the 2003 remake of the film *The Italian Job* prominently features the recently released *Mini Cooper* car; the small size of the car facilitated the bank heist that was the central plot point of the film. Promotional partner tie-ins involve an established consumer brand that combines with the featured film. For example, fast-food restaurants will promote films on their food packaging or have toys or other promotional items that are linked to a product purchase. As Ulin (2010) notes, the purpose of this type of promotion "is to attract more consumers to their product by associating themselves with another property/brand. E.g., *Disney* with *McDonald's*. For *Disney*, it gained exposure and excluded competition. For *McDonald's*, a high-quality and safe association with a family friendly brand" (pp. 394–395). Both product placements and promotional partner tie-ins are negotiated and arranged well in advance of a film's release and often in the preproduction stage. The actual fee for the use of the film's intellectual property is often paid at the conclusion of a successful negotiation, and those fees are sometimes added to the production budget. In extreme cases, product placement deals can drive the creation of plot elements and thereby influence the creative process.

Where product placement is concerned, however, cash deals are rather rare, and instead barter deals are arranged where the product manufacturer provides a cross-promotional advertising and marketing campaign. Again cars become an excellent example, and often a car company will use a product placement in a film to promote a new model. Yet, as Epstein (2012) notes, "Product placement gigs will become a major source of production financing in the future, in which a movie provides a controlled world of good-looking stars wearing a certain brand of clothing for an hour and a half, in exchange for which the brand manufacturer pays for a large share of the production" (p. 116). Therefore, this practice may become more cash-based in the future.

Producers can also raise funds prior to the release of a film by selling the rights to a variety of products, for example, the novelization of the film's screenplay. These novels are usually released 4–12 weeks before the picture's theatrical release and can serve as a valuable advertisement for the upcoming movie, in addition to a revenue source (Lee & Gillen, 2011, p.74). Normally, the novel will have the same front cover as the picture's one-sheet (the image that is used to promote a film in the media and advertising campaign). A case in point would be the novelization for the movie *Avatar*, which featured the face of the character *Neytiri* on the cover, the same image that appeared on the film poster. When the book cover appears on store shelves, the use of the one-sheet turns retail space into advertising space.

The same holds true for the video game adaptation of films, in which the one-sheet is used as the game box cover when the game hits the retail shelves. Video games also allow for adaptions and extensions of the film narrative, and as Ulin (2010) notes, "The bigger a franchise and the deeper the fan base, the more options the rights holder has for creating new intellectual property grounded in but only directly parroting the underlying franchise" (p. 363). In his analysis of the video game spun-off of the *Marvel Studio films*, Brookey (2010) shows how the video game releases for the *Spider Man*, *X-Men*, and *Fantastic Four* franchises allowed for a variety of narrative and visual cues that linked the films to their comic book origins. He argues that the video games operate as new, strategic intellectual properties that speak to the established fan base for these comic books and help to establish the authenticity of the films as an extension of the comic book texts. Although not quite as successful as *Disney* and *Marvel*, *Warner* has tried to exploit its ownership of DC comics in a similar manner.

Because video games are licensed intellectual properties, these rights are negotiated and acquired well before the release of a film. In many cases, these rights are secured by third-party video game developers and publishers, and in addition to the per-unit royalty (often 8–10% of the retail sale), these third parties must pay an up-front guarantee to the film producer (Ovadia, 2004). Given that the producer does not shoulder any risks for the production, distribution, and sale of the actual video game, these up-front guarantees serve as cash on the table, cash that can be invested into the production budget. For this reason, the video game release has become a very common practice for the most popular movie genres, including science fiction, action/adventure, and CGI (computer-generated imagery) animation. Although video games seldom drive the creative process of film production, the ability to market a video game, and tap into this revenue source, can be a determining factor for which projects get funded and how much funding projects receive.

Other ancillary products, including clothing, toys, and action figures, are often licensed in a manner similar to video games. Again, the licensing rights for these products often carry a per-unit royalty and an up-front guarantee (Raugust, 1995). The terms of these contracts, for both ancillary products and video games, are contingent on the popularity of the intellectual property, and more established properties (and film franchises) often carry more lucrative terms. When an intellectual property already has an established fan base, these ancillary products have a broader market. In fact, the men who originated *Marvel Studios* did so because they already had the intellectual property rights to these comic book characters for producing toys and action figures; they believed, and rightly so, that the films would help them sell their ancillary products (Raviv, 2004).

3 Exhibition Strategies

After a film has wrapped, and all postproduction work and editing is finished, the final cut is ready to be reproduced and released to theaters. Historically, the theatrical release has been the primary source of revenue for Hollywood studios, but in terms of actual revenue generated, there are other markets that are more lucrative. Still, in important ways, the theatrical release is instrumental in driving demand for other markets. The theatrical release is a very complex process, which requires films to be available, and exhibited in a variety of cities and towns across entire territories on the same date and often at the same time. In addition, audience awareness must be established, requiring advertising to appear across a variety of media in these same territories. Finally, companies that handle the theatrical distribution of films must establish and maintain contracts with the theaters and then monitor those theaters to make sure the terms of those contracts are met. As we have noted earlier, given the complexities of theatrical distribution, only a few companies have the necessary infrastructure in place, and those companies are considered the major Hollywood studios. In fact, these major studios focus on distribution rather than production because it is a side of the business that is both more profitable and financially stable (Lee & Gillen, 2011).

When films are released to theaters, the box office receipts are split between the exhibitor and the distributing studio. The terms of these revenue splits vary and can be set on a sliding scale based on the length of time a film remains in theaters. For example, a film can open in theaters with a 90/10 revenue split with the majority going to the studio; then in the second weekend, the split may be reduced to 80/20, and subsequent weekends the split continues to decrease for the studio and increase for the exhibitor. The reason that the studios receive such a larger share of the box office is because exhibitors make their revenue at the concession stand, where the markup (and the profit margin) of the food and drink sold is significant (Epstein, 2012). Concession stand revenue is driven by foot traffic, and foot traffic is driven by popular films and new releases. Therefore, when a new film is released to theaters, the exhibitors benefit more from the mere presence of people in their theaters than the actual ticket sales.

Currently, most big-budget Hollywood films are given a wide release, appearing across territories and markets on the same date. These wide releases are supported by major marketing campaigns that are executed at a national, regional, and local level. The purpose is to create the largest audience possible on the opening weekend, with the hope that the popularity of the film will drive audiences to the theater in the subsequent weekends. Small films, foreign films, and those with specific target markets are often given a platform release. These films premiere in a couple of markets (often Los Angles and New York) and a handful of theaters, and then their release is widened in subsequent weekends. Films with smaller production budgets, and limited audiences, are not given large marketing budgets; therefore they depend on word of mouth and positive reviews to generate an audience. The slower release schedule gives these films the extra time needed to find an audience or, more to the point, for the audience to discover the film (Drake, 2008). Unfortunately, these films do not appeal to most exhibitors because they do not generate as much foot traffic as wide releases. Therefore, these films are often relegated to “art house” and smaller specialty theaters that can support the exhibition of these films because of smaller overhead costs.

A final release strategy, and one that is relatively uncommon, is to “four-wall” a film. In this case, a distributor will rent out a theater for the purpose of exhibiting the film and then collect the box office receipts (Ulin, 2010). Again, this type of distribution is rare and is usually reserved for independent producers who cannot obtain studio distribution support or for those films that have a very specific audience. For example, when one of us lived in the Chicago area, he would notice that Bollywood films would often be screened at the suburban theaters, specifically for the Indian population that lived in the greater metro area.

As should be clear at this point, the films given a wide release have the larger budgets and carry a greater expectation for generating revenue. Yet, although they are designed to attract a wide audience, ironically these films are initially marketed to a very specific audience. As Acland (2003) notes, audience creation often focuses on the “avids,” that is, “individuals who on average attend a film every two weeks” (p. 74). These “avids” keep abreast of the current cinema offerings and are aware of what films are opening on a given weekend. Acland (2003) also points out that although “avids” only make up 8% of the population in North America, they have a significant influence on film production, in part because they often drive ticket sales on opening weekends.

Of course, the international markets are also important to the financial performance of Hollywood films. As we mentioned earlier, outside of the USA, Japan, the UK, France, Germany, Spain, Australia, and Italy make up the major territories for Hollywood film distribution, although China is also gaining attention as an emerging market for film distribution. As Lee and Gillen (2011) note, “Though the United States is the single highest earnings territory for pictures created by U.S. producers, approximately 60 percent to 70 percent of the theatrical earnings for the most popular U.S.-produced motion pictures are earned outside the United States” (p. 38). In fact, the international market can sometimes compensate for a disappointing domestic box office performance for Hollywood films. For example, when the film *Warcraft* premiered in June of 2016, it only generated $47 million in the US market, but would go on to generate $220 million in China.[3] In fact, over half of *Warcraft's* $433 million box office receipts were generated in the Chinese territories (see Footnote 3).

Until recently, the other modes (or windows) of distribution after the theatrical release were distinct, discrete, and separated by a temporal order. The reason for such modes of distribution is because of that “the exclusivity and subsequence of each of these windows of exhibition allow Hollywood studios to practice price discrimination of their products and capture a larger share of the value generated by their artifacts” (Sigismondi, 2012, pp. 19–20). With the emergence of digital technologies, the distinctions between these windows of distribution are collapsing, but they have not collapsed completely. After the theatrical release, exhibition on airlines and pay-per-view services in hotels make up the next release window.

[3]For example, the *China Film Group* and the *Chinese Le Vision Pictures* have teamed with *Universal Pictures* to produce and distribute *The Great Wall*.

Often a specific airline will strike a package deal with a studio that contains both film and television content. The same package deals are sometimes struck with hotel chains as well, and the terms of these deals can vary (Ulin, 2010).

The next release window is for home video, DVD, and Blu-ray. With the advent of the home video market in the late 1970s, video rentals became a very lucrative aftermarket for films. However, with the emergence of DVDs in the late 1990s, home video revenues increased significantly, in part because the DVD technology changed the market from rental to sell-through (Brookey, 2007). In other words, people began buying DVDs of films in ways they never did for the VHS format. This is due to the fact that the DVD retail price point for films was much cheaper than VHS, and the new format had additional features that increased the repeat viewing value of the product. This spike in revenue waned when the Blu-ray format was introduced, because other modes of home video became available to consumers, including video-on-demand (VOD) and digital downloads (Ulin, 2010). The VOD services can include either rentals or purchases and can be available through a cable service provider, such as *Comcast*, or an online retail service such as *Amazon* or *iTunes*. In addition, streaming services such as *Netflix* and *Hulu* offer film content to consumers at a set monthly rate.

Following the home video release, traditionally films were next released for premium television services such as HBO, *Showtime*, and *Straz*. While these premium channels still offer film content, each has begun to put efforts behind their own television series, with HBO being the most visible example with their "It's not television. It's HBO" campaign. Indeed, these series are often used to differentiate these channels in the market and drive demand for subscriptions. Therefore, while these channels still purchase and schedule Hollywood films, their own programming has become more important (Epstein, 2012). Like the airline/hotel window, these premium cable deals are often struck by the studios on packages of films and seldom on a specific film. In addition, because the deal happens at the studio level, the studio is at liberty to determine how the revenue will be credited to a particular film and what distribution fees might be charged.

The final window is broadcast or basic cable television. While films can appear on premium channels relatively unedited, films must be broken up to accommodate advertising breaks for most broadcast and basic cable channels. Additional editing is sometimes required if the film contains scenes and language that do not meet network or broadcasting standards. Given that these channels generate their revenue from ratings, and not subscriptions, some channels will negotiate contracts with studios for specific films (although these again can be part of packaged deals) in order to attract audiences for the "network premier" of a popular film (Ulin, 2010). Again, the revenues and fees for these deals are determined at the studio level and not by a specific film production company. For this window, the wider released and more popular films unsurprisingly are more attractive to broadcast and cable channels, because they produce higher ratings. Again, this is a distribution window that favors some films over others.

Different windows of distribution indicate the timing strategies major studios use to maximize the profit. These timing strategies aim to explore the nature of the relationships among different windows. In Charles B. Weinberg's research, he analyzed how long the distributor should wait in order to release the video after a movie's theatrical release. As Weinberg (2005) points out, "releasing a movie on video shortly after theatrical release ensures that consumer interest generated by memory of the original advertising campaign and potentially positive word of mouth will be strong; however, it also risks cannibalizing theatrical sales through a lower margin outlet" (p. 177). Thus, a proper balance is needed in the timing of releasing the video. By generating an exponential function, Weinberg (2005) concluded that "The video demand falls by a constant percentage with each passing week" (p. 178).

With the advent of digital technologies, these distinct windows are showing signs of collapse. In some cases, films are available on VOD or on airline and hotel services at the same time they are appearing in theaters. In addition, the length of time between windows is shrinking, a practice brought about by DVD technology, in which studios try to tap into alternative sources of revenue as quickly as possible. The *National Association of Theatre Owners* (NATO) has a vested interest in maintaining the more traditional approach to film distribution and is trying to track the window/gap studio by studio (Ulin, 2010). After all, if the theatrical release no longer becomes the first opportunity to view a film, or if the "wait until video" option becomes less of a wait, then the members of NATO will continue to see a loss in ticket sales, foot traffic, and concession revenue.

Ulin (2010) makes a strong case for maintaining traditional windows and argues that these release strategies are important because "Distribution is all about maximizing discrete periods of exclusivity" (p. 31). Ulin (2010) goes on to note: "If windows are not choreographed and controlled but content is subject to the free-for-all of the Web, then many fear the bar will be lowered. Moreover, lower distribution costs given the elimination of physical goods do not guarantee higher margins given the downward pricing pressures online" (p. 299). More recent, Mann (2014) has raised a related concern about the use of the Web for content distribution. She sees online distribution as a power play by the tech giants such as *Google*, *Apple*, and *Microsoft* to wrest control of content away from the Hollywood studios.

The film industry is an industry that must create a market, or audience, for each product (film) it produces. While the traditional modes of windowed release may have worked in the past, they not may be the best way to attract an audience in the future. Or, more to the point, they may be less effective in driving demand across windows of distribution for those films that have the widest audience appeal or for those that already have an audience in place. A developing trend suggests that the Hollywood film industry, and the current Hollywood studio system, may only operate to produce and distribute certain types of films, which brings us to our point of critique.

4 Conclusion: Industrial Strategies Drive Homogeneity

The academic study of films has often focused on the artistic strategies associated with the medium and the study of those strategies within fine arts programs. While we do not challenge the inclusion of film within the pantheon of art, and have enjoyed cinema experiences that have been uplifting and transformative, we hold firm to the position that film making, primarily, is a business. In the 120 years that have passed since the first commercial film was screened, the industry has gone through many changes and challenges. In the current climate, dominated by the rise of digital technologies, the industry is responding by focusing on film content that best utilizes these technologies in the construction of the film text and also maximizes revenue in the different channels of digital distribution.

We began our study with the purpose of determining how Hollywood studios manage uncertainty and if digital technology has changed those strategies. We found the answers to both questions are intrinsically linked: the film industry still attempts to manage market uncertainty by drawing on specific genres and franchises. Digital technology is often deployed to augment those genres and extend those franchises.

For example, action adventures, utilizing postproduction digital effects, and computer-generated imagery (CGI) animation have come to dominate Hollywood film production. At this moment, the top ten grossing films for 2016 include four CGI-animated features (*Finding Dory*, *Zootopia*, *The Secret Life of Pets*, and *Kung Fu Panda 3*) and four superhero features (*Captain America: Civil War*, *Deadpool*, *Batman v. Superman: Dawn of Justice*, and *X-Men: Apocalypse*). We should also note this roster contains four sequels. This homogeneity of Hollywood films is not the product of a lack of imagination, so much as it is a desire to establish certainty in an uncertain market, in an industry that carries a great deal of risk.

If audiences must be created for each film, then it is much easier to create those audiences from audiences that already exist. Sequels are an obvious choice because they already have built audiences from previous films, but drawing on content that has created audiences in other mediums can also be effective. The preponderance of "superhero films" developed from comic book characters has become such a common practice because it has become such a successful practice. *Marvel Studios* has led in this area, and its success can be attributed to the long-established strategies that *Marvel* used to capture and hold the attention of comic book fans (Pustz, 1999). As we noted earlier, however, *Marvel Studios* was created, not so much to create films, as to sell ancillary products, specifically action figures and video games. Given *Disney*'s long history with the ancillary market, it should come as no surprise that they acquired *Marvel* in 2009. The fact that they have now scheduled film production for *Marvel* properties for the next 10 years seems to be motivated more by strategies to tap into this ancillary market repeatedly than a stack of outstanding scripts.

In addition to *Marvel*, *Disney* has acquired *Pixar*, which ushered in the age of CGI animation, and the *Star Wars* franchise. All of these acquisitions included content that can either be continuously chained out into sequels and prequels or exploited in a variety of ancillary markets including clothing, video games, and toys. In fact, both *Marvel* and *Star Wars* have been referred to as universes, narrative spaces containing characters that can be chained out into a variety of content and transmedia narratives. Yet, we should keep in mind that transmedia narratives signify transmedia products. In other words, these are the types of stories and characters that audiences will follow across a variety of commercial products. *Disney* has been in the business of retailing these types of products for years, and anyone who has visited one of the *Disney* parks is aware of these products as they exit a ride into a gift shop. Given that *Disney* (*Buena Vista* is the studios distribution arm) currently leads the other studios in 2016 box office with $2 billion gross and a 25.2% market share, *Disney* is clearly at the top of the game where the business of contemporary cinema is concerned.

In his analysis of industry practices, Sparviero (2013) included “diversify your slate” as an important strategy of the Hollywood studios. Unfortunately, his data was culled from films that were released in 2007, and this diversity has not been observed in the following years. For example, Epstein (2012) bemoans the decline of independent and art cinema with the advent of digital technology. More recently, Thompson (2014) noted that in spite of all the changes that digital technology has brought to the film industry, Hollywood studios still will not diversify their content nor reach out to the marginalized audiences that often find representation in independent films. Most telling, however, was a recent special issue of the *Journal of Culture Economics* (Chisholm et al., 2015), which in the contributed articles demonstrated that Hollywood’s focus on sequels and remakes is as strong as it ever was. On a positive note, but one that proves our point, Fennessey (2017) has observed how *Netflix* and *Amazon* are now developing the kinds of film that used to be reserved for the independent festival market. He notes that while these online streaming distributors often give directors a great deal of creative control, it moves the content out of the theatrical exhibition experience and further erodes any interest that traditional studios might have for diversifying content.

Although foreign film production may seem immune to the market conditions that drive Hollywood film production, Finney (2010) reminds us that even foreign film production is highly dependent on presales of the US market and those sales open up opportunities for Hollywood influence. Drawing on his experience as a managing director for *Renaissance films*, Finney offers examples of when Hollywood studios required script changes, and sometimes demanded the proverbial happy ending, before they would commit money to a production. In addition, Miller (2016) argues that the Hollywood’s business strategies have even influenced the labor strategies of global film production.

As we have attempted to demonstrate in our analysis, Hollywood strategies are designed to counter risky market conditions. We conclude that the practice of the industry is intended to establish certainty in the market, rather than inspiring and supporting creativity. We see this intent in strategies of preproduction and financing, in strategies of the prerelease deals for ancillary products and product placement, and in the way films are marketed through different windows of distribution. Finally, we argue that the advent of digital technologies may be driving these strategies in ways that might further homogenize Hollywood film production. In other words, and to borrow from Goldman, in the future, people in the Hollywood may actually know something, and unfortunately they may all know only one way of creating films.

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Part II

Analyzing Current Practices

Public Funding for Film and Audio-Visual Works in Europe: Key Industry Statistics 2010–2014

Martin Kanzler and Julio Talavera

1 Public Film Funding: Key Statistics

The *European Audiovisual Observatory* (in the following abbreviated as *Observatory* or "OBS") is a public service body and part of the Council of Europe in Strasbourg, France. The *Observatory* was created in 1992 in order to collect and distribute information on the various audiovisual industries in Europe. By making this information available, the *Observatory* aims at promoting greater transparency and a clearer understanding of the ways in which the audiovisual industries in Europe function, both from an economic and legal point of view.

In 2016, the *Observatory* published a report entitled *Public financing for film and television content—The state of soft money in Europe* (2016).[1] This chapter summarizes some of these reports' key statistics and insights concerning the scope and level of direct public funding[2] for film and audiovisual works in Europe. It tracks the following three key indicators related to direct public funding:

[1]In this report, the *Observatory* analyses the development of public measures designed to foster the film and audiovisual sectors, in particular film production, between the years 2010 and 2014. The report covers direct public funding, fiscal incentives, legal obligations for broadcasters to invest in film and audiovisual content as well as guarantee facilities for securing access to private financing. The 2016 report follows two comprehensive reports on public funding published in 2011 and 2004 respectively (*Public Funding for Film and Audiovisual Works in Europe* 2011) and *Public funding for film and audiovisual works in Europ*e—A comparative approach (2004).

[2]This chapter does not address other film policy measure to foster film and audiovisual production including fiscal incentives, legal production investment obligations for broadcasters or guarantee facilities (a loan guarantee facility commits to cover parts of the losses of a bank which provides loans, in this case to film or audiovisual productions, if the borrower fails to repay the loan. In the case of a public loan guarantee facility public funds are used to cover the bank's loss should the situation arise).

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(1) *Number of active public funding bodies in Europe* (2010–2014),
(2) *Income of funding body* by type of source (government budgets, levies, etc.) (2010–2014), and
(3) *Spend of Film and AV Funds* by type of supported activity (i.e. *Activity spend*) (2010–2014).

In line with the Observatory's mission, the analysis pursues a "big-picture", pan-European approach which is meant to complement and provide benchmarks for research carried out at national level.

The following methodological aspects need to be taken into account when interpreting the data: Firstly, diverging definitions of indicators pose a challenge to the comparability of data. The main obstacle to a comprehensive quantitative analysis of pan-European trends of film and audiovisual public funding lies in the fact that the same indicators are defined differently, not only across Europe but, sometimes, also between different funding bodies within the same country. By administering a questionnaire based on clearly defined methodological definitions and discussing ambiguous data with representatives of film funds, the *Observatory* tried to improve the comparability of data. Certain differences however remained and this has to be kept in mind when comparing data between countries and interpreting aggregate analysis results.

Secondly, data coverage is not fully comprehensive and aggregate data have to be considered estimates. The availability of data varies between countries and funds. However, it is generally very small funds for which data are not always available. As these smaller funds have a very limited impacted on cumulative figures, the partial lack of these data does not have a significant impact on the overall insights.

Thirdly, the *Observatory* defines a "public funding body" (hereafter also referred to as "fund", "public fund" or "film fund") as a legal entity which provides direct public or state subsidies and grants to film or audiovisual projects, grants loans at preferential rates or transfers resources from one branch of the industry to another, either ordered or assisted by public authorities.[3] Importantly, this definition excludes private funds, institutions and foundations, as well as publicly funded banks and credit institutions. Equally, institutions devoted to fostering and promoting the film and audiovisual industries which do not offer grants or loans (e.g., film commissions, public export institutes or public film promotion associations) do not fall under this category either. However, in case such promotion activities were undertaken directly by a film fund in addition to its operation of direct support schemes, these actions were taken into account in the analysis of activity spend.

Fourthly, the *Observatory* distinguishes between public funding bodies operating at the following three administrative levels: (1) *Supranational funds*:

[3]From a legal perspective, the term "public fund" refers to a variety of legal constructs. Depending on the country and legal status these range from government departments to statutory corporations, among others. They are mainly financed either by the state budget and/or through mandatory or voluntary contributions from the industry.

Funds involving several countries (pan-European) or aiming at non-European countries (outreach); (2) *National or federal funds*: Those established by the central or federal government, regardless of whether they operate as a government department or an independent agency; (3) *Sub-national funds:* Including funds at community, regional and local levels.

Fifthly, the study covers all 28 EU Member States except Malta plus Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Iceland, Norway, Russia, Switzerland and Turkey.

And finally, when interpreting data on public film funding, it has to be kept in mind that direct funding is only one of several film policy instruments a country can implement in order to foster its film and audiovisual industries. Direct public funding has to be evaluated in context of a country's entire film policy system which may include various types of fiscal incentives, obligations for broadcasters to invest directly into film and audiovisual productions, public loan guarantee facilities or other forms of industry regulation. This is particularly true when comparing data between countries. However, such a country driven analysis goes beyond our analysis chosen in this chapter. In this context it is also important to recall that the pan-European figures of some of the indicators are heavily influenced by the situation in the largest countries. When interpreting pan-European total or average figures one consequently has to keep in mind that the situation in individual countries or at different funding levels might be quite different from the cumulative pan-European figures, whose main purpose is to provide benchmarks for analysis carried out at national levels and to raise questions stimulating further research addressing individual aspects in further detail.

As for data collection, data was gathered from all European public film funds which were operational in any of the years between 2010 and 2014.[4] In addition to a generic questionnaires, we used annual reports and financial statements published by the individual film funds as well as interviews with officials in the funds.[5]

This chapter is organized as follows: First, we will show the development of the number of European film and audiovisual funds and their breakdown by funding body type on a country-by-country basis. Then, we will look into the development of funding body income and the shifting importance of the various financing sources. Further, we will analyse funding body spend, i.e. the volume of public support granted to the film and audiovisual industry, including a breakdown by targeted type of activity (e.g. creation of works, distribution, exhibition, etc.). Finally, key findings of the analysis and a research outlook are laid out in the conclusion.

[4]Please note that data were not available for all funds and/or indicators. Data availability for the individual indicators is described in the sections dedicated to them.

[5]A part of the data collection was carried out by Online Film Financing (OLFFI) (www.olffi.com), an online database of public funding and tax mechanism schemes, and Cine-Regio (www.cine-regio.org), a network of regional film funds in Europe, which supported the *Observatory* in its data collection efforts.

Table 1 The number of public film funding bodies by Type (2010–2014)

	2010		2014		Change	
	#	%	#	%	Created	Closed
Supranational funds	19	8	19	8	5	−5
National/federal funds	62	25	63	25	3	−4
Sub-national funds	167	67	167	67	12	−12
Total	250	100	249	100	20	−21

Source: European Audiovisual Observatory

2 Funding Body Population

The *Observatory* could identify a total of 249 public film funding bodies actively operating in 2014 in the 35 European countries covered in its study. This practically equals the number of 2010. As illustrated in Table 1, Sub-national funds (bottom line in table) accounted for around two-thirds of the total funding population (i.e., 167 funds), while National/federal funds represent 25% (i.e., 62 funds), and Supranational funds 8% (i.e., 19 funds).

Despite the fact that the overall funding body population in Europe remained stable between 2010 and 2014, there have been several changes in the structure and organisation of funds in Europe over this 5-year time period. To name just a few: Most regional screen agencies in the UK merged and integrated within *Creative England*[6]; in Poland, the Polish Film Institute (Polski Instytut Sztuki Filmowej), the country's national film funding body, continued to foster the launch of regional funds in the country; several Eastern European and Baltic countries (e.g., Czech Republic, Hungary, Latvia, Lithuania) created a film funding body independent of their respective Ministry of Culture, hitherto in charge of the film and audiovisual funding portfolio. In total, 20 new funds were created while 21 funds closed their operations between 2010 and 2014. It comes as no surprise that the category *of Sub-national* funds was the most dynamic area, with 12 new sub-national funds becoming operational and 12 closing.

2.1 National and Sub-national Funds by Country

As illustrated in Table 2 below the countries with the largest number of funding bodies are those which have established a funding system based on national as well as sub-national funding bodies. Despite accounting for two-thirds of the total funding population, sub-national funds were established in only 15 countries while at least one national/federal fund existed in all European sample countries

[6]*Creative England* is a not for profit organisation that supports the creative industries in the United Kingdom. It was formed by the consolidation of a number of regional film commissions into one body after the UK government dismantled the *United Kingdom Film Council* in 2011.

Table 2 Number of national/federal and sub-national public film funding bodies by country (2014)

Rank	Country	National/Federal funds	Sub-national funds	Total funds	% Share
1	FR	2	40	42	18
2	DE	5	19	24	10
3	AT	6	16	22	10
4	SE	2	19	21	9
5	IT	1	16	17	7
6	ES	1	15	16	7
7	NO	2	10	12	5
8	GB	2	8	10	4
–	PL	1	9	10	4
10	CH	4	5	9	4
11	BE	–	4	4	2
–	DK	1	3	4	2
13	EE	3	–	3	1
–	FI	2	1	3	1
–	IE	3	–	3	1
–	LT	3	–	3	1
–	LV	2	1	3	1
–	NL	3	–	3	1
19	BA	1	1	2	1
–	HU	2	–	2	1
–	RU	2	–	2	1
–	SK	2	–	2	1
23	AL	1	–	1	0
–	BG	1	–	1	0
–	CY	1	–	1	0
–	CZ	1	–	1	0
–	GR	1	–	1	0
–	HR	1	–	1	0
–	IS	1	–	1	0
–	LU	1	–	1	0
–	MK	1	–	1	0
–	PT	1	–	1	0
–	RO	1	–	1	0
–	SI	1	–	1	0
–	TR	1	–	1	0
	Total	63	167	230	100

Source: European Audiovisual Observatory with the exception of Belgium where public film funding is exclusively administered at regional/community level.

With its total of 42 public film funds, France clearly stands out in the European public film funding landscape. It is followed by Germany, Austria and Sweden, all of which feature between 21 and 24 public film funds. Along with Italy, the top five countries alone accounted for more than half of the entire European film funding population.

As an indicator, the number of funding bodies illustrates the different ways in which public support for the film and audiovisual sector is organised within a country. There is consequently no direct correlation between the size of the country and the number of funding institutions. This is clearly reflected by the data shown in Table 2 below which features Austria and Sweden among the top five European countries in terms of number of funding bodies. The data further show that the number of funds operated at the various administrative levels (national/sub-national/local) is not necessarily linked to the levels of autonomy given to regions/communities/etc. which, broadly speaking, defines whether a state is characterised as a central or federal state. For instance, Austria, a federally-shaped state, operates six national funding institutions, the largest number of national funding bodies in all of Europe. On the other hand France, a centrally organised state, features the by far largest number of sub-national funds (40).

Finally, it should be noted that the number of funding bodies as such is not a meaningful indicator to measure the level of public support provided to the film and audiovisual sector. The latter will be analysed in Chapter "Film Governance in the EU: Caught in a Loop?" Activity Spend.

3 Funding Body Income by Type of Fund

The *income* of a public funding body refers to the financial resources from all sources available to the fund. It is defined as the annual sum of the monetary amounts entering its accounts for the first time during the year. In the context of this analysis income does hence not refer to the amount of money available in a given year, but to the amount of new financial resources entering the fund; in other words, reserves and carryovers from previous years are not counted as income.[7]

Income includes amounts received through fees, taxes or transfers from other funds well as amounts generated by the fund, including e.g. repayments, revenues from copyrights or self-generated income. When a fund includes activities other

[7]This is a methodological choice taken by the *Observatory*. Indeed, some funds consider all incoming sources during a given year as income rather than taking into consideration only those amounts entering the fund for the first time. In these cases carryovers or surpluses from previous years have been discounted from the total income. The same applies to allocations to or from reserves; as for returns, these amounts were also discounted if they had already been accounted for as "spend" during previous years—normally, when a grant or subsidy (or part of it) is returned during the year it was granted, the fund does not take the amount into account as spend.

than those related to the film and audiovisual sectors under its purview, only the income related to film and audiovisual activities has been taken into account.

A part of the income of a fund can be spent in financing other funds—for example, a federal fund may receive an allocation from the State budget to be transferred to several regional funds Since data for our analysis has been gathered from each individual fund, the transfers to and from other funds have to be discounted in order to avoid double-counting.

Income data generally refer to the funds' fiscal year which typically coincides with the calendar year which is why data is collated for the calendar year. In case a fund's fiscal year deviates from the calendar year, the *Observatory* attributed it to the year in which the majority of the reported activity took place.

Income data were not always available for all the funds identified. For some, generally smaller sub-national funds, no income data were available at all. In these cases it was estimated to equal the corresponding annual activity spend. Since our data show that income and spend figures are generally quite similar, this approach is regarded as a reasonable estimate. For other funds income data were only available for some of the years between 2010 and 2014. In the latter case, annual income was estimated to equal the fund's income in other years, unless evidence suggested otherwise.

Data on the breakdown of funding body income by financing source were comparatively difficult to obtain and rely more heavily on estimates than other indicators. In case of data missing for individual years, the proportional contributions from the individual financing source was estimated to equal their proportional contribution to the fund's income come in other years, unless evidence suggests otherwise.

In case no data was available for any of the years, the breakdown of a fund's income by financing source was estimated based on the average financing breakdown of other funds administered at the same level (national or sub-national) within the country for which data were available. In order to guarantee that these estimates were representative, they were only calculated when the financing breakdown was available at least for one third of the funds and for at least one third of the cumulative income within the corresponding funding type sample.

3.1 Volume and Development of Funding Body Income

The *Observatory* estimates that the cumulative financial resources available to public film and audiovisual funds across Europe[8] amounted to approximately EUR 2.5 billion in 2014. This is about 3% higher than in 2010. As shown in Table 3 below, total income of public funds increased[9] from EUR 2.44 billion in 2010 to EUR 2.55 billion in 2011, but then remained relatively stable until 2013 before decreasing slightly (by EUR 39 million) in 2014. When adjusted for inflation

[8]Estimated based on data for 214 public funds in 33 countries (without Russia and Albania).

[9]Measured in nominal terms.

Table 3 Income of public film funds 2010–2014 by type (in EUR million)

	2010	2011	2012	2013	2014	2014–2010 (%)	Avg	Avg % share
Supranational funds	146	158	172	167	162	11.4	161	6
National/federal funds	1896	1981	1954	1944	1883	−0.7	1932	76
Sub-national funds	436	446	476	488	517	18.7	473	19
– Transfers nat → sub-nat	−34	−33	−37	−38	−41	20.2	−37	−1
Total income	2443	2552	2565	2560	2521	3.2	2528	100

Source: European Audiovisual Observatory

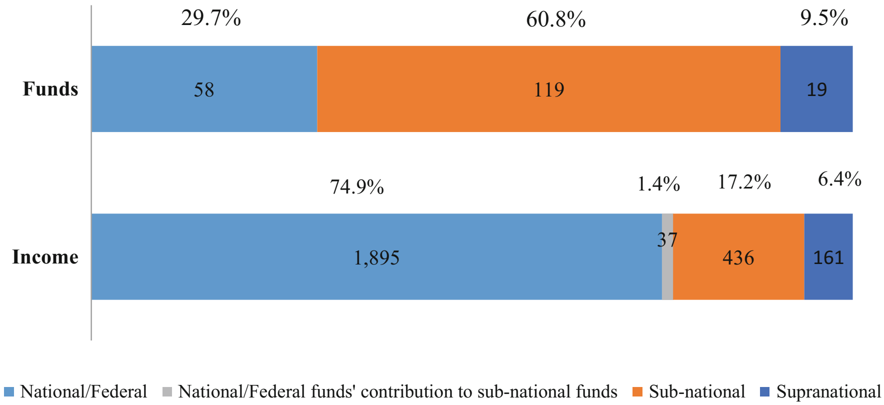

Fig. 1 Income compared to number of funds by type (average 2010–2014). Note: Number of funds refers to average number of funds between 2010 and 2014. Average income by funding type is expressed in EUR million. Source: European Audiovisual Observatory

the data show a steady and more balanced growth trend from 2010 to 2013 and a more moderate decrease in 2014.

National funds, which represent 30% of the funding body population (see Fig. 1) for which income data were available, administered three quarters of the total financial resources available to public film and audiovisual funding bodies (EUR 1.9 billion on average). 19% (EUR 473 million on average[10]) of the cumulative income was taken by Sub-national funds which represented 61% of the sample funding body population. In turn, Supranational funds accounted for 9.5% of the sample funds and 6% of the resources (EUR 161 million on average), the vast majority of which was taken by pan-European funds as outreach funds only accounted for a small portion.

[10]Including income transfers from national/federal funds (EUR 37 million on average).

It is interesting to see that the 3.2% growth in overall income of funding bodies between 2010 and 2014 was caused by an 18.7% increase (EUR 82 million) in the income of *Sub-national funds* and an 11.4% increase (EUR 17 million) in that of Supranational funds, while the cumulative income of national funds marginally declined by 0.7% (EUR 13 million). Taking into consideration income transfers from national to Sub-national funds, income of national funds decreased by 1.1% (EUR 20 million).

3.2 National and Sub-national Funding Body Income by Country

It is not surprising that it is the larger countries which provide the highest amounts of financial resources to public film and audiovisual funds. France clearly stands out in the European film and audiovisual funding landscape in this regard. As shown in Table 4 below, French national and Sub-national funds could rely on a cumulative annual average income of EUR 917 million between 2010 and 2014, accounting for 37% of the total income of national and sub-national funds in Europe. In comparison, film funding bodies in Germany, the second largest European country in terms of funding income, could resort to an average income of EUR 334 million, almost EUR 600 million less than in France. Cumulatively, the top ten European markets, which include the UK, Italy, Austria, Spain, Norway, Sweden, Switzerland and the Netherlands, accounted for 85% of the total income to public film funds in the 33 countries covered.

In 2014, the cumulative income of national and sub-national funds was up 2.7% compared to 2010, with 20 countries showing an upward trend while incoming resources went down in the other 13 countries tracked. The most relevant growth in relative terms took place in small and medium-sized countries, such as Latvia (192%), Luxembourg (150%), Macedonia (114%), and Croatia (100%). The most relevant decline in public funding income was registered in France (EUR −62 million, −7%) and Spain (EUR −40 million, −31%).

It must be noted that the absolute amounts of the financial resources available to public funds need some contextual interpretation and cannot be used to compare overall public support to the film and audiovisual industries between countries. As mentioned in the Methodology chapter, direct public funding is only one of several instruments a country may choose to support its film and audiovisual industries. A country may for instance opt to offer fiscal incentives, oblige broadcasters to directly invest in film productions or provide public loan guarantee facilities. When measuring and evaluating public support to the film industry all these film policy measures have to be taken into account. This however goes beyond the scope of this chapter which concentrates on direct public funding granted by film funds.

When comparing funding income between countries, absolute values should furthermore be complemented by weighted indicators such as the funding income per inhabitant or funding income as a share of GDP. Leaving France aside, these weighted indicators are generally expected to be much higher in small and medium-sized countries.

Table 4 Income of national and sub-national public funds by country 2010–2014

Rank	Country	2010	2011	2012	2013	2014	2014–2010 (%)	Avg	Avg % share
1	FR	930	988	906	895	868	−7	917	39
2	DE	320	324	335	361	332	4	334	14
3	GB	181	174	245	176	180	−1	191	8
4	IT	96	92	117	121	114	20	108	5
5	AT	73	84	73	80	88	21	80	3
6	ES	126	109	68	56	87	−31	89	4
7	NO	69	75	83	85	85	24	79	3
8	SE	70	76	79	85	78	12	77	3
9	CH	49	60	71	68	66	34	63	3
10	NL	66	67	62	78	64	−2	67	3
11	BE	44	46	53	58	64	45	53	2
12	DK	42	48	50	51	52	23	49	2
13	LU	16	31	41	55	40	150	37	2
14	PL	35	35	38	37	38	10	36	2
15	IE	38	38	35	35	35	−9	36	2
16	FI	29	30	30	29	28	−3	29	1
17	PT	12	11	9	8	24	99	13	1
18	HU	18	27	20	21	19	6	21	1
19	CZ	13	9	6	12	12	−8	10	0
20	TR	14	12	9	7	11	−18	11	0
21	HR	5	8	7	11	11	100	9	0
22	LT	7	7	7	11	10	43	8	0
23	RO	7	7	12	9	10	34	9	0
24	EE	6	6	6	6	7	23	6	0
25	SK	8	7	6	7	7	−8	7	0
26	BG	5	5	6	6	6	31	6	0
27	IS	3	3	4	7	5	51	4	0
28	SI	5	6	4	5	5	0	5	0
29	GR	5	4	3	5	4	−27	4	0
30	LV	1	2	2	2	4	192	2	0
31	MK	2	2	4	4	4	114	3	0
32	BA	2	1	1	1	1	−33	1	0
33	CY	2	2	1	1	1	−33	1	0
	Total	2297	2394	2393	2393	2359	3	2367	100

In EUR million. Estimated
Source: European Audiovisual Observatory

3.3 How National and Sub-national Funds Are Financed

Across Europe public film funding bodies are financed from a variety of sources, whose distribution can differ significantly between the different types of funds (national, sub-national, supranational) as well as country by country. In order to

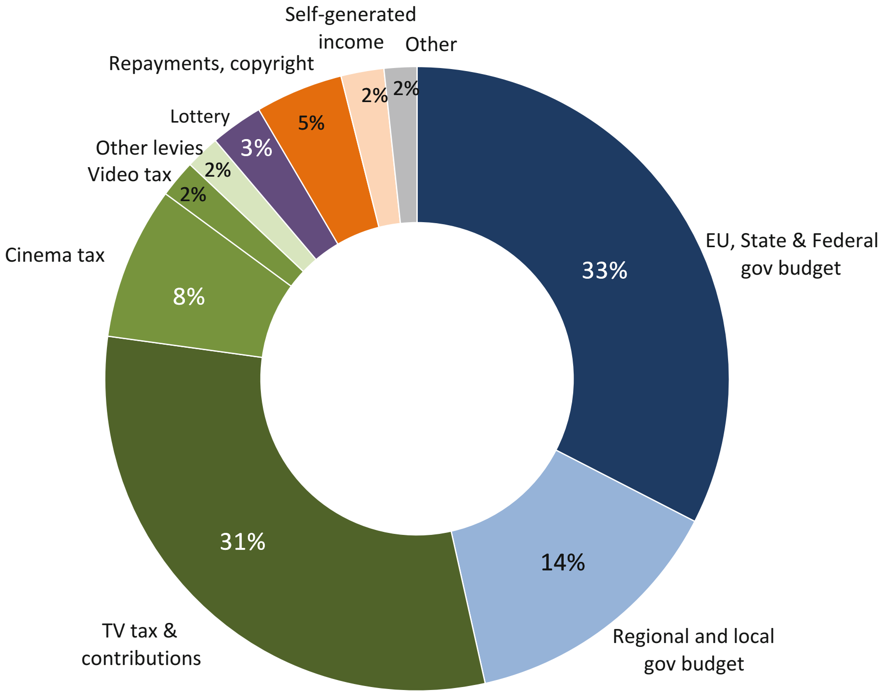

Fig. 2 Average income breakdown by financing source (2010–2014). Note: Refers to cumulative average income of national and sub-national funds across Europe. Estimated. Source: European Audiovisual Observatory

compare financing models between countries, the *Observatory* analysed the breakdown of national funding body income by its financing sources.[11] As illustrated in Fig. 2 below, income from public sources is the single most important financing component of public funds with an average of 33% of income coming from state, federal or EU budgets, and 14% coming from community, regional or local public authorities. Altogether, public sources hence provided 47% of the cumulative financial resources (on average) of national and sub-national film funds in Europe.

The television industry is the second most important contributor, accounting for an average of 31% of total national funding body income. This figure includes contributions from national and regional public or private television broadcasters

[11]National funding body income refers to the cumulative income of national/federal and sub-national funds. Supranational funds were hence not taken into consideration for this aspect of the analysis.

and, for some countries, from distributors of audiovisual services. Financial resources coming from the TV industry can take the form of levies/taxes, mandatory or voluntary contributions.[12]

Taxes/levies on cinema exhibition still remain an important financing source in several countries and account for 12% of total funding body income in Europe. Taxes on exhibition take two principal forms: either a tax or surcharge on the price of cinema tickets or a tax on exhibitor revenues more generally.

Funds in 13 out of the 33 countries studied generated parts of their income from repayments and copyright exploitation. On a cumulative level this financing source contributed about 5% to the aggregate financial resources of film funds in Europe. In as few as five countries film funds are partly financed by proceeds from the national lottery. Lottery funding is a particularly important financing source in the United Kingdom where it accounted for 27% of the income, compared to only 3% on the European aggregate level. This makes it a slightly more important financing source than taxes on sales and rentals of video, other levies and self-generated income, each of which accounts for 2% of total film funds' income.

Of course, these summary data is heavily influenced by the income mix in the larger countries, particularly France which relies more heavily on taxes and levies than most other countries. When excluding France from calculation, it becomes evident that the vast majority of European film funds actually depends more heavily on income from public sources than the overall average figure suggests: excluding France, public sources contributed on average 69% of the financial resources available to national and sub-national film and audiovisual funds outside of France (with 53% coming from state, federal or EU budgets and 16% coming from community, regional or local authorities), while broadcasters contributed only 11%.

The case of France illustrates the fact that the income compositions can vary significantly from the pan-European average. Another example is the UK, where lottery proceeds represent a more important financing source than in any other country due to the UK government's decision to allocate resources from the *National Lottery Fund* to finance the *British Film Institute*. In contrast, levies on broadcasters play a marginal role in financing the film and audiovisual funds in the UK as the contributions from this sector to the industry are channelled through mandatory contributions for broadcasters to directly invest in production.

There is no "European model" for financing film funds and it is consequently difficult to sum up the financing models of public film and audiovisual funding bodies on a pan-European level. One can, however, highlight the following general characteristics.

Firstly, income from public sources tends to be the most important source in the vast majority of countries: They contributed more than 75% of the national funding body income in 21 of the 33 countries tracked (more than 95% in 16 countries). In

[12]Importantly, these contributions are not to be confused with legal obligations for television companies to invest in film production—these often run in parallel to film funds but they do not provide a direct budgetary resource to film funds.

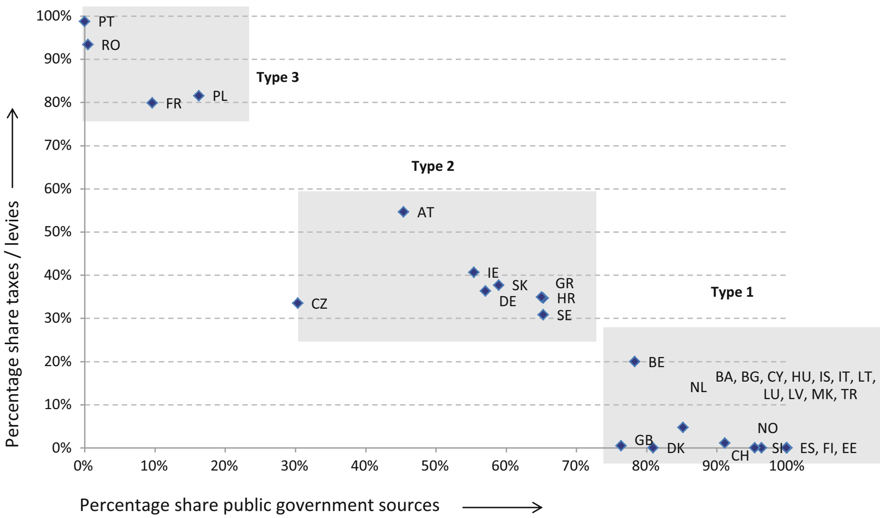

Fig. 3 Share of public sources versus share of taxes/levies by country (2010–2014, on average). Note: In % of cumulative average income of national and sub-national funds. Estimated. In Austria, the shares refer to national/federal funds only, while in Bosnia and Herzegovina only sub-national funds were considered. Source: European Audiovisual Observatory

turn, contributions from public authorities accounted for <10% of the total national funding body income in only three countries.

Further, taxes and levies contributed to the financing of funds in 17 out of the 33 countries studied. Only in four of these countries did taxes and levies account for more than 80% of the income: namely, in France (80%), Poland (81.5%), Portugal (98.7%) and Romania (93.4%).

Generally speaking one can distinguish three types of financing models based on the relationship between the percentage shares of public sources on the one hand and taxes/levies on the other hand (see Fig. 3): First, countries in which the clear majority of resources come from government budgets and levies plays a comparatively minor role. 20 of the 33 countries tracked fall into this category. Contributions from public sources represented more than 55% of total resources and levies accounted for <10% of the total. This appears to be the most common formula both in smaller countries as well as in countries where public funding mechanisms have been created recently. Some of Europe's leading funding markets also fall in this category, including the UK, Belgium, the Netherlands and Switzerland.[13]

[13]It must be noted, however, that the fact that the contributions from the industry (broadcasters, video industry, on-demand services) to the public funds were lower in relative terms does not mean that these do not contribute to the public financing of films and audiovisual works, since in some countries this contribution is made via mandatory obligations to invest directly in their production.

Second, nine countries feature a fairly even distribution between public sources and taxes/levies as the two main sources of funding income. This group includes Germany, Austria and Sweden, which have some of the highest public funding levels in all of Europe.

The third type refers to countries where industry levies constitute the main source of funding income and public sources play a comparatively minor role. Only four countries fall into this category: France, Poland, Portugal and Romania. In all four of these countries industry levies contributed more than 70% of the total income available to funds.

As mentioned before income compositions generally differ significantly between national and sub-national funds. As might be expected, sub-national funds are more dependent on income from public sources than their national counterparts. While funds from public budgets (state, regional, local and EU) accounted on average for 40% of the income of national funds in the analysis period, the share of public budgets was as high as 79% in the case of sub-national funds.

3.4 Shifts in the Income Structure of Funds?

As shown in Table 3 above, the cumulative income of sub-national funding bodies increased by EUR 82 million (18.7%) from 2010 to 2014 while the cumulative net income of national funds actually decreased by EUR 20 million (1.1%). Adding up the income of national and sub-national funds for the purpose of analysing the development of contributions from the various financing sources gives an increase of 2.7% (EUR 62 million) in the cumulative income of national and sub-national public funds over the time period 2010–2014. Despite this relatively steady evolution of overall income one can observe certain changes within the cumulative financing structures of national and sub-national funds. The most evident one concerns the contribution of taxes/levies which started to decline in 2011 and dropped by almost EUR 120 million to EUR 952 million in 2014. Since most of the income generated through taxes and levies is concentrated in just a few countries—Germany and France together accounted for 93.8% of the income generated through taxes/levies—most of the evolution over time is explained hence by the decline of contributions from broadcasters and the video industry in these few countries.

Cumulative contributions from broadcasters dropped from EUR 790 million in 2011 to EUR 682 million in 2014. This decline can be explained in part by the overall decrease of broadcasters' revenues in Europe in recent years, probably as a consequence of both the financial crisis and the shift of spend in advertising from traditional media to the Internet. It seems that the decrease in broadcasters' contributions has opened an income gap which is not only affecting the financing of film and audiovisual funds, but also the mandatory or voluntary direct investments of broadcasters in film and audiovisual productions.

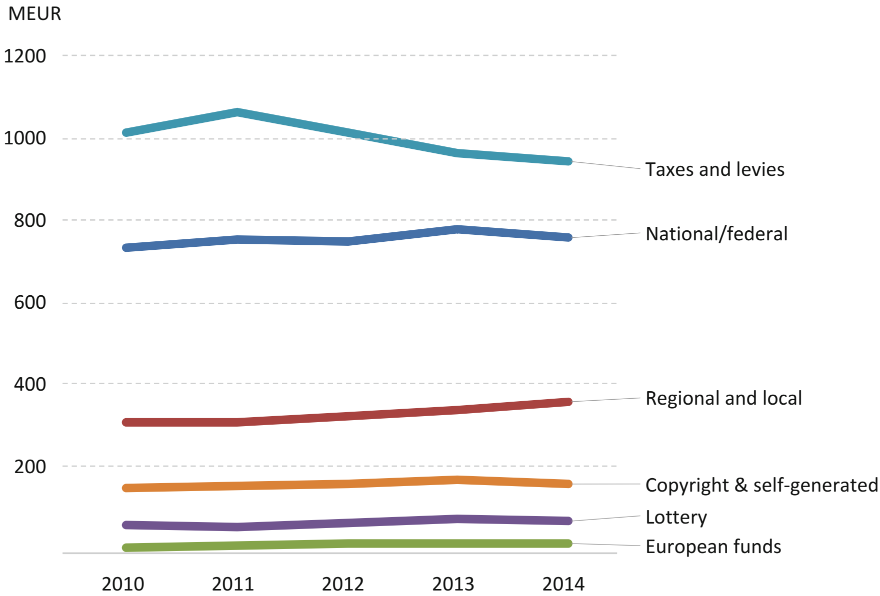

Fig. 4 Contributions to income of national and sub-national funds by source 2010–2014. In EUR million. Estimated. Source: European Audiovisual Observatory

Less relevant in absolute terms, levies on the video industry also decreased during the period of analysis, down by 33% from EUR 52 million in 2010 to EUR 35 million in 2014. The decline in contributions from the video industry however affected primarily France, Germany, Romania and the Slovak Republic which together account for almost 100% of the cumulative income from this financing source.

As illustrated in Fig. 4, the decline in income generated through taxes and levies was largely compensated by an increase in contributions from national/federal, regional, community and local governments. This could also partially explain the slight decline in the income of national funds between 2010 and 2014 as national funds depend more heavily on taxes and levies as a source of income than sub-national funds.

4 Activity Spend

Activity spend is defined as the amount spent by the fund on its activities. It has two components: *Funding spend*, i.e. the direct subsidies paid out to companies and/or individuals in the sector; and *Spend on other activities related to film and audiovisual activities* including e.g. promotional or networking activities. Overheads are not included in our definition of *activity spend*.

Direct funding support generally is measured in either *amounts paid out*[14] or *amounts committed*.[15] For the purpose of this analysis data on committed amounts have been retained whenever possible, as they provide a realistic view of the activity of the fund during the year and tend to be in the public domain more frequently than amounts paid out. Data on amounts paid out has been used only where no data on committed funding was available as well as in the case of activities directly carried out by the fund such as the organisation of promotional events, which consequently cannot be measured in terms of support awarded.

Data on *activity spend* is partly estimated as it was not always available for all the funds identified. For some, generally smaller sub-national funds, no data were available at all. These funds could not be included in the analysis sample. *Activity spend* and income could not be analysed for Russia and Albania due to the lack of data. For all other countries covered the lack of data on *activity spend* did not have a significant impact on the overall results at country level, let alone at pan-European level.

4.1 Volume and Development of Activity Spend

Based on data available for 214 funds the *Observatory* estimates that European public funds cumulatively spent approximately EUR 2.4 billion in 2014 in support of film and audiovisual projects in the 33 countries covered for this indicator. That is 13% more than in 2010. As shown in Table 5, total *activity spend* of public funds steadily increased from EUR 2.13 billion in 2010 to EUR 2.41 billion in 2014.

National/federal funds provided the lion's share of funding to the film and audiovisual industries accounting on average for 73% of total activity spend between 2010 and 2014, followed by sub-national funds (20%) and supranational funds (7%).

The differences between funding income and *activity spend*, with *activity spend* being lower than income, are mostly explained by the fact that the *Observatory*'s definition of *activity spend* does not include overheads and is, whenever possible, based on funding awarded rather than funding actually paid out.

The fact that *activity spend* has been growing significantly stronger than income raises the question of whether the steady growth of spend has led to the exhaustion or decrease of the reserves of the funds in some countries.

Activity spend of funds is evidently directly linked to funding body income. The ranking in Table 6 which shows the development of *activity spend* of national and sub-national funds per country, consequently closely matches the ranking of countries by funding body income (Table 4). Again, France clearly stands out

[14] *Amounts paid out* refer to funding paid out to successful applicants during the year, regardless of when the awards were awarded.

[15] *Committed amounts* refer to the total funding awarded during the year, regardless of when or if the payment takes place.

Table 5 Funding body activity spend in Europe 2010–2014

	2010	2011	2012	2013	2014	2014–2010 (%)	Avg	Avg % share
Supranational funds	156	168	178	176	173	11.4	124	7
National/ federal funds	1544	1640	1681	1724	1747	13.1	1667	73
Sub-national funds	428	428	452	469	493	15.2	454	20
Total income	2128	2236	2311	2369	2414	13.4	2292	100

In EUR million. Estimated. Based on a sample of 214 funds in 33 European countries
Source: European Audiovisual Observatory

with national and sub-national funds cumulatively providing on average EUR 917 million in direct support to film and audiovisual projects per year between 2010 and 2014. This represents 39% of the total *activity spend* of funds in all of Europe. France was followed by the other four largest EU markets, Austria, and Sweden, which together accounted for almost 80% of the total *activity spend* of public film funds in the 33 countries covered in the analysis.[16]

In 2014, *activity spend* was up in 18 countries compared to 2010, while 15 countries registered lower levels of funding spend. The most relevant growth in absolute terms was registered in France (+EUR 151 million), the UK (+EUR 35 million) as well as Germany, Luxembourg, Italy, Switzerland where *activity spend* increased between EUR 22 and 26 million. In relative terms Latvia and Luxembourg stood out with an increase in *activity spend* of 192% and 175% respectively. The most relevant drops in levels of *activity spend* in absolute terms were registered in Spain (EUR −42 million) and Poland (EUR −13 million).

4.2 Development of Activity Spend

The lion's share of the cumulative public funding in Europe went to the creation of works (comprising script writing, project development and production of theatrical and TV films): EUR 1.44 billion was dedicated to the creation of works. This represents 63% of the cumulative annual average *activity spend* of EUR 2.29 billion. EUR 938 million (41%) went to the production of theatrical films, EUR 434 million (19%) to TV production, EUR 67.3 (2.9%) million to the development of theatrical films and EUR 6.2 million (0.27%) to the development of TV content.

The time series data shown in Table 7 suggests some gradual shifts in the allocation of public support between 2010 and 2014. Even though public support

[16]It needs to be kept in mind that, when comparing public financing support to film and audiovisual industries, the absolute volume of direct public funding provided needs to be interpreted in context of other film policy instruments such as fiscal incentives or regulations obliging broadcaster to invest in film and audiovisual productions.

Table 6 Activity spend of national and sub-national public funds by country 2010–2014

Rank	Country	2010	2011	2012	2013	2014	2014–2010 (%)	Avg	Avg % share
1	FR	725	836	876	888	876	21	840	39
2	DE	367	392	391	415	393	7	392	18
3	GB	147	89	115	120	182	24	131	6
4	IT	83	88	118	109	107	28	101	5
5	ES	123	104	63	50	82	−34	84	4
6	AT	61	74	65	73	80	31	71	3
7	SE	64	70	73	77	71	11	71	3
8	NO	54	57	62	66	65	20	61	3
9	NL	67	64	65	65	63	−6	65	3
10	CH	40	50	60	61	63	55	55	3
11	DK	41	48	49	50	50	24	48	2
12	BE	36	37	45	44	46	27	42	2
13	LU	14	30	38	50	39	175	34	2
14	PL	43	32	36	39	30	−30	36	2
15	FI	27	29	30	27	27	2	28	1
16	IE	27	29	30	27	24	−9	27	1
17	TR	14	12	9	7	11	−18	11	0
18	CZ	12	12	9	9	10	−13	11	0
19	HU	18	11	3	12	10	−43	11	1
20	LT	7	8	7	10	10	38	8	0
21	PT	11	9	8	7	10	−8	9	0
22	HR	7	8	6	7	9	21	7	0
23	RO	9	5	4	8	7	−17	7	0
24	SK	7	6	6	6	7	−4	6	0
25	BG	5	5	6	6	6	23	6	0
26	IS	3	2	2	6	4	32	4	0
27	LV	1	2	2	2	4	192	2	0
28	EE	3	3	3	3	4	31	3	0
29	SI	5	5	4	4	3	−32	4	0
30	MK	4	1	1	2	3	−24	2	0
31	GR	3	2	3	2	2	−23	2	0
32	BA	1	1	1	1	1	−33	1	0
33	CY	2	1	2	0	0	−87	1	0
	Total	2030	2126	2192	2256	2298	13	2180	100

In EUR million. Estimated. Based on a sample of 214 national and sub-national funds in 33 -European countries
Source: European Audiovisual Observatory

Table 7 Total funding body activity spend by activity 2010–2014

	2010	2011	2012	2013	2014	2014–2010 (%)	Avg	Avg % share
Creation of works	1382	1405	1442	1481	1511	9	1444	63
Exhibition	181	183	191	188	203	12	189	8
Distribution	169	180	160	166	159	−6	167	7
Promotion	73	83	88	90	81	12	83	4
Events (festivals, etc.)	67	65	63	66	70	4	66	3
Other	257	319	369	378	390	52	342	15
– Training	55	54	48	49	76	38	56	2
– Structural funding	37	94	119	111	76	104	87	4
– Audience dvlpmnt	1	0	4	4	32	2348	8	0
– Film archives/heritage	32	31	29	29	32	−2	31	1
– Media literacy	18	18	25	22	22	25	21	1
– Video games	6	12	11	13	16	195	12	1
– Multimedia	6	6	8	8	7	16	7	0
– Other	102	103	124	142	130	27	120	5
Total	2128	2236	2311	2369	2414	13	2292	100

In EUR million. Estimated. Based on sample of 214 funds in 33 European countries
Source: European Audiovisual Observatory

for the creation of works remained the by far biggest support category and steadily increased between 2010 and 2014 in absolute terms from EUR 1.38 billion to EUR 1.51 billion corresponding to an overall growth of 9%, its share of total *activity spend* actually decreased slightly from 65 to 63% as support to the exhibition sector and promotion activities increased even more strongly, namely by 12%.

The most notable other increase in support volumes concerned activities cumulated in the “Other” category: structural funding (which more than doubled from EUR 37 million in 2010 to EUR 76 million in 2014), audience development (which jumped from EUR 1 to 4 million between 2010 and 2013 to EUR 32 million in 2014), training (up 38% from EUR 55 million to EUR 76 million) and video games (where support almost tripled from EUR 6 million to EUR 16 million).

The only activity category that actually registered a noticeable decline in funding volumes was distribution with support for distribution of theatrical films decreasing from EUR 169 million in 2010 to EUR 159 million in 2014.

This breakdown of cumulative spend by all funds (supranational, national, sub-national) provides a big-picture reference point for more detailed analysis of funding patterns which can vary significantly between individual funds, funding body types and countries.

For instance, it is not surprising to observe that breakdown of the cumulative supported granted by supranational funds differs significantly from the overall breakdown presented in Table 7. Given the fact that the largest supranational fund, the MEDIA *Programme* (part of the European Commission's *Creative Europe f*ramework programme), does not directly support production but focuses its support activities, among other activities, on distribution, exhibition, project development and training activities, these categories claim a larger share of support than they do in the overall funding body *activity spend*: On average, 25% of total support granted by supranational funds was given to theatrical distribution projects (compared to 7% of the overall funding body *activity spend*); Exhibition accounted for 12% of supranational funding (compared to 8%) and project development, which is a counted as a part of creation of works, took on average 13% of supranational support (compared to 3%). Support for theatrical production on the other hand accounted for only 20% (compared to 41%). Supranational funds dedicated on average 9% of their support to training activities, which only accounted for 2% of the overall funding body *activity spend*. In terms of evolution of spend by type of activity over time, a steady increase of supranational resources devoted to theatrical production can be observed in combination with a less pronounced decrease of spend on distribution.

When interpreting these figures it is important to keep in mind that there is a high concentration of funding spend among supranational funds with the three largest funds (MEDIA *Programme*, *Eurimages* and *Ibermedia*) accounting for 86% of overall expenditure.

Furthermore, one could observe variations in spend pattern between the national and the sub-national funding levels. For instance, theatrical production spend was of overall greater importance at the sub-national level, accounting on average for 52% of the total, compared to national funds, where it accounted for 42%.

These differences can be explained in part by the fact that funding patterns in France, the country providing the largest amount of public funding, differ from those in other countries: France provided an exceptionally large proportion of its public support to the creation of audiovisual (TV) works, the exhibition sector and promotion activities while providing a comparatively low share of funding to the production of theatrical films. Excluding funding provided by French funds, 61% of the cumulative spend of all other European national and sub-national funds went to the creation of theatrical films, compared to 45% when including France in the calculations. On the other hand, excluding France public support to the creation of TV works would only account for 9% of total spending of national and sub-national funds in Europe (compared to 29% when France is included); similarly the share of exhibition would drop from 8% (including France) to 2% and the share of spend on promotion activities would drop from 3% (including France) to 1%.

This illustrates the fact that pan-European breakdown of *activity spend* is actually not representative for public funding in the majority of smaller and medium-sized countries.

5 Conclusion: An Emergent Financing Gap?

This chapter presented key industry statistics on the volume, structure and development of direct public funding between 2010 and 2014 from an aggregate European perspective. Essentially, it has to be stressed that the data for these indicators can vary significantly between individual funds, types of funds and/or countries. The situation in individual countries or at different funding levels might be quite different from the cumulative pan-European figures, which nonetheless provide a valuable reference point for more detailed analysis.

Furthermore, it needs to be kept that mind that direct public funding has to be evaluated in context of a country's entire film policy system which may include various types of fiscal incentives, obligations for broadcasters to invest directly into film and audiovisual productions, public loan guarantee facilities or other forms of industry regulation. In this context it is worthwhile to mention that the data clearly show that both, public funding spend as a whole as well as public support for the creation of film and audiovisual works, in particular production, has been steadily increasing between 2010 and 2014, despite the establishment of 14 new fiscal incentives schemes since 2008. Hence, the data disprove the hypothesis of financial resources shifting from public funding to fiscal incentives.

In fact, direct public funding may well have come to play a proportionally more important role in financing European theatrical works, as broadcaster investments seem to have declined over the same period and pre-sales/minimum guarantees have reportedly become more difficult to obtain, particularly for small and medium budget films. This leads to the important question: Is there a financing gap emerging for European film production which cannot be filled by public funds? If so, how can access to private financing be improved?

Further, it has to be asked to which extent the financing structures of public funds are being impacted by changes in the film and audiovisual value chain as the physical home video market collapses, TV advertising revenues come under pressure while on-demand services grow. In the time period analysed, contributions from new players, such as on-demand services, to the financing of public funds and/or investment in the production of film and audiovisual works were negligible as most countries had not yet put in place any regulation to this effect, while contributions from levies on broadcasters declined in most European countries.

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The European Commission's Approach to Film Funding: Striking a Difficult Balance

Sophie De Vinck and Caroline Pauwels

1 Introduction: The European Commission's Film Policy

The *European Commission* [the *European Union* (EU)'s executive body, hereinafter referred to as the *Commission*] has become a prominent player in public film funding on the European level. In this chapter, we aim at evaluating its activities in the film funding domain. On the one hand, the European audiovisual sector is an important source of creativity and cultural diversity. On the other hand, cinema is an industry with a cross-border, European dimension. Aiming to foster the sector's cultural and economic value, the *Commission* has established its own financial support scheme for audiovisual content (including film, TV and video games), the MEDIA programmes (now integrated under the *Creative Europe* banner). At the same time, a common framework for State aid was set up to ensure that Member States' own support mechanisms are in the common interest and a level playing field is preserved. These State aid control activities have led to the establishment of a set of rules the Member States have to comply with when setting up their film funding measures.

In this chapter, we aim at evaluating the activities of the *Commission* in the film funding domain; the *Commission*'s ultimate objective is to foster the cultural and

The views expressed in this chapter are purely those of the authors and may not under any circumstances be regarded as stating an official position of the *European Commission* and/or its DG *Competition*.

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economic value of the European film sector, and it aims in particular to contribute to overcoming the audiovisual sector's ingrained market fragmentation.

In this chapter, we will argue that neither of its two main policy instruments mentioned above has achieved clear-cut results. MEDIA funding has created European collaborative networks of film professionals, but we argue that it has *not* transformed Europe's film market structures in a more substantial way. Likewise, the *Commission*'s State aid control of (national, regional or local) film support schemes has not had major consequences for the freedom of the Member States when they set up film funding schemes. Despite recurrent claims by national policymakers and film professionals, the *Commission*'s State aid control activities are adapted to the cultural specificities of the audiovisual sector and do not pose a veritable threat to the European film sector.

Overall, we believe that the *Commission* has so far struck a careful balance between the various interests of the many stakeholders involved and the sometimes contradictory objectives with regard to the sector's future. However, we criticize that this balancing act curbs the *Commission*'s policy power when taking initiatives in this domain. The resulting activities sometimes seem to lack a clear policy direction. In fact, we claim that the *Commission* is "stuck in the middle" of two seemingly opposing policy paradigms: the economic-industrial and the cultural policy paradigms. Even worse so, reconciling the interests of the various sector stakeholders and different Member States involved is difficult, if not insolvable. Little surprise that despite the Commission's ambitious objective of market integration, the European film marketplace remains a patchwork of complex policy and funding regimes, mainly regionally active film professionals and—for the most part—small and fragmented audiences.

In terms of film support in the digital era, the *Commission* has rekindled its old dream of realizing a more integrated European film market without borders. This has led to updating the MEDIA programmes but also to new challenges in terms of State aid control. As the film sector continues to undergo change, European-level solutions are crucial in addressing the current challenges faced by European players. However, the reality of the European film marketplace remains too often at odds with what could theoretically lead to a more integrated European digital film market. Because of this apparent contradiction, all signs so far point towards the continuation of the status quo and a division of the European film marketplace along geographical and/or language borders.

The chapter is organized as follows: first, we look into the policy objectives underlying the *Commission* in its approach to the audiovisual sector. We see that from the outset, the *Commission* has to juggle different elements, trying to balance economic competitiveness with cultural diversity protection, and national prerogatives with cross-border ambitions. This shapes the *Commission*'s concrete realizations with regard to film funding and their impact. In the second and third section, we discuss the main film funding related activities of the *Commission* in more detail: the MEDIA support programmes on the one hand and the State aid control activities on the other. Next, we turn to the challenges accompanying the digital transition and the European answers that have been developed in response.

Methodologically, we rely on desk research, in particular a review of the relevant academic literature, policy documents, available statistical data (notably of the *European Audiovisual Observatory*) and specialized press articles. Interviews with stakeholders (sector professionals, policy-makers, academics) have informed our views as well.

2 The Policy Objectives

The audiovisual sector is not an area in which the European institutions were very active, initially. Only in the 1980s, film, as part of the audiovisual industries, became more prominent on the European-level policy agenda. The context was one of privatization and liberalization, exemplified by the abolishment of public service broadcasting monopolies throughout Europe. Competition in television markets had become fiercer, leading to increased demand for content, but the European audiovisual industries were not able to compete with cheaper, more successful American fare. In cinemas, audience shares for European films, especially non-national European titles, were plummeting (Herold, 2010; Pauwels, 1995). In this context, policy-makers became interested in the potential role European-level institutions could play in overcoming the sector's weaknesses. Some cultural arguments were put forward that centred on the idea of a shared cultural heritage and therefore a common European audiovisual identity. More frequently, however, such cultural concerns were integrated into an economic-industrial argument based on a common defensive strategy against the US audiovisual companies (De Vinck, 2011; Theiler, 1999). This economic-industrial argument was moreover often coupled with a technologically driven discourse on the potential of then-new technologies such as cable and satellite. In the 1990s, the European-level policy role in audiovisual matters was further confirmed. The *Treaty of Maastricht* (1993) affirmed an EU mandate for cultural action and stipulated that the EU has to take cultural aspects into account in all its activities.[1] Yet it also introduced the principle of subsidiarity,[2] limiting the EU's role to merely a complementary one (Barbato, 2008; De Vinck, 2011; Littoz-Monnet, 2007).

This historical overview shows how two sets of tensions, "vertical" and "horizontal" ones, shape European-level policies in the area of film funding. A first set of vertical tensions can be linked to the division of competencies between the Member States and the European institutions. The second set of horizontal tensions relates to the dual economic and cultural character of the audiovisual industries. The economic impact of culture has, for instance, been prominent in policy discourse,

[1]Now Article 167 of the *Treaty on the Functioning of the European Union* (TFEU) (European Union, 2010).

[2]The *principle of subsidiarity* is defined in Article 5 of the Treaty on European Union and refers to the principle that the EU only takes action (except in areas falling within its exclusive competence) when it is more effective than the national, regional, or local level.

which typically includes references to the contribution of the cultural and creative sectors to EU GDP (4.5%) and employment (around 4%) (e.g. Dossi, 2016). It is often difficult to strike a balance between these two facets of the audiovisual sector and aligning cultural diversity preservation with policy objectives related to industrial competitiveness (Dossi, 2016, p. 25).

In the second half of the 1980s, a number of concrete regulatory and other measures were put in place by the *Commission*. The MEDIA audiovisual support programme was set up as its main financial support mechanism, organized cyclically and focused on supporting "everything but production": training, development, distribution and promotion. After a pilot project in 1986, the first of these programmes started in 1991 (Barbato, 2008; Harcourt, 2005).

Alongside the set-up of MEDIA, it is also in the 1980s that the *Commission* started to scrutinize national support measures for the audiovisual industries from a competition law angle. Indeed, because of the inherent economic dimension of the film industries, EU competition rules are in theory applicable as to any other economic activity. As such, national and local aid measures for film are subject to a review by the *Commission* before they are implemented[3] (Competition Directorate-General of the European Commission, 2014; De Vinck, 2011). At first, the *Commission*'s intervention remained fragmented and generally limited to infractions of the non-discrimination principle.[4] Only the Greek system was censured in 1989, because the award of aid was subject to conditions of nationality that were considered incompatible with the common market. Nevertheless, the actions of the *Commission* were controversial with Member States from the start and would lead to the consolidation of a State aid approach in the film sector in the 1990s (De Vinck, 2011).

3 From MEDIA to Creative Europe

Since 1991, several MEDIA programmes (see Table 1 for a historic overview of the different periods) have tried to strengthen the audiovisual sector, increase its competitiveness and improve the circulation and consumption of European audiovisual works across borders. They aim to encourage the use of new technologies, the development of skills and networking (De Vinck, 2011).

The latest MEDIA programme period started in 2014 under the banner of the *Creative Europe* programme and will run until 2020, with a total budget of EUR 1.46 billion (Dossi, 2016). *Creative Europe* brings together existing cultural and MEDIA support schemes, with the addition of a cross-sectoral strand. The latter

[3]It has to be noted that the EU's own support schemes such as MEDIA fall outside the scope of the Commission's State aid review (European Commission, 2013a).

[4]That is, infractions of the principle that discrimination against nationals of another Member State is prohibited, e.g. when restricting possibilities for nationals of other Member States to work as producers or otherwise participate in supported films.

Table 1 Successive MEDIA programmes

Period	Program name	Budget	Key areas of support
1991–1995	MEDIA	EUR 200 million	Transnational collaboration
1996–2000	MEDIA II	EUR 310 million	Training, development and distribution
2001–2006	MEDIA Plus MEDIA Training	EUR 454 million EUR 59 million	Development, distribution and promotion Networking between training partners
2007–2013	MEDIA 2007	EUR 755 million	Distribution, development, promotion and training

Source: European Commission (2011)

includes a "Guarantee Facility" (as of 2016), transnational policy cooperation and a network of *Creative Europe Desks*[5] (Dossi, 2016; European Commission, 2016a). Of the total budget, 56% (EUR 818 million) is earmarked for the MEDIA programme and 13% for the cross-sectoral activities. In 2016, the annual budget for MEDIA was EUR 100.7 million (Dossi, 2016; Media Consulting Group, 2016).

At first sight, the audiovisual marketplace today is roughly similar to that which prompted the set-up of these European-level film support mechanisms more than 25 years ago. European film sector players are often small and fragmented, a situation that is mirrored at audience level. This hampers the competitiveness of European players on a global scale, where Hollywood players remain dominant. US films, for instance, rake in most of the theatrical admissions: in 2015, they had a market share of 64% in the EU market (European Audiovisual Observatory, 2016). There is still a large part of European creative output that does not travel at all. A 2016 study by the *European Audiovisual Observatory* (EAO) found that most European films are only released in a limited number of countries, whether this is in cinemas or in *video on demand* (VoD) catalogues. On average, the EU films studied were available on VoD in 2.8 countries (compared to 6.8 countries for US films). Theatrically, EU films produced and released between 2005 and 2014 were made available in 2.6 countries (compared to 9.7 countries for US films) (Grece, 2016).

At the same time, the audiences for the Scandinavian crime series *The Bridge*, the European box office numbers for the French film *Intouchables* or the Oscar nominations for *The Artist* clearly show Europe's large creative potential and individual success stories.[6] Even if the picture is more nuanced than the overall statistics show, it is clear that the successive MEDIA support periods have not been

[5]Creative Europe Desks are in place in every Member State. They form the link between the MEDIA programme and the professionals in their country by providing information and assistance.

[6]NB: all three examples received MEDIA support.

able to make national, language, cultural or other borders in the film sector evaporate.

With the general picture not drastically changed, what has been the impact of European-level film support? It is true that a large number of initiatives have been funded by MEDIA. The MEDIA *Plus* and MEDIA *Training* programmes saw a total of 9000 projects funded. The first 3 years of MEDIA 2007 delivered similar results, with more than 5000 projects receiving support between 2007 and 2009 inclusive (Euréval and MEDIA Consulting Group, 2007, 2010; European Commission, 2011).[7] Latest data on the first 2 years of the *Creative Europe* programmes again show that 4134 actions were supported under the MEDIA strand of the programmes in the years 2014–2015 or approximately 43% of all applications (Dossi, 2016).

The projects that receive MEDIA funding typically are collaborations between players from several Member States. However, such pan-European cooperation remains project-based, with little or no permanent pan-European structures being established. Networks, such as *Europa Cinemas*' grouping of European arthouse screens, have been built on the basis of European-level support, but individual players continue to work on a territorially limited basis. While the seeds of a pan-European awareness may have been sown, MEDIA support has not led to the realization of a European single audiovisual or film market (see De Vinck, 2011).

Looking at the means at its disposal, this outcome is somewhat predictable. Even if MEDIA's budgets have increased over the years, they are not aligned to the high number of participating countries and the numerous support initiatives set up under its banner. The average MEDIA funding per support contract in the period 2007–2009 amounted to only EUR 53925 (European Commission, 2011). A recent survey of *Creative Europe Desks* concluded that the lack of funding leads to the rejection of many quality projects and high-profile activities (Media Consulting Group, 2016). Comparing MEDIA's figures with the total audiovisual funding available to the sector, the latest data estimate that national and subnational funds account for more than 90% of public financing expenditure for film and television content in Europe (Talavara Milla, Fontaine, & Kanzler, 2016).

These national or regional support schemes, on which the sector is very dependent, typically have a national or regional agenda. Attracting film euros (or dollars for that matter) to the territory and/or promoting their "own" creative talent remains their first concern. Through State aid control activities, the *Commission* has also entered this area of film support, however, with a more "European" agenda.

[7]A final evaluation of the MEDIA programme's results for the period 2007–2013 will be integrated into the midterm evaluation of the *Creative Europe* programme, expected in December 2017 (Dossi, 2016).

4 European State Aid Control of Film Support Measures

From the start, the application of EU State aid rules to film funds was controversial with Member States, who felt that their cultural prerogatives were being attacked. After the first steps in the 1980s, the Commission's activities in this domain really only took shape in 1998, when it dealt with a complaint about the French film production support system and its so-called territorial spending obligations. Such provisions oblige the beneficiary of the aid to spend a certain amount of the film's budget in the country that donates the aid. Following the investigation, the French authorities had to modify several provisions of their scheme. In turn, the French insisted that equal treatment would be given to the other EU Member States, which resulted in a general review exercise by the *Commission* (Barbato, 2008; Craufurd Smith, 2008; Pauwels, Biltereyst, & De Vinck, 2007).

Today, the *Commission* applies sector-specific State aid compatibility criteria that have been set out in the 2001 *Cinema Communication* and its 2013 successor (European Commission, 2001, 2013a). These *Commission* communications have clarified the do's and don'ts that granting authorities should take into account in order for their support measures to be declared compatible with the internal market. State aid to promote culture is allowed by the *Treaty on the Functioning of the European Union* (TFEU) through a specific derogation (Article 107(3)(d)), but the cultural characteristics of film do not automatically make public support compatible with the EU's State aid rules (Held, 2016; Herold, 2008). For instance, the *Commission* does not permit discriminations against non-domestic companies or individuals and has set limits to the territorialization requirements that can be established in return for funding. Nevertheless, this type of provisions can still tie up to 80% of a film's budget to the territory (European Commission, 2013a).

All in all, the Member States continue to have a lot of leeway when setting up their support mechanisms. The fact that the *Commission* allows territorialization clauses (as a means to ensure the presence of human skills and technical expertise in the granting Member State) is in itself testimony of the specific approach to films. The 2013 *Cinema Communication* also clarified that it is up to the Member States to establish a definition of "culture" or "difficult films", in line with the subsidiarity principle. Aid intensities for the latter can go up to 100%. The 2013 *Cinema Communication* does not have an end date, which should ensure more stability (De Vinck, 2011; European Commission, 2013a; Held, 2016).

Since 2014, moreover, aid for audiovisual works has been included in the *General Block Exemption Regulation*. Audiovisual schemes of EUR 50 million or less per year no longer need to be notified to the *European Commission*, as long as a number of criteria (similar to the Cinema Communication's requirements) are fulfilled (European Commission, 2014c).

Despite this generous approach towards the audiovisual sector, there is a clear, albeit indirect, impact of the *Commission*'s State aid scrutiny. Indeed, what remains hidden from view are the formal and informal exchanges that take place between the *Commission* and the Member State in question before the Commission adopts a decision approving a certain film support measure. The extent to which the nature of

Europe's film funding has been shaped by State aid rules is impossible to assess, but that Member States adapt their planned measures before or during the notification process with the *Commission* is a certainty (Craufurd Smith, 2008; Held 2016; Herold, 2010). As such, the compatibility criteria and how they are interpreted contribute to shaping the support policies on which the sector is so dependent and thus also how they respond to economic, cultural and technological change in the sector.

5 European Answers to Digital Challenges: Play, Stop, Rewind, Repeat

Digitization has been a key trend for the audiovisual sector worldwide for at least a decade. It impacts existing film sector players and gives rise to new stakeholders, such as telecom operators or VoD service providers. There are many opportunities based on flexibility and cost-efficiencies but also a lot of challenges in terms of who will control the global digital marketplace, what the transforming value chain will look like and, ultimately, how industry players will connect to audiences.

These evolutions are not "new" anymore, but the impact of these changes is nevertheless ongoing. The *Commission* has generally embraced these developments. In the context of European-level film support policies, digitization gave a new impetus to the existing idea of a common marketplace without borders: "a new single market to deliver the benefits of the digital era" (European Commission, 2010, p. 6).

At first sight, the digital era indeed offers a number of tools and opportunities for breaking down barriers for circulation, thus making it possible for smaller, non-national European films to reach a larger audience. This typically links to the idea that the larger "shelf space" for films in online *Video on Demand* catalogues increases the potential success of smaller films for audiences, content creators and aggregators alike (a phenomenon that was dubbed the "long tail" effect by Anderson in 2006). But also the costs for traditional distribution, including the theatrical release, decrease. As a result, distributors may be more willing to take risks on releases that belong to a market niche. It is also easier to reach these communities by making use of social networks, recommendation tools, etc. Ultimately, pan-European communities could emerge, aggregating fans of a certain European film across traditional language and culture borders (Eliashberg, Elberse, & Leenders, 2006; Gubbins, 2012; Ulin, 2010).

Digital distribution opportunities come with a number of disadvantages, however. Firstly, digital cost savings also benefit the existing major (Hollywood) players, to the extent that we may simply see a reinforcement of their (blockbuster) power. Secondly, in a context of abundance, the importance of marketing and branding may actually be reinforced, again benefiting the bigger film players. For European films, creating audience interest across borders remains a challenge given the costs that arise from dealing with the cultural and linguistic specificities of the various European film markets. As competition for a place in the spotlight becomes more intense, the market may become even more pressured, resulting in less attention for non-national European films alongside national and Hollywood successes (De Vinck, 2011). Moreover, the emergence of new non-European (in particular US-based) power players such as *Google*, *Facebook* or *Netflix* is identified as a further threat for European players going digital (see, EU MEDIA Futures Forum, 2012).

These two sides of the digitization story render the job for European-level policy-makers hoping to create a borderless audiovisual market even more complex. Not only are they faced with the need to update and adapt their existing policy instruments to a new film era, but they have to take into account the persisting nature of existing (vertical and horizontal) tensions when doing so. The development of a holistic approach to the film sector's digital future is hampered by the continuous need to get different policy-making levels and entities on the same wavelength, as well as old and new industry stakeholders—without neglecting the interests of the audience.

Looking at the *European Commission*'s approach, it is clear that the audiovisual digital future has been the topic of debate and various soft law initiatives, going back to the *European Charter for the Development and the Take-up of Film Online* (2006) up to, more recently, the *Communication on European Film in the Digital Era* (2014). The latter announced the launch of a *European Film Forum* in 2015, which involves a wide range of stakeholders in a dialogue on digital challenges and opportunities. It looks among other things at issues of public support and financing (European Commission, 2006, 2014a, 2016b).

Specifically in terms of support-related activities, changes to both the MEDIA programme and the State aid control framework have been made relatively late and cannot be described as very ambitious.

While technological considerations were at the base of the MEDIA programme from the start, the specific impact of digitization was first addressed during MEDIA *Plus* (2001–2006) and has increasingly come to the foreground in the MEDIA 2007 period (2007–2013). The challenges of a shift towards digitization are at the core of the latest MEDIA cycle under the *Creative Europe* programme, alongside the more traditional obstacles of market fragmentation, global competition and access to financing (Dossi, 2016).

In the impact assessment accompanying the set-up of *Creative Europe*, it was pointed out that the impact of globalization and the digital shift were "not sufficiently taken into account by EU action in favor of the sector and should be tackled in a broader and more structured way" (European Commission, 2011, p. 72). Even if digital concerns had been clearly present in MEDIA discourse for quite some time, the focus of the support schemes themselves remained on traditional audiovisual activities such as theatrical exhibition (see Eurêval and MCG, 2007).

The *pilot project* scheme, launched under MEDIA Plus, was an exception to this and provided funding for audiovisual partnerships putting forwards innovative projects with a European dimension (APRIL and Eurêval-C3E, 2006). The pilot projects scheme served as a laboratory of ideas with a relatively high risk factor. MEDIA support of this type accounted for roughly 50% of the projects' budgets (see, e.g. MEDIA, 2011) and thus had a substantial effect on the beneficiaries, few of whom would have been able to go through with these projects without this funding (APRIL and Euréval-C3E, 2006).

In 2007, Euréval et al. had noted that the value of the pilot project scheme depended on whether a number of the ideas tested would result in specific MEDIA support schemes and/or the identification of new business models (Euréval and MCG, 2007). At least in terms of the former, the scheme can be said to have been successful as the VoD and digital cinema on demand (DCD) strand was explicitly taken out of the pilot projects and established as a distinct support line under MEDIA 2007, to fund the creation and exploitation of digital catalogues and advanced cinema theatre distribution services. Currently, support for VoD is granted under the "online distribution" support strand (EACEA, 2016).

Unfortunately, the budget and support capacity of the VoD/DCD scheme were out of touch with the large pool of potential beneficiaries in the market. In 2010, Euréval et al. estimated that MEDIA 2007 had supported about 4% of the total number of active services in Europe (Euréval and MCG, 2010, p. 160). Moreover, they noticed that, despite some ties between France, Germany, the UK and Belgium, most actors were "… having a difficult time in making European consumers aware of their offers". As a result "the question of a real European dimension of projects still remains" (Euréval and MCG, 2010, p. 163).

Licencing and general market fragmentation may also play a role here and show the limits of MEDIA's role in the face of market realities. Instead, the scheme was once again more successful in terms of increasing pan-European networking and awareness. The set-up of a EuroVoD[8] network (in 2010) by a number of VoD services, for instance, included several of the MEDIA-supported VoD services and has also received EU funding itself (e.g. under the "online distribution" scheme; see EACEA, 2014).

Another digital area in which MEDIA has been active is that of release windows.[9] With audiences looking for content "anytime, anywhere, anyhow" and piracy booming, the traditional release structure—starting with a theatrical release, followed by a sequential release in other windows (television, VoD)—has been increasingly under pressure. In 2011, the *European Parliament* launched a preparatory action on the circulation of European films in the digital era, with a budget of 2€ million. Implemented by the *European Commission*, MEDIA selected projects for funding that experimented with (quasi-)simultaneous releases across different platforms and in several countries. A particular aim was to identify the conditions that could lead to an increased transnational circulation and a global audience for European films in the EU (European Commission, 2013b, 2016e; Paris, 2014). Today support for innovative multi-platform releases continues to be possible, under MEDIA's "online distribution" scheme (EACEA, 2016).

[8]See http://www.eurovod.org/

[9]Release windows determine the order and timetable according to which a film can be released across different media "windows" after its theatrical release (Paris, 2014).

However, many sector players, in particular cinemas, oppose such experiments, as it breaks with the established position of the cinema at the centre of the distribution model for films (Heidsiek, 2014). The European exhibitors association UNIC urged the *Commission* to "trust the industry where and when to release films" and stated that "(. . .) there is no real market for non-domestic European films in the way the *Commission* would like that to be" (Heidsiek, 2014). This shows how the *Commission* has to balance the sometimes contradictory views of sector players, their diverging interests and objectives. So far, the majority of MEDIA funding continues to go towards traditional releases in cinemas, with approximately 5% of the funds specifically invested in online distribution (European Commission, 2016f).

We can conclude that MEDIA, rather than shifting towards digital markets, has adapted the particularities of various existing schemes in a more incremental way. MEDIA started adapting the guidelines of its various schemes to the digital context from the beginning of the 2007 cycle onwards. For instance, development support was made available to projects intended for commercial exploitation on non-traditional platforms (e.g. mobile and online) (see European Commission, 2007).

The current set-up of the support programme reflects the fact that digital technology has become part of the everyday reality for Europe's film sector. The pilot project scheme is no longer part of the latest 2014–2020 *Creative Europe* programme (Creative Europe, 2014), but digital technology is integrated in the different support measures instead. Nevertheless, MEDIA's role remains limited to an encouraging one as it lacks the financial and political strength to be a real driving force for the (digital) development of the sector.

At the same time, financial support incentives form an alternative strategy when more radical policy proposals made in related areas such as copyright fail to take root. Indeed, when it comes to taking concrete digital policy actions, the *Commission* has been confronted (once again) with passionate negative reactions from the audiovisual sector and Member States. This occurred in particular when changes to copyright legislation and so-called geo-blocking[10] practices were initially proposed in the beginning of 2015 (Blaney, 2015b, c). Toning down its ambitions already in the Communication on a *Digital Single Market Strategy* (European Commission, 2015), the *Commission* by the end of 2016 had only proposed a regulation on the cross-border portability of online content, allowing EU residents to access the digital content they purchased at home while travelling to other EU countries (European Commission, 2016d). Audiovisual content was meanwhile explicitly excluded from the scope of the proposed regulation on geo-blocking (European Commission, 2016c).

Instead, *Creative Europe*/MEDIA will be involved in the development of digital tools to promote the distribution of films that are only available in a few Member

[10] *Geo-blocking* refers to the practices that make it impossible for consumers to access websites or (content) offers in other Member States (European Commission, 2015).

States. Two subtitling projects have also been launched in view of increasing cross-border circulation (Blaney, 2015a; European Commission, 2016g).

Alongside its own financial support measures, the *Commission*'s State aid control activities could also promote certain responses to the digital challenges and opportunities facing the sector. In reality, here as well, the impact of the *Commission* has been mitigated. The 2013 update of the *Cinema Communication* notably broadened its scope to include all steps in the film value chain (European Commission, 2013a; Held, 2016). By doing this, the *Commission* took account of digital evolutions and increased legal certainty for Member States and the sector. However, the new rules where adopted when digital change was already well under way: State aid controllers adapted to the market evolutions after their completion.

Only when it came to the transition to digital cinema, the *Commission*'s State aid controllers were more proactive. The installation of digital projection equipment as of the early 2000s had been slow due to the high conversion costs. Therefore cinemas increasingly called for public support (De Vinck, 2011). In 2009, the *Commission* opened a formal investigation procedure into the Italian digital cinema tax credit, because it had doubts "that the measure may mainly benefit large multiplexes which should need less support" (European Commission, 2009). Only at the end of 2014, the investigation was concluded with a positive closing decision (European Commission, 2014b), but by then, more than 90% of European screens had already been digitized (MEDIA Salles, 2015). Possibly, this situation led Member States to adopt their support measures under so-called *de minimis* rules[11] (whereby small support amounts are exempted from the notification obligation), or not at all.

The more recent outcome of the investigation[12] into the German film fund also clearly impacts the financing of Member States' support schemes. The *Commission*'s decision confirmed the possibility for Member States to tax (Video on Demand) companies that are active in their country but established elsewhere in the EU.[13] This will affect the market relations between different sector players: old and new, locally based or not.

However precisely because of the contrast between the *Commission*'s potential role in shaping the digital European film marketplace and the different tensions, obstacles and contradictions slowing down the action it takes, we conclude with a reality check for the stated ambitions of achieving a more integrated European film market.

[11]Initially set down in *Commission Regulation* (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid (OJ L 379, 28.12.2006, p. 5). In 2013, the *Commission* adopted a new de minimis Regulation, *Commission Regulation* (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the *Treaty on the Functioning of the European Union* to de minimis aid (OJ L 352, 24.12.2013, p. 1).

[12]See State aid SA.38418 (2014/N) (ex 2014/N)—Germany Filmförderungsgesetz, http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_38418

[13]E.g. *Netflix*, which targets the *European Union* from its offices in The Netherlands.

6 Conclusion: A Long Way to Go

Looking back at more than 25 years of *Commission* actions in the area of film funding, we can conclude that neither MEDIA nor State aid control activities have achieved the expected results.

In the 1980s, an ambitious discourse about the future competitiveness of a culturally diverse European film sector was at the origins of MEDIA's set-up. Yet in the absence of matching budgets, permanent pan-European market structures never materialized. Instead, MEDIA fostered looser European networks and successes of individual films, with the latter being more the exception than the rule. In other words, the stated ambitions were not achieved.

The *Commission*'s investigations into how the Member States support their film industries have not had the expected outcome either. Sector players and local policy-makers had feared the impact of economic liberalization on a sector that they considered to fall under their exclusive cultural policy competencies. In reality, a sector-specific approach was developed for the audiovisual support schemes, with Member States retaining a lot of leeway. Moreover, competition law is also used to validate certain support approaches, including territorialization clauses or, more recently, the notion that also non-national VoD services may be obliged to contribute to national film funds. In other words, the stated fears never materialized.

The complex market realities of the film sector in Europe may help explain the mitigated impact of the *Commission* on the film sector. Indeed, we saw that several tensions play a role in shaping European policy discourse. It is very difficult to reconcile industrial with cultural concerns, the idea of a "Europe without borders" with the realities of local cultural communities. To foster a single market for films with a positive outcome for the manifold and sometimes opposing sector and policy interests is perhaps simply impossible.

In a digital context, new tensions are piled upon the old ones and make it at once an opportunity and a challenge to reinvent the Commission's approach to film funding. With digital technology, a number of traditional weaknesses of the European film sector become less of a burden. At the same time, we see that the old dominant US-based players are joined by new US-based powerhouses. European-level solutions seem particularly well suited to fully exploit the potential benefits of a borderless digital market for films. The *Commission* has gradually adapted MEDIA to integrate digital technology in its day-to-day activities. European funding schemes are also often used as sweeteners where more radical (copyright inspired) approaches fail. In light of the past results, it is nevertheless doubtful that these funding efforts will eradicate the persisting borders of the European film marketplace. The potential to shape the sector through State aid control has not been taken up either.

As a result, the European film market looks to remain complex and shaped by many borders for at least the foreseeable future. A radical overhaul of the *Commission*'s approach to film funding would upset the carefully crafted balance between the different players and tensions in the sector. A perpetuation of the status quo may seem like a disappointment in the face of European discourses from the past to the present. In order to increase its impact, the *Commission* would have to become more active (instead of reactive) and clear in its approach (instead of watered down by compromise). However, this risks alienating at least part of the sector players and national policy-makers, who ultimately have a different agenda: one of retaining their position in the film value chain (for the sector players) and of protecting national industries and cultures (for national policy-makers). In this light, unless the *European Commission* is prepared to take a gamble on who would be the winners and losers of a more drastic overhaul of its film funding approach, a reality check of its ambitious discourse is in order.

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Supporting Film Distribution in Europe: Why Is Overcoming National Barriers so Difficult?

Tim Raats, Ilse Schooneknaep, and Caroline Pauwels

1 EU Support for Film Distribution: A Residual Issue?

MEDIA and *Eurimages* are well-known supranational programs offered by the *European Commission* and the *Council of Europe* which aim at promoting the European film industry by encouraging the production and distribution of films and fostering cooperation between professionals. Since they were introduced (1991 and 1989), both support programs stress the importance of domestic and cross-border distribution of European films. Ever since, they argued that film support is meaningful only when all parts of the value chain and not only production, the dominant form of support to film, are addressed (De Vinck, 2014; Henning & Alpar, 2005).

However, more than 25 years later, European audiovisual markets are still fragmented and characterized by significant differences in market size, export capacity, culture, and language (Bergfelder, 2005; Bondebjerg, Novrup Redvall, & Higson, 2015; Pauwels, 1995); theatrical exhibition in Europe is still dominated by US blockbusters, important cinematic works still do not find their way to national audiences, and the distribution of European films outside national borders remains relatively low (Fontaine, 2016; Grece, 2016). Today, European film distribution is scattered over various European distributors, with a few larger players (e.g., *StudioCanal*, *Pathé*, or *EuropaCorp*) producing and distributing European productions on a large scale, a limited number of successful European distributors specifically prioritizing European titles (e.g., *The Wild Bunch*), and a larger number of over 180 other small European film distributors (see Lange, 2017).

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Despite the efforts of MEDIA and *Eurimage*s (De Vinck, 2014; Herold, 2010; Sarikakis, 2007), however, the highest levels of support are still found at national level. To bring the numbers into comparison, as far as budgeting is concerned, the annual budget volume of the *French Centre National du Cinéma* (CNC) (around 630 million euros) comes close to the budget of MEDIA (824 million). Yet, MEDIA spreads over a budget period of 6 years and targets more than 28 countries.

With regard to national film support, this much is clear: most existing mechanisms were developed gradually after World War II in an attempt to tame the dominance of the US film market in cinema and video rental markets (Ezra, 2004; Mattelart, 2000). Support was therefore aimed at protecting sufficient volume and handed out as *direct* state subsidies to film productions (Council of Europe Film Policy Forum, 2008), with the exception of some larger European countries that also included funding for film distribution. Moreover, significant differences in the scale and diversity of policy support (e.g., support for subtitling, promotion, theatrical release, co-productions, etc.) parted larger EU Member States from smaller ones (Elsaesser, 2005; Olsberg-SPI, 2012; Schooneknaep & Pauwels, 2014; Sparrow, 2007).

In this context, we will address the issue of national support for film distribution in Europe. We ask why cross-border distribution is still a "residual issue" in the EU policy framework. For this, we will discuss some main "structural barriers" for cross-border distribution of cinematic works that hinder their EU-wide distribution. Then, we will describe the various forms of distribution support as part of a larger "audiovisual policy toolkit" (Grant & Wood, 2004; Pauwels, 1995; Raats, Evens, & Ruelens, 2016). Building on our typology, we will then present the findings of a large-scale comparative analysis of all distribution support mechanisms in the EU28. This analysis was conducted in the context of the EU-wide HERA-funded MeCETES research project (2014–2017), a consortium between the University of York, the University of Copenhagen, and the Vrije Universiteit Brussel. It analyzed national and European policies to improve cross-border distribution of film and television works.[1] In more detail, we analyzed (a) the extent to which national support schemes have included measures to enable domestic and cross-border distribution of film, (b) to what extent these support measures take the form of direct subsidies or indirect forms of support, and (c) how differences between larger and smaller European countries in terms of the scope and volume of distribution support have been accentuated in the EU28.[2] As a result, we found improvements in developing support mechanisms that target both domestic and cross-border distribution; nevertheless, domestic production remains the dominant support focus of national film funds, with distribution support being restricted to promotion and marketing rather than substantial support for theaters, distributors, and online platforms.

[1] http://mecetes.co.uk/

[2] The analysis included the UK as part of the European Union. We therefore refer to EU28 here.

In all, we will argue in favor of an approach that stresses the importance of distribution support. Notably, however, we posit that a *wider* and *more coherent* "audiovisual policy toolkit" is much needed and should be introduced as new policy architecture for film in Europe. It is for this reason that we argue that the success of audiovisual policies in Europe is closely related to an effective system of distribution, which is in turn the result of an interplay between various types of resources, various levels of policy (regional, national, and European level), and a combination of support, regulatory obligations, and additional government actions (such as monitoring, research and education, etc.).

2 Structural Barriers for Film Distribution

When the *European Commission* entered the audiovisual domain in the 1980s, scholars, policymakers, and media professionals identified the main obstacles for developing a European film market (Harcourt, 2005; Herold, 2010; Sarikakis, 2007).

Most of the deficiencies result from the fragmented market structure of the European audiovisual industries, which consist of various small and a few large media markets (Lowe & Nissen, 2010; Puppis, 2009; Trappel, 2011).

This fragmented European market hampers the distribution of national works. On top, the fragmented European markets are challenged by strong competition with Hollywood productions which had penetrated the European market at a great pace since World War II (Jäckel, 2003).

Over the past decades, however, figures do show an increase in the total European market share, up to a record high of 33% in 2014 and slightly down to 26.6% in 2016 (European Audiovisual Observatory, 2017). Most of this is explained by a limited number of successful European blockbusters (such as *Skyfall*) and domestic films that are successful in their own market. The share of admissions and releases of non-national European films remains low.[3] Typically, a market share of 10% is accounted for by non-national European films, a percentage largely accounted for by films from larger production markets with considerably bigger budgets (the UK, France, and Germany) (Wutz & Perez, 2014).

Economic theory identifies various barriers for market entry: economies of scale (another market realizing huge cost advantages through higher output), government regulation (e.g., quota limiting new players), lack of capital (lack of resources to enter a new market), vertical integration (the extent to which players in the other market are concentrated within larger groups), lack of know-how of markets and audience behavior (which is of particular importance in the case of film, when dealing with certainty of demand), customer loyalty (e.g., a greater adherence to national film), etc. (see, e.g., McAffee, Mialon, & Williams, 2004; Porter, 1985).

[3]For example, the only European films in the Danish box office top 10 of 2016 were Danish releases, *A Conspiracy of Faith*, *The Reunion 3*, and *The Commune*, respectively, first, second, and ninth (Danish Film Institute, 2017).

For our analysis, we define three barriers for European film productions that hamper domestic and cross-border distribution. We call these barriers "structural" because they come as quasi-natural constraints embedded in the economic structures of markets and are usually considered as being beyond a country's policy control (Bain, 1954; Caves & Porter, 1977; Ramstad, 1997).

First, productions in small European markets are mostly low- to very low-budget films compared to their US counterparts. The lack of market scale of most European countries prevents European feature films to employ the same cost-intensive standards to compete with big budget US blockbusters.

The scale of the US market allows films to reach bigger audiences, hence allow bigger budgets. The 2015 *Academy Award*-winning Polish-Danish drama *Ida*, for example, had a budget of 2 million euro, whereas budgets from a US blockbuster start at 50 million. Additionally, the US system is characterized by strict control over distribution, which enables US majors to rationalize production investments in ways that big budgets are allocated to fewer titles, a prioritization of commercial franchises (e.g., sequels and remakes), and considerable budget spent for marketing. This in turn allows US companies to build up scale, spread risk, and increase audience awareness (De Vinck & Lindmark, 2012). In Europe, production and distribution are scattered over various smaller companies, with only a limited number of production companies (mostly French or British) being able to take the financial risk that big budget productions competing with large-scale blockbusters would require (Bakker, 2005; Mattelart, 2000; Vasconselos, 1994). The lack of production capacity also makes small audiovisual markets dependent on larger neighboring countries, especially for small countries that share a language with a large neighboring one (Petrie & Hjort, 2007).[4]

Second, the lack of market size also limits the capacity to recoup revenues from domestic markets. In turn, this is not promoting sales internationally, since domestic market success for buyers of films is often a crucial prerequisite (Pauwels, 1995). It also makes it more difficult for producers in small markets to arrange presales and minimum guarantees (i.e., when revenues from selling distribution rights in a specific country are already negotiated before production starts and being included in the budget). Part of the success of Danish series as *The Killing* and *Borgen*, for example, is due to the sales of distribution rights to, among others, Germany and the UK up front (Raats et al., 2016).

Third, *cultural specificity* and *language differences* form barriers of distribution (Bergfelder, 2005; Everett, 1996, p. 23). Europe alone has 24 official languages; releasing a film across the whole of Europe thus means dubbing or subtitling in all these regions, which would increase the cost and complexity for European distributors significantly (Betz, 2009, pp. 48–56). Some markets, such as the UK, are that used to watching US and domestic films in English that a subtitled film is

[4]An example of this is Wallonia, the French-speaking part of Belgium, which shows a strong presence of French players in the audiovisual sector and a huge popularity of French television and film, thereby limiting the development of national players and domestic productions.

often immediately labeled as "art house" or "highbrow." *Cultural differences* are not only found in language, however. Cultural sensibilities and preferences are manifold and traditionally create distance between different audiences (Bergfelder, 2005, p. 325; Gubbins, 2012). "Humor," for example, differs significantly all around the world, even between nations who speak the same language, and is hence a difficult genre to export. "Crime and costume drama," on the other hand, "travel" much better due to their common narrative structure, stereotypes, and recognizable features (Bondebjerg et al., 2015; Wood, 2007, p. 27).

As a consequence, European films that are successful in the European market are more often being remade in the USA even before the original versions are released in that market, because "promoting and distributing of foreign films generates less profit than buying the rights for the original story" (Betz, 2001, p. 29). This also occurs within Europe, as the example of Flanders and the Netherlands shows: both share Dutch as common language, but domestic box office successes in Flanders are more likely to get a remake in the Netherlands and vice versa.

These structural barriers usually manifest themselves more clearly in small Member States. However, market size does not automatically generate a lack of competitiveness, as the success of Danish film and TV drama productions (Bondebjerg et al., 2015; Willems, 2010) has shown.

3 The Policy Answer: Targeting Production Volume with Subsidies

The need to establish some sense of "cultural support" to protect markets from foreign dominance in cultural terms, as well as the recognition of feature film as an art form, had led to the introduction of national support policies across Europe after World War II (e.g., Hedling, 2013, p. 95). Until the end of the 1980s, European countries traditionally lacked coherent mechanisms to stimulate and support national audiovisual industries (Hannerz 1992; Pauwels, 1995; Straubhaar 2003, 2014).

When looking at the extent of national support to film, size differences in EU Member States were significant in the 1980s. Whereas bigger countries such as France markedly invested in a coherent policy toolkit consisting of quota for exhibition, direct support, tax credits, and a levy on, among others, cinema and cable distribution (Kerrigan & Ozbilgin, 2004), smaller countries, on the other side, suffered from a lack of a combination of direct and indirect support measures. Countries such as Belgium (and mostly the Dutch-speaking part Flanders), Greece, Portugal, and Ireland had been lagging behind in terms of support mechanisms for a long time (Pauwels, 1995, pp. 348–349) and focused mainly on safeguarding production volume in the domestic market. Indeed, ironically, support for distribution was restricted to markets that required it less than their smaller counterparts.

The preference of policymakers to support production in the form of selective subsidies to single projects was common in most European countries. This included support for preproduction, script writing, and production development. Only some large countries had co-production schemes. Involving more producers from different regions/countries also allows an increase in the available budget as well as increasing the number of markets to release the film (Dibie, 1992; Hoskins, McFadyen, Finn, & Jackel, 1995; Kerrigan & Ozbilgin, 2004). Where available, distribution support mostly consisted of funding for dubbing and subtitling. Only a few countries supported cinema owners directly. Additionally, public broadcasters were often entitled a role in film production too but often lacked incentive to invest in cross-border productions given their focus on national audiences and steady income flow.

Besides these forms of support, some European countries—among others France—had already installed quota systems to guarantee production and distribution of domestic audiovisual content. The aim here too was safeguarding the volume of national film industries against the perceived dominance of US productions. But, as demonstrated in the 1990s, these quotas were not always tied to coherent support policies and therefore often missed their target. Biltereyst, Pauwels, and De Vinck (2007), for example, describe how European investment quota leads to "quota quickies": cheap productions programmed outside of prime-time slots to reach the quota but barely attracting any audiences.

4 The "Audiovisual Policy Toolkit"

Grant and Wood (2004) coined the term "cultural policy toolkit" to describe the combination of regulatory and support mechanisms in the cultural industries. The cultural policy toolkit includes direct government support, public service broadcasting, and quota and regulatory measures to sustain cultural diversity (see also Donders & Raats, 2015; Humphreys & Gibbons, 2011). Building on this, we develop the concept of "audiovisual policy toolkit" to describe the full portfolio of incentives policymakers better apply in order to support audiovisual markets and sustain the production and distribution of, among others, cinematic works. Describing the audiovisual policy toolkit requires a cross-sector approach that transcends traditional divisions between ministerial departments and different policy levels (supranational, national, regional, and local). As such, we discern five types of support, as presented in the table below (based on Pauwels, 1995): (1) measures to increase direct (commercial) value, (2) subsidies, (3) participatory financing/auto-financing, (4) fiscal measures and investment stimuli, and (5) other general economic incentives.

4.1 Distribution Support Within the Audiovisual Policy Toolkit

The categorization above provides a number of important elements for further analysis of distribution support mechanisms. First, it shows that support to film industries combines both funding and regulatory measures and a series of direct support (i.e., money invested in productions) (*type 2*) or indirect mechanisms (e.g., obliging cable distributors to contribute to media production) (*type 3*). Additionally, it shows how support mechanisms can comprise of *support for content* and measures developed as *support for context*. The latter includes support for aspects surrounding the content, such as subtitling, but also funds for award campaigns (*type 1*), developing tools for increasing media literacy, etc.

The categorization above also shows how measures aimed at production and distribution are inextricably linked. Production support, for example, can be tied to obligations to include a minimum number of distribution partners (*types 1 and 2*); public broadcasters' remit could include investment in film in the form of buying television rights (i.e., increasing domestic distribution) (*type 1*) (Broughton Micova, 2014); tax breaks aimed at production might also increase national interest (*type 4*) due to the location where the shooting took place (Olsberg-SPI, 2014).

The conceptualization of audiovisual measures as policy toolkits thus serves our overarching approach to reveal the complexity of distribution-enhancing policies. In our analysis we identify different forms of distribution support within the first two types in Table 1. Our analysis looks at support mechanisms rather than regulatory options and does not include quota for cinematic distribution (i.e., regulatory measures to oblige film exhibition to have a minimum percentage of a certain type of films, most commonly domestic or non-national European films).

The following categories of distribution support mechanisms are thus included:

1. *Support for distributors*: Direct support for distributors aims to increase the acquisition of films for national or international distribution.
2. *Support for exhibition*: These include specific measures such as subtitling and dubbing support, support for digitization of cinemas, and support to create the digital file that can be electronically transmitted (DCP).
3. *Support for promotion*: This includes all kinds of facilitating and logistic support for promotion of films, most commonly aimed at the international market. This kind of promotion support is often part of dedicated funds focusing exclusively on promotion and participation of award campaigns and presence at international film festivals and markets.
4. *Support for audience development*: Indirect measures aiming to improve film culture and film literacy, often integrated within the work of national film funds.
5. *Support for co-productions*: These mechanisms target development and production as well as distribution. They include co-production agreements between governments, as well as co-production funds with involvement criteria attached (such as minimum number of countries included or distribution partners included) to generate a larger sale.

The categorization of distribution support presented above is used to develop a mapping of all EU Member States. Data for the mapping derives from a close reading of annual reports, government agreements, and press communication from film funding organizations, regulators, and cultural policy departments in the countries involved. Where available, data is cross-checked with additional input from websites and comparative reports.[5] With regard to the inventory of distribution support mechanisms, a few remarks should be taken into account.

[5]For the purpose of this chapter, sources to develop the mapping were not included in the reference list.

Table 1 The European Union's audiovisual policy toolkit

	Type of support	Description	Examples
1	Measures to increase direct (commercial) revenue	Every type of revenue generated from the sales of film rights	Grants in return for guaranteeing distribution; mechanisms to enlarge export; supporting attendance at international sales events; regulation of the chronology of media and release windows; quota for cinematic exploitation in cinema, independent production, public broadcasting investments
2	Subsidies	Selective or automatic support aimed at development and distribution of, respectively, specific titles or a select period of time	Production subsidies and slate funding mechanisms for screenwriting, production, postproduction
3	Participatory financing	Contributions from multiple stakeholders (cinema exhibitors, distribution majors, retail distributors, broadcasters, cable and telecom players, advertisers and advertising brokers, hardware manufacturers, etc.) to share the burden as well as opportunities	Levies on the sale of hardware, often redistributed to authors' rights associations, or other forms of taxations on hardware, such as the private copy system for blank DVDs
4	Investment stimuli, credit loans, and other fiscal measures	Benefits for (private) investors in audiovisual works in the form of fiscal advantages or beneficial loans	Tax shelter systems Tax credit systems
5	Other general economic incentives	General instruments to stimulate expansion with specific sectors, branches, or types of companies or the formation of public-private partnerships in the audiovisual sector	Support for entrepreneurial training, support for public-private partnerships, support for start-ups and spin-offs, support for SMEs

Source: The authors

First, note that limited accessibility of data prevented the same consistent and systematic mapping for all mechanisms, as not all Member States publish consistent data that is publically available. Moreover, differences in language restrict analysis of various research sources and grasping the complexity of all available forms of support.

Second, over the past 20 years, the European Union has been extended with an extra 13 Member States, a combination of small (Malta, Cyprus) and larger (Poland, Romania) audiovisual markets. Comparing policies in 2016 with policies developed in the 1980s and 1990s thus means comparing with a European Union that only included 15 Member States.

Third, we define larger and smaller countries based on population size. However, this is not the only defining feature characterizing the size of a country. Indeed, countries that are considered small are usually, but not necessarily, countries with a small number of inhabitants, and according to Hallin, more variables need to be taken account to be able to assess country size fully (Hallin, 2009, p. 101). Nevertheless, it is a useful indicator since it directly influences the size of media markets (Puppis, 2009, p. 8). We define countries with over 14 million inhabitants as "large." This also allows us to include the Netherlands (with a population of 17 million) as a large country.

Fourth, besides all policy mechanisms supporting distribution, one should also take into account the various initiatives enhancing distribution that stem from the strategies of the market players themselves, such as investments of private broadcasters into domestic film.

Finally, note that a developed and diversified toolkit should not be considered a panacea of successful cross-border distribution. While our analysis revealed that strong markets often rely on diversified "audiovisual policy toolkits," mapping the scope and number of distribution support measures is not enough to assess the effectiveness of policy support. Other variables, such as volume of funding, number of awarded projects/companies, domestic box office, etc., should also be taken into account.

Table 2 below provides a summary of all initiatives listed in the inventory of EU28 countries.

5 Small States still struggling with distribution support

Depending on the type of distribution support, EU28 Member States can be grouped into four categories:

(1) *Countries showing a strong emphasis on all aspects of successful distribution* (e.g., France, the UK, the Netherlands). Their portfolio consists of support for print and advertising, support for exhibitions, distribution, dubbing, subtitling, and promotion, and support for import of non-national European cinematic works.
(2) *Countries characterized by extensive distribution support, however, focusing primarily on the national markets* (e.g., Ireland, Austria, and Sweden). The policy toolkits comprise of promotion support through participation in international film festivals but also domestic support for exhibitors and distributors.
(3) *Member States supporting distribution primarily by promotion*. Member States assist national films to be selected in festival selections or contribute to national and international campaigns for festivals and sales. Flanders (Belgium) and Luxembourg are examples.
(4) *Countries restricting film support to production or co-production support*, without having specific distribution support (Malta and Croatia), mainly because the amount of national productions is marginal.

Table 2 EU policy inventory

	Support for distributors	Support for exhibition	Support for promotion	Audience development	Co-production[a]		Support for distributors	Support for exhibition	Support for promotion	Audience development	Co-production
AT	X		X		X	IE	X		X		X
BE (FL)	X		X	X	X	IT	X	X	X	X	X
BE (WL)		X	X	X	X	LT			X	X	
BG	X		X	X		LV	X		X		X
CH	X	X	X	X		LX			X		X
CY						MLT			X		
DE	X	X	X	X	X	NL	X	X	X	X	X
DK			X	X	X	RO			X		
EST	X	X	X	X	X	PL		X	X	X	X
FI	X	X	X	X	X	PT	X	X	X	X	X
FR	X	X	X		X	SE		X	X	X	X
GR			X		X	SK	X	X	X	X	X
HR		X	X	X	X	SL	X	X	X	X	X
HU	X	X	X	X	X	SP	X	X	X		X
						UK	X	X	X	X	X

Source: The authors
[a]Mostly in the form of bilateral agreements and not necessarily restricted to co-productions between nations, also within regions

As shown in the previous sections, small countries have seen a much later start and made less use of the full portfolio of regulatory options. Various small Member States have been struggling for decades to establish a film fund scheme, which, assumingly, was hardly strong and stable enough to support domestic production, let alone distribution. When observing the categorization above, differences in the scope and combination of mechanisms between large and small Member States seemingly continue to exist. Prolific production markets such as France were often the first ones to introduce additional support measures (Kerrigan & Ozbilgin, 2004).

Portfolios of large countries show more diversified forms of audiovisual support and the strongest support for distribution. France has a toolkit with more than 20 initiatives aiming to enhance distribution, making it the most extensive toolkit in the EU (Jäckel, 2007). Here, the *Centre National du Cinéma et de l'image Animée* (CNC) provides support for all areas in the distribution process, ranging from incentives for cinema exhibition and digitization over film clubs and festivals to subsidies for distributors to place the films in the national and international markets. Additionally, *ACM Distribution* provides possibilities of dubbing films in other languages such as Spanish, Italian, and German. This works in combination with *UniFrance* that aims to promote national and international presence of French audiovisual content. The mechanisms have contributed to an excellent track record in distribution within and beyond Europe. The national market share for French films of 40% and the high amount of French films in the list of most successful European films that circulate outside national borders can account for that (European Audiovisual Observatory, 2015).

Similar discrepancies between larger and small countries are seen in the countries that entered the EU in the 2000s. The large Member State, Poland, for example, could work on national exploitation of content, national and international promotion, supporting dubbing and subtitling, print and advertising, and the creation of master copies. Note that Member States such as Poland or Hungary already had strong film funds that predate their entrance in the EU. Small new Member States (Cyprus, Malta, Latvia, etc.) have a less developed policy toolkit and focus on creating qualitative content through a structured film fund. Lithuania, for example, established a film fund not earlier than 2012, again targeting production rather than distribution in its funding schemes. However, these countries also often lack structures for domestic film production, which makes distribution mechanisms hardly of any use. Cyprus, for example, only provides a limited amount of production support, i.e., for one or two films a year.

Differences have reduced over the years, however. Small countries have increasingly included specialized incentives for national exploitation and promotion. Ireland, for example, has set up support for distributors to cope with release costs (print and advertising, trailers, market research) and measures to help Irish producers market their film if they had not yet secured a distribution deal. Others have been investing more in support measures surrounding film production and distribution, without directly subsidizing acquisition of rights. Sweden has heavily invested in film literacy and audience development measures, and Flanders (Belgium), while not directly including distribution in the film fund portfolio, has established Flanders Image as part of the *Flemish Audiovisual Fund*, to actively promote film festivals and international sales and take part in promotion campaigns. Since 2017, the fund also provides limited support for distribution of specific Flemish films in domestic theaters.

6 From Content to Context Support

In the 1990s, support showed a preference of support measures for financial subsidies, with the national development of the audiovisual industry and the domestic market as the prime focus (Kerrigan & Ozbilgin, 2004). Other direct measures existed in the form of support for dubbing, subtitling, and the creation of master copies. Indirect support mechanisms (such as distribution obligations for co-productions and release quota in cinemas) existed in larger countries such as France. Over the years, initiatives such as these, mainly targeting the *context* surrounding the audiovisual works rather than *content*, were increasingly integrated into the portfolio of national film funds. This was especially the case for support for promotion. In most cases, this entails additional grants awarded after the production of the film and is thus not included as part of the strategy when development of the film has started.

Supporting the context also entails support mechanisms for digitization of theatrical release. Various countries including France added direct support for digitization of smaller and art-house cinemas to their toolkits in the 2000s to ensure qualitative distribution. However, this one-time-only financial support often remained quite limited, and in a lot of cases, analogue screens were only partly replaced in smaller cinemas, which is not sufficient to provide structural aid for these small enterprises.

Yet another form of distribution support gained importance in recent years, i.e., audience development schemes (e.g., Finland, Ireland, Denmark). These indirect support measures have been added to the support kits of national film funds over the years, but the budgets made available for audience measures are often disproportionate to their ambitions; they are often project-based and hence lack a structural basis. As such, they offer an additional "extra" to film fund schemes, rather than making up a structural resource for supporting distribution.

In the 1990s, toolkits targeting distribution of films primarily focused on stimulating export of domestic films. Today, 15 out of 28 Member States provide funding for national exhibition. Films are produced for local markets, so they aim to generate the widest possible audience at home. Promotion and distribution are therefore aimed at generating domestic revenue, with promotion support from broadcasters and cinema exhibitors. However, if a film is expected to generate large revenues in the home market, producers and sales agents seek potential in broader distribution at international markets such as the European Film Market in Berlin or the *Marché du Film in Cannes* (often in combination with support from the MEDIA program). While a focus on domestic markets remains dominant, EU28 does show an increase in promotion activities aimed at European and international sales.

Twenty-six out of the 28 countries support their respective markets with promotion mechanisms, either through logistic support within a film promotion agency such as Flanders Image in Flanders or by awarding international distributors financial support to acquire domestic films (e.g., *The Dutch Film Fund for International Distribution and Dubbing*).

What our inventory of distribution support mechanisms also showed is that distribution is indeed still often considered from the perspective of export only, or in other words generating scale by expanding markets. More exceptional is support for non-national European films in the domestic market. Six countries allow distributors to apply for funding for non-national European films, with the prime objective to generate a richer and qualitative film culture: France, the Netherlands, the UK, Spain, Greece, and Finland. In Greece, the *Hellas* label acquires international titles for domestic exhibition. In the UK, international productions could be awarded a *Breakout*, *New Model*, or *Sleeper Award*, allowing investments in advertising and new distribution platforms. Spain, the UK, and Finland have also expanded support for dubbing, subtitling, and print and advertising to include films from other Member States.

Finally, irrespective of the size of the country, most countries share a continued investment in co-production schemes. Additionally, they work together through bilateral agreements. France is involved in many of these, e.g., with Italy and Germany; Flanders often co-produces with the Netherlands; and Scandinavian countries are connected through the *Nordic Film Fund*. Most of the EU Member States also participate in the *Eurimages* program.

7 Conclusion: Distribution Support Remains Critical

This chapter aimed to determine to what extent distribution support genuinely forms a part of national policy toolkits. It questioned whether policies have effectively developed into diverse-layered and coherent policy toolkits that could enhance the distribution of films across the European Union.

In diversifying their audiovisual toolkits, initiatives from European funding schemes such as MEDIA were often looked at. However, despite this harmonization of toolkits for distribution support, many of the thresholds that existed in the 1990s still exist today.

Nevertheless, our study shows a series of changes with regard to policy measures for distribution. Comparing EU28 Member States with existing literature on EU15 in the 1990s, the evidence showed that Member States' toolkits have, firstly, increased the emphasis on distribution mechanisms; secondly, Member States have diversified their policy toolkits with a combination of measures directly and indirectly targeting distribution, most often by facilitating the conditions for distribution. Thirdly, there is an uptake in efforts to enhance cross-border distribution, especially with emphasis on promotion on international markets, and fourthly, differences between large and small markets in terms of diversification of policy toolkits have slightly been corrected.

As such, our data underpins the observed shift from a relatively protectionist focus in audiovisual policies to a more integrated approach involving a combination of indirect and direct mechanisms (European Audiovisual Observatory, 2012; Lange & Westcott, 2004; Talavera, 2016). The latter approach consists of a more integrated take on distribution involving a combination of indirect and direct mechanisms and the possibility of working with and selling to fellow European countries.

Despite these efforts, the focus on distribution within European film policy remains limited. As more European films are being made annually, competing in national theaters and on VOD platforms with ever more titles, the challenges for European film distribution are considerable. National productions still struggle to cross borders and reach audiences within the *European Union*, let alone becoming global market successes. A mere focus on production might lead to strong creative content; it doesn't provide any guarantee that quality films will be a box office success. In a fragmented European film market, distribution rather than production should be put to the forefront (Cunningham & Silver, 2013). Setting out from the perspective of an integrated toolkit, an increased focus on distribution on the level of national policies requires, among others, the following priorities:

(a) Increased effort in guiding audiences toward European films (i.e., education, film literacy programs)
(b) Production subsidies that reward investments in scale of the production and potential market (such as co-productions or including presales of distribution rights as part of the production budget)
(c) Increased efforts to help circulate non-national European films within European markets
(d) Specific requirements for public broadcasters to co-invest in domestic film and program European films
(e) Regulatory requirements to stimulate new market entrants such as *Netflix*, *Amazon*, HBO, and *Google* to invest in European co-productions
(f) A rationalization of existing support measures of national film funds with an eye on long-term structural outcome, rather than project-based add-ons with limited budgets
(g) Support building strong brands in foreign markets
(h) Increase visibility and scale of existing—and often fragmented European VOD platforms for European film

As release windows are currently undergoing huge transitions, the question ultimately becomes to what extent national film support can adapt shifts in release windows and a shift toward a *digital single market* to its advantage or rather than losing its relevance altogether (Ulin, 2013). The proliferation of new distribution services, new market entrants, and shifting windows that resulted in the *digital single market* policy proposal of the *European Commission* increasingly urges policymakers across Europe to assess the sustainability of existing forms of national support and explore additional forms of media governance sustaining domestic content (De Vinck & Pauwels, 2015). According to De Vinck and Pauwels (2015), in essence, two questions are crucial for the future of film distribution in Europe. First, will players succeed in overcoming traditional thresholds ingrained in the European fragmented market structure, which privileges Hollywood productions? And, second, will digital developments take away borders between film audiences that are segmented on a territorial, language, and cultural basis? A move toward less territorial restrictions and a single market for film distribution will affect national support policies, as we might expect European-level initiatives are likely to become more important to address these challenges. But at least for the moment, borders are likely to continue to play a role in film distribution.

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Film Funding Law in the European Union: Discussing the Rationale and Reviewing the Practice

Delia Ferri

1 Introduction: EU's State Aid Rules in a Nutshell

In the audiovisual sector, European States have well-rooted promotional legislation and have put in place a distinct form of "cultural welfare" (Bellucci, 2010, p. 211). A 2011 study of the European Audiovisual Observatory estimates that, in 2009, the total amount of audiovisual support spent in Europe amounted to 2.1 billion euros (European Audiovisual Observatory, 2011; European Commission, 2014a). The funding tools which States resort to in order to sustain film production and distribution take various forms: direct grants, tax rebates, screen quotas, licencing restrictions and soft loans (i.e. loans given on more favourable terms than the market would provide). These measures generally come within the scope of the EU State aid rules when they meet the conditions laid down in Art. 107(1) of the *Treaty on the Functioning of the European Union* (TFEU).[1]

It is well known that Article 107(1) TFEU provides that any aid granted by a Member State or through State resources, which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, is incompatible with the internal market, insofar as it affects trade between the Member States (Biondi, 2013; European Commission, 2014b; Quigley, 2015). However, Art. 107(2) and (3) TFEU sets out exemptions to the general ban contained in Art. 107(1) TFEU on the premise that markets are not entirely self-regulating and do not always operate efficiently if left alone. These provisions recognize that public

[1]Funds provided directly from EU programmes like *Creative Europe* programmes do not fall within as *State aid* (Katsrova, 2014, p. 5).

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intervention may be necessary where market failures occur or when it is necessary to protect and promote specific rights or values (Buelens, Garnier, Meiklejohn, & Johnson, 2007, p. 9).

Art. 107(2) TFEU specifies a number of cases in which national support measures are permissible.[2] Art. 107(3) TFEU provides that some forms of aid may be considered compatible with the internal market by the European Commission. Among them, this provision lists “aid to facilitate the development of certain economic activities” (Art. 107(3)(c)) and “aid to promote culture and heritage conservation” (Art. 107(3)(d)). The latter exception for the so-called cultural aid is clearly aimed to promote the right to access cultural goods and services and, more generally, to foster cultural diversity (Ferri, 2008).[3] The exception provided for in Art. 107(3)(c), better known as “industrial aid derogation”, allows the Commission to take into account the necessity of the aid when relevant to achieve cultural policy goals.

The TFEU also establishes a system of ex ante supervisory control by which Member States must notify the European Commission in advance of aid measures that they intend to implement. Put simply, State aids are prohibited unless the Commission has been notified of the aid, has assessed and finally approved it. For an aid to be declared compatible with the internal market and lawful under EU law, it must not only pursue one of the EU objectives of common interest recognized in Art. 107(3) TFEU, but it must also be necessary and proportionate to that end (Court of Justice of the European Union, 1980).

To increase legal certainty within the EU State aid framework, to ensure the transparency of aid assessment and to complement Treaty rules, a large body of guidelines and secondary legislation has also been developed. Over time, these measures have also been able to address new economic and political priorities within the EU.

Broadly speaking, guidelines are considered to “codify” the Commission’s own practice with regard to the most common types of aid and structure the way in which the Commission exercises the discretion conferred upon it by Art. 107(3) TFEU (Quigley, 2015; pp. 262–265). In the matter of audiovisual products, the most relevant document is the “2013 Communication on State aid for films and other audiovisual works” (European Commission, 2013a), which superseded the former “2001 Cinema Communication” (European Commission, 2001). This clarifies the

[2]Article 107(2) TFEU lists aid that (a) has a social character and is granted to individual consumers, provided that such aid is granted without discrimination as regards the origin of the products, or (b) makes good the damage caused by natural disasters or exceptional occurrences. It also mentions at letter (c) “aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division”. This exemption is of limited practical relevance, and indeed it is now about to be *ex lege* repealed.

[3]The term “cultural diversity” involves regimes of cultural federalism and the guarantee of religious, linguistic and other rights for persons belonging to cultural minorities but also recognition of the distinctive nature of cultural goods and services.

scope of activities that may be supported by public funding and spells out clear criteria for permitting aid to the cinema sector, in order to ensure consistency and equality of treatment among Member States.

Within the composite system of secondary regulations, the 2014 General Block Exemption Regulation—GBER (European Commission, 2014c)—declares certain types of aid to be lawful and exempts them from the obligation of prior notification. The 2014 GBER covers several categories of aid and includes differently from the previous 2008 GBER (European Commission, 2008a) a provision on aid schemes for audiovisual works. The Commission has also passed various de minimis regulations, which exclude certain measures from the scope of EU State aid control as they have no impact on competition and trade in the internal market. The most recent de minimis (European Commission, 2013b) covers small aid amounts up to 200,000 euros per undertaking over a 3-year period. Small funding to sustain cinemas (in particular rural and arthouse cinemas) or preliminary work for a film promotion in most cases have been covered by the de minimis.

Against this background, and building on existing literature (Bellucci, 2010; Germann, 2008; Herold, 2010; Psychogiopoulou, 2005, 2008, 2010), this chapter explores the implementation of the EU State aid rules in the film sector. It first discusses the Commission's approach to Member States' support schemes active until 2012. It then goes on to discuss the innovation brought about by the "2013 Cinema Communication" and attempts to highlight to what extent the Commission has balanced the competing needs to sustain the EU film industry and to avoid unduly distortions of competition. Then the chapter analyses the recent 2014 GBER and the role it plays in allowing Member States to sustain audiovisual products. The final section takes stock of the analysis and highlights trends and patterns in film funding within the EU. It investigates to what extent EU State aid policy has complied with Article 167 TFEU, which places on the EU the duty to contribute to the flowering of the cultures of the Member States and to take cultural aspects into account in its action under other provisions of the Treaties. The chapter further argues that the EU's State aid control has become a highly politicized field, and the Commission's reasoning is vested of clear cultural policy objectives. In fact, the analysis of the decisions of the Commission conducted throughout this contribution shows that the Commission looks thoroughly at the cultural purpose of the national aid schemes and evaluates them against the overall goals set forth in Art. 167 TFEU.

2 The "2001 Cinema Communication" and the Commission's Practice Until 2012

2.1 Film Funding as "Cultural Aid"

Prior to 2012, national measures dictated to foster film production, including all the activities during the actual shooting of a film, were generally assessed as "cultural aid" under Article 107(3)(d) TFEU. This assessment was based, following the famous Commission decision of 3 June 1998 on the French aid scheme *Soutien a la production cinematographique* (European Commission, 1998), on specific criteria. These criteria, which were formalized in the "2001 Cinema Communication", included a "general legality" criterion and four specific conditions (Blair, 2011). To comply with the former, the aid scheme should not contain any clauses contravening other provisions of the Treaty. The specific criteria singled out different issues.

Firstly, support was to be directed at a cultural product. Each Member State was then responsible for ensuring that the content of the aided production was considered to be cultural according to national standards. Secondly, the producer should be free to spend at least 20% of the film budget in a Member State other than that providing the aid. This criterion aimed at limit "territorialization" clauses. These clauses provide that, in return for State aid granted, part of this aid or of the film budget must be spent in the territory where such funding scheme is located or administered (Brettell et al., 2008). Under the "2001 Cinema Communication", Member States could still require up to 80% of the film production budget to be disbursed on their territory as an eligibility criterion for aid. Thirdly, aid intensity should be limited to 50% of the film budget, except for difficult and low-budget films or for films coming from geographic areas whose language and cultures had a limited circulation within and outside the EU market. And, finally, aid supplements for specific film-making activities were not allowed in order to ensure a neutral incentive effect and, consequently, avoid the attraction of those activities (e.g. post-production) in specific Member States.

The validity of this Communication was extended in 2004, 2007 and 2009 till 2012, and until 2012, the Commission authorized a variety of schemes, mainly aimed to promote national and regional film production (Psychogiopoulou, 2010). It generally favoured audiovisual support schemes (Psychogiopoulou, 2006; Zagato, 2010) and endorsed both direct grants such as the *UK Film Development and Production Funds* (European Commission, 2007a) and tax incentive and tax relief schemes for investment in film productions such as the *Irish Film Support Scheme* (European Commission, 2009a).

Overall, the Commission did not raise any issue with regard to the general legality principle and focused on the compatibility of the aids reviewed with the specific criteria. As noted by Psychogiopoulou (2010), the Commission evaluated in a stringent manner the existence of a verifiable national system to validate the cultural nature of the aided audiovisual content. Though it was indirect, the Commission tended to consider verifiable criteria measuring the artistic value of the project, the level of promotion of the national/regional identity and the conditions related to the curricula of the authors, producers and distributors. In addition, the Commission largely endorsed the performance of a cultural assessment by ad hoc independent bodies. For example, when assessing the *Lazio regional film support scheme* (European Commission, 2012a), the Commission noted that the assessment of cultural criteria by a commission of experts would actually "safeguard the cultural content of the audiovisual and cinematographic works financed". However, a far less severe evaluation of the verifiability of national cultural criteria transpired when the national aids were an extension of existing, already approved, schemes. In such instances, the Commission commonly limited itself to recalling the evaluation that has already been carried out (e.g. European Commission, 2009b, 2010a), without raising any objection (Ferri, 2015).

With regard to territorialization clauses, a study published in 2008 found that almost all the Member States included in their schemes obligations to spend a percentage of the film budget or of the grant in the same Member State or in one of its regions (Brettell et al., 2008, p. 15). These explicit territorialization requirements were generally kept under the cap of the 80% in compliance with the "2001 Cinema Communication". However, it was found that several States resorted to quantitatively indeterminate requirements, for instance, providing that a film should, to a predominant extent, be shot locally or that use should be made of local technical goods and service providers (ibid.). These requirements appear far more problematic as they lack certainty, and their effects are not easily quantified. However, the Commission seemed to adopt a positive approach towards them. It considered the territorial criterion of the "2001 Cinema Communication" to be fulfilled, unless there was clear evidence that producers could not spend at least 20% outside the State. This approach is apparent in the *Spanish national film support scheme* decision (European Commission, 2010b). The scheme did not include any obligation to spend any of the costs of the cinematographic activities in Spain. By contrast, the measure included a territorial restriction in that, in case the majority of the shooting took place outside the Spanish territory, the aid was lowered by 5%. The latter condition did not provide a distinct intensity of territorialization, but was clearly intended to encourage producers to shoot locally. The Commission considered the requirement unproblematic.

Overall, the Commission considered film funding schemes necessary and proportionate and, in most cases, highlighted how the objective of supporting audiovisuals was in line with Art. 167 TFEU and with the EU goal of respecting and promoting cultural diversity, as well as with the commitments undertaken with the ratification of the UNESCO Convention on the protection and promotion of the diversity of cultural expressions, which are often cited in its decisions.

Even in cases where the State failed to notify the aid in a fist instance (European Commission, 2012b), the Commission took the view that the positive net benefits of targeted State aid for the audiovisual sector were likely to overcome the potential distortion of competition (Ferri, 2015).

2.2 Film Funding as Industrial Aid

The "2001 Cinema Communication" mainly applied to production support. Schemes directed at post-production (i.e. activities related to editing, music, sound and effects, which are completed after shooting of the film), commercialization and aid for the support of film studios were mainly assessed under Article 107(3)(c) TFEU.

An evaluation under the "industrial aid derogation" is carried out under a three-step test (Quigley, 2015, p. 211). First, the Commission ascertains whether the aid measure includes a well-defined objective of common interest, i.e. whether the aid addresses a market failure. Secondly, the Commission verifies whether the aid is appropriate and proportionate to deliver the objective of common interest pursued. Thirdly, the Commission balances the distortions of competition and the effect on trade against the beneficial effects of the aid.

In examining the Commission's practice, it seems possible to identify two main trends. On the one hand, in several cases, small post-production schemes were found to be State aid within the meaning of Article 107(1) TFEU, even when it was of utmost evidence that the aid was unlikely to distort competition and that the effect on trade between the Member States was minimal. Then, on most occasions, the aid was approved under Art. 107(3)(c) TFEU. An illustrative example is the Basque scheme for the promotion of dubbing and subtitling of movies in Basque (European Commission, 2008b). Although the distortion of competition arising from that measure was potentially very limited, the Commission affirmed that it could not be excluded that undertakings distributing cinema productions in the Basque autonomous region would benefit from the measure to a greater extent than other foreign distributors. In addition, considering the presence of the Basque language in the territory of two Member States and taking into account the international competition in the distribution of cinema products, the Commission declared that a certain effect on intra-EU trade though improbable could not be a priori excluded. Then, the Commission assessed the Basque scheme. It first underlined that, aside from promoting the use of the Basque language, the scheme was supporting commercial activities, subject to international competition, and for this reason, the measure did not satisfy the restrictive interpretation warranted for the application of Article 107(3)(d) TFEU. In evaluating the aid under Article 107 (3)(c) TFEU, it weighted the cultural goal of the measure (i.e. the promotion of Basque language) as a common interest objective and finally concluded that the aid was necessary to the preservation of the Basque language and proportionate.

On the other hand, the Commission retained a quite cautious approach, primarily based on an economic analysis, with regard to aid to film facilities in the form of investment or shareholding. While in the *Bavaria Film GmbH*, it decided that the measure did not fall within the scope of Article 107(1) TFEU (European Commission, 2007b),[4] in the *Ciudad de la Luz film studios* (European Commission, 2012c), the Commission bluntly dismissed the claim of Spanish authorities that the measure was not an aid for the purpose of EU law. This decision appears particularly interesting. It originated from a complaint concerning a support allegedly given by the Region of Valencia to *Ciudad de la Luz*, a major film studio complex just outside Alicante, without any prior notification to and assessment of the Commission. *Ciudad de la Luz* was in fact incorporated in November 2000, and 75% of the original share capital was

[4]The essence of the MEIP is that when a public authority invests in an enterprise on terms and in conditions, which would be acceptable to a private investor operating under normal market economy conditions, the investment is not a State aid.

owned by a public entity which carried out investment activities on behalf of the Valencia Regional Government (*Sociedad Proyectos Temáticos de la Comunidad Valenciana SAU*—SPTCV). In 2004, SPTCV became the sole shareholder, and by 2010, the investment of public funds by SPTCV in *Ciudad de la Luz* totalled over 274 million euro by the end of 2010. The complainants alleged that the development of *Ciudad de la Luz* had been allowed by the injection of public money. The commercial operation of *Ciudad de la Luz* had been loss-making, and the studios, despite the massive public investment, had failed to attract the planned amount of non-Spanish productions. In response to the complaint and further to the formal investigation opened by the Commission, the Spanish authorities counterargued that the investment at hand did not constitute State aid within the meaning of EU law.[5] Surprisingly, they did not contest or mention the cultural nature of the aid.

The Commission inevitably rejected the arguments put forward by the Spanish authorities. It instead affirmed that the financial investment reviewed by them fell within the scope of Article 107(1) TFEU. Further, the Commission went on to assess whether they could benefit from a State aid derogation under Article 107(3)(c) of the TFEU and considered motu proprio the cultural purpose of the aid. However, the Commission denied the existence of a market failure. It disregarded the arguments put forward by Spanish filmmakers intervening in the procedure. They tried to claim that the Spanish market did not have high-quality services prior to the construction of *Ciudad de la Luz* and that having access to a local film studio would allow them to reduce the cost of production. However, the *Commission* maintained that *Ciudad de la Luz* was directed towards large film productions, rather than local ones, and these claims were immaterial. As there was no well-defined market failure addressed by the measure, the aid could not be considered to be appropriate and proportionate to address any market failure and risk adversely affecting competition and trade. As a consequence, the Commission considered the public investment in the *Ciudad de la Luz* in breach of State aid rules. Overall, this decision shows that under Art. 107(3)(c), the Commission is open to investigate the cultural purposes or effects of a measure. But it also shows that the Commission is unwilling to approve a measure which does not target specific market failures within the audiovisual market. This approach was endorsed by the General Court, which, in 2014, rejected the appeal raised by *Ciudad de la Luz* and by the Spanish authorities (General Court, 2014).

2.3 Support for Digitization and Digital Projection of Films

Until the entry into force of the "2013 Cinema Communication", the area in which the Commission adopted the most prudent and somewhat inconsistent approach is that of schemes aimed at supporting digitization. The Commission itself indicated in its Communication of 28 January 2009 (European Commission, 2009c),

[5]The Spanish authorities argued that a market investor would have invested in the project on the same terms and conditions.

extending the validity of the 2001 criteria for film production schemes, that the public support for digital projection was an area in which the Commission had not yet defined a policy. Few precedents involving such support could be found until then. In 2004, the Commission had applied the cultural derogation to the *UK Digital Screen Network* (European Commission, 2004). The scheme required that those receiving the aid show a high proportion of specialized films using the digital projection equipment. In that case, the Commission considered the aid compatible with the internal market under the "cultural derogation". In 2007, the *Finnish support for digital cinema* was partially assessed and approved under the "industrial aid derogation". The de minimis rules applied to support given to cinemas in small localities, which was deemed to fall outside the scope of State aid. In 2009, the Commission opened an investigation on the *Italian tax incentive for digital projection* (European Commission, 2009d). The Commission expressed doubts on both the necessity and the proportionality of the Italian measure. In assessing the scheme under Art. 107(3)(c) TFEU, the Commission doubted that the social and cultural advantages of such State aid would have outweighed the distortion of competition. Following the opening of the formal investigation, the Commission renewed its commitment to clarify the role of public funding in the digital transition of cinemas (European Commission, 2010c). The Italian scheme was finally approved in 2014, under Art. 107(3)(d) TFEU, in compliance with the "2013 Cinema Communication" (European Commission, 2014d).

3 The "2013 Cinema Communication"

3.1 The Revised Criteria

After a long period of gestation and further to a highly participated public consultation, in November 2013, the "2013 Cinema Communication" was released. Its primary objective is to create a modernized framework capable of facing the profound changes that the audiovisual sector has undergone in recent years, especially with the introduction of digital technology. This Communication represents a clear attempt to update the State aid assessment taking into account digital production and distribution techniques and to end the period of uncertainty in the assessment of schemes supporting digitalization.

The scope of application of the "2001 Cinema Communication" was cinematographic and audiovisual production only. Aids to upstream activities, such as scriptwriting and script development, were assessed under Art. 107(3)(c) by applying the criteria of the "2001 Cinema Communication" by analogy. By contrast, the new guidelines include among the activities that may be supported all phases of audiovisual creation, from initial concept to the delivery of the work to audiences. Notably, the 2013 Communication covers aid to trans-media and cross-media projects (insofar as such projects are linked to the production of a film). Support for restoring cinemas is also clearly included among the measures assessed always under Article 107(3)(d) TFEU, while in the past, the Commission had assessed aid schemes also under Article 107(3)(c) TFEU (Orssich, 2014). However, the guidelines keep an ambivalent attitude towards mere post-production activities. Although it is relatively early to detect the effects of this enlarged scope, this seems to diminish the Commission's assessment of schemes under Article 107(3)(c) TFEU and to broaden the reach of Article 107(3)(d) TFEU.

The new rules retain the "general legality" criterion, which has been considered essential to ensure that the prohibition of discrimination on the grounds of nationality as well as the right to free movement is respected. In this respect, the Commission has however adopted certain flexibility and has balanced free movement provisions with other interests as it is shown in the assessment of the recent Croatian *Investment incentives for the production of audiovisual work* scheme (European Commission, 2014e). This scheme included among the eligibility requirements that for aid over 522.000 euros, one Croatian trainee (Croatian national or resident) should be engaged in each of the main production activities (production design, production, camera, costume design, make-up and prosthetics, stunts). Despite the recognizable dubious compatibility with the non-discrimination principle, the Commission considered it compatible with the legality criterion by accepting that such a requirement "stems from the cultural and educational objectives of (re-)building Croatian skills and contributing to the transfer of know-how and expertise".

With regard to the specific criteria, the new communication affirms explicitly that the definition of cultural activities remains primarily the responsibility of the Member States. The Commission "acknowledges that its task is limited to verifying whether a Member State has a relevant, effective verification mechanism in place able to avoid manifest error". The most recent State aid decisions seem in line with previous practice. The Commission endorses cultural selection processes carried out by independent experts or independent public organizations on the basis of precise criteria directly spelled out in the aid scheme. This is evident in the *Tax deduction for film and audiovisual productions in the Province of Biscay* (European Commission, 2015a). The Commission found that the eligibility requirement for audiovisual productions to obtain a cultural certificate from the Spanish Institute of Cinematography and Audiovisual Arts constituted an effective verification mechanism. In compliance with the subsidiarity principle, the Commission did not question the fact that to obtain the cultural certificate, the production must meet at least two criteria out of a list of ten. Nor did it discuss the content of the criteria, which refer to the language of the work (the original version in one of the Spanish official languages), the location of the story (which must be in Spain), the subject of the story (which must relate to expressions of artistic creation, historical events, mythology, European diversity, Spanish reality), the film's characters (linked to the social, cultural or political Spanish reality) and the targeted audience. Similarly, in the case of the *UK Film Tax Relief* (FTR), the Commission did in fact exercise a purely external control (European Commission, 2014f, 2015b). The case seems particularly interesting because it constituted a modification of a previous scheme, and some of the changes introduced concerned the cultural test. Under the previous scheme, a film in order to be eligible for support had to be certified as a British film.

The revised cultural test, however, has been expanded to allow for European film as well as British film to be supported. In the scheme references to British, United Kingdom and English are replaced with a more general reference to Europe or to the European Economic Area (Blair & Athoff, 2014). The Commission does not engage in any consideration on the enlarged scope of the cultural test, nor on the effects of it. Rather, it limits itself to highlighting that the modified tax relief remains dependent on a cultural assessment on the basis of a clear point system. Consequently, the Commission considers that the UK authorities have put in place an "effective verification process to avoid a manifest error".

Thirdly, the Communication slightly modifies the criteria concerning aid intensity. The applicable aid intensity for film production continues to be 50% of the overall budget. However, there is no limit set for aid to scriptwriting or development. Co-productions funded by more than one Member State can receive aid of up to 60% of the production budget. Commercially "difficult" works (e.g. short films, films by first-time and second-time directors, documentaries, low-budget works, etc.) are excluded from these limits. The Communication leaves the definition of difficult films to each Member State according to national parameters. The rationale behind this new rule is clearly to increase diversity in the film market, which is the result of the variety, balance and distance between the products supplied, distributed and consumed (Lévy-Hartmann, 2011). This provision could indirectly encourage the freedom of expression of different social, religious, philosophical or linguistic identities, but it is quite early to appraise the effects of this renewed criterion.

The 2013 Communication maintains a positive attitude towards territorialization clauses and has slightly modified the limits of territorial spending. Even though territorial spending obligations constitute a restriction of the internal market (Brettell et al., 2008), they might be justified in view of promoting "cultural diversity and national culture and languages"—objectives which constitute "an overriding requirement of general interest capable of justifying a restriction on the exercise of the fundamental freedoms" (European Commission, 2013a). Member States are allowed to include, as an eligibility criterion, that a minimum of up to 50% of the production budget, and up to 160% of the aid amount granted, be spent in their territory. As provided for in the 2001 Communication, however, the territorial spending obligation cannot go beyond 80% of the production budget.

3.2 A Copernican Revolution or a Missed Opportunity?

Overall, the 2013 Communication does not adopt a more market-oriented attitude than its predecessor, as it seemed at the outset (Lewke, 2014). Rather, it constitutes another effort on behalf of the Commission to integrate the cultural dimension as a vital element in its State aid assessment. The Commission attempted with these revised rules to encourage the creation of a vibrant audiovisual sector within Europe while preserving cultural diversity and while maintaining competitiveness.

The changes introduced were not necessarily that revolutionary and did not seem to have impacted substantially on the Commission's practice. In its most recent decisions, often on prolongation or modification of existing schemes, such as the *Film Tax Relief Modification* (European Commission, 2015b) or the *Crédit d'impôt cinéma et audiovisuel et Crédit d'impôt pour les œuvres cinématographiques et audiovisuelles étrangères* (European Commission, 2015c), the Commission has not raised objections and approved the aid. This confirms a long-standing trend of endorsement of national support for the film industry.

The 2013 Communication also sanctions the plain acceptance of the double nature (economic and cultural) of audiovisual works, of their role in shaping European identities and the subsequent need for a preferential treatment. Indeed, the Commission has often recognized that public support is essential to film production (European Commission, 2014a). In most Member States, without public funding, most productions would have already disappeared.

One of the problems that State aid rules and this new Cinema Communication do not appear to tackle is the imbalance between production and consumption, i.e. between the number of films produced in the EU and the number of films that actually reach their audience (European Commission, 2014a; Hick, 2010). When it comes to box office receipts and cinema admissions, European films fall far behind those of US productions. For example, in 2015 cinema attendance in Europe has significantly increased by 7.6% to 980 million tickets sold, which means 69 million more than in 2014; however, such a growth was primarily driven by the high attractiveness of a number of US blockbusters, such as *50 Shades of Grey* or *Jurassic World* (European Audiovisual Observatory, 2016). The EU is trying to address this imbalance using different policy instruments and has launched other initiatives to increase the complementarity between the different distribution platforms and ultimately upsurge the audience for European films. However, a more serious consideration on how to use State aid to better reinforce distribution channels and a more decisive approach to post-production activities could have been adopted in the Communication.

4 The 2014 General Block Exemption Regulation (GBER): New Opportunities for Film Funding?

The new 2014 GBER replaced, and significantly revised, the former regulation, which had been passed in 2008. Like its predecessor, it sets out the categories of aid and the conditions under which aid measures can receive the benefit of an exemption from notification and defines the eligible beneficiaries, the maximum proportion of the eligible costs and the eligible expenses. However, this new GBER significantly extends the possibilities for Member States to grant aid and include new categories of aid. This significant extension in the scope of the GBER allows Member States greater flexibility and more leeway in granting aid without prior notification and approval by the Commission.

In particular, the new GBER includes a novel section on aid for culture that contains two interrelated but distinct provisions: Article 53 on culture and heritage conservation and Article 54 on aid for audiovisuals. This novel section was included in the text for the explicit purpose of protecting and promoting cultural diversity, as prescribed by Article 167 TFEU. Recital 72 of the Preamble makes clear that "[b]ecause of the dual nature of culture, being on the one hand an economic good that offers important opportunities for the creation of wealth and employment, and, on the other, a vehicle of identities, values and meanings that mirror and shape our societies, State aid rules should acknowledge the specificities of culture and the economic activities related to it". This statement is reinforced by Recital 73, according to which "[a]udiovisual works play an important role in shaping European identities and reflect the different traditions of Member States and regions". Overall, the rationale of these rules is to allow (and possibly to encourage) public funding that guarantee the protection of cultural and linguistic identities across the EU and the multiplicity of artistic expressions.

The GBER covers aid schemes for audiovisual works, the budget of which is below 50 million euros per year. It covers aid to production, pre-production, post-production and distribution activities. Interestingly, and differently from the "2013 Cinema Communication", the eligible costs include costs to improve accessibility for persons with disabilities. The criteria for eligibility echo the criteria included in the "2013 Cinema Communication". Article 54 provides that the aid must support a cultural product and that it is up to each Member State to establish effective processes, such as the selection of proposals by one or more persons entrusted with the selection or verification against a predetermined list of cultural criteria. Territorial criterion is spelled out similarly to the 2013 Cinema Communication. The GBER makes it clear that territorial requirements are admissible in so far as they do not require specific activities to take place in the territory of the Member State or part of it or that specific infrastructures are used. The aid intensity for the production of audiovisual works shall not exceed 50% of the eligible costs but, in line with the "2013 Communication", may be increased for cross-border productions and for difficult audiovisual works and co-productions involving developing countries. The aid intensity for pre-production must not exceed 100% of the eligible costs.

At present, only the amended Austrian Film Funding Act has been monitored and approved under the new GBER. It remains to be seen whether and to what extent the other Member States will avail of the opportunity offered by the GBER.

5 Conclusion: Sustaining the European Audiovisual Sector Through EU State Aid Policies

Direct grants, tax rebates, screen quotas, licencing restrictions or soft loans have made the European Union (EU) one of the largest film producers in the world (Katsrova, 2014). These public funding tools used to support audiovisual products, when assessed by the Commission, have been generally considered viable and compatible with the internal market. Before the entry into force of the 2013 Cinema Communication, both the exceptions laid down in Art. 107(3)(d) and (c), to a different extent, have allowed Member States to keep their promotional legislation and enhance public funding to the audiovisual sector. The de minimis regulation has also been important to improve the infrastructure of small cinema theatres and their accessibility (Psychogiopoulou, 2006).

The "2013 Cinema Communication" has substantially reduced the relevance of the "industrial derogation" and streamlined the assessment of film falling under Art. 107(3)(d) TFEU. The proper effects of these new rules are still to be seen as the schemes appraised and approved at the time of the writing of this chapter are few. Nonetheless, the preceding analysis illustrates that the Commission is increasingly willing to make full use of the "cultural derogation" and to exploit the potential of the 2013 Communication. The area in which the impact of the new rules is likely to be significant is that of digitization. As it is evident in the 2014 Commission's decision on the *Italian tax incentive for digital projection*, the EU authorities have acknowledged that the ongoing transition to the digital cinema poses challenges for the film sector, especially in those countries in which small cinemas still lag behind in the digitalization process.

The new GBER represents the latest piece in the puzzle of EU State aid rules on film funding. It is too early to detect the effects of the GBER. Nevertheless, what is evident is that the Commission appears to have taken seriously Article 167 (4) TFEU and Article 22 of the EU Charter of Fundamental Rights, which spell out an obligation to respect cultural diversity.

As noted elsewhere (Ferri, 2015), while it is undeniable that EU State aid policy is aimed to ensure free competition, State aid control has become one of the most politicized EU fields, and the Commission's reasoning is vested of clear cultural policy objectives. The approval of the GBER on the one hand and, on the other, the widening of the scope of the "cultural derogation" under the 2013 Communication show that the Commission is actively promoting cultural diversity. The analysis of the most recent Commission's decisions conducted in this chapter attempted to show that the Commission is currently pursuing a stronger European audiovisual sector. However, it is far from clear whether the imbalances and structural weaknesses that characterize the EU film market in the area of distribution have been tackled effectively under the new rules.

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Film Funding in Australia: Recent History and Empirical Analysis

Jordi McKenzie and Craig Rossiter

1 Introduction

Like many countries with relatively small populations, Australia's local film industry has never been able to compete at any serious level with the output of product from major markets—in particular, of course, that of Hollywood in the United States. While it may be reasonable to expect that domestic Australian films don't export so well, the data also show that Australian consumers are generally less inclined towards the local product in favour of imported alternatives. This is borne out in historic box office results for Australian films. Although the data are heavily driven by 'hit' films, the average contribution of Australian film revenues to annual total box office revenues in the last 10 years has been a mere 4.4%. The last time this share exceeded 10% was in 1994, where the hit films of the year included *The Adventures of Priscilla, Queen of the Deser*t; *Muriel's Wedding*; and *Lightning Jack*. In the 20 years prior to 1994, there were at least five occasions where the 10% threshold was exceeded, including 1986, where blockbuster films *Crocodile Dundee* and *Malcolm* enticed local consumers to cinemas contributing to a record local share of 23.5% of total box office receipts.

While 2015 has been lauded as the 'best ever' box office for Australian films based on actual dollars (7.2% of total box office) and the best since 2001 when adjusted for inflation, whether this represents a shifting preferences in consumers' taste, improved quality of local content, or something else is not obviously apparent. What is clear is the industry has required significant amounts of public funding to remain viable. This, of course, raises another important question: what form

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should public funding take? Over recent history, Australia has experimented with a range of funding arrangements designed to promote local filmmakers and their product. Since the inauguration of the *Australian Film Commission* (AFC) in 1975, the establishment of the *Film Finance Corporation* (FFC) in 1988, and their merger forming *Screen Australia* in 2007, various subsidy schemes, tax concessions, and offset provisions have been implemented to support the local industry.

This chapter seeks to detail and analyse public film funding in Australia. It begins with a detailed historic overview of funding arrangements and the eventual role of public money in this industry. Particular attention is given to the tax incentives offered under the 10BA scheme (where tax deductions as large as 150% were offered, alongside a 50% haven on royalties), the 'two-door approach' funding provisions under the FFC, and the more recent 'Producer Offset' scheme operated under *Screen Australia*. The second primary contribution of this chapter is an empirical investigation building on the analysis of McKenzie and Walls (2013). A hedonic box office revenue model is developed assessing the impact of FFC and *Screen Australia* funding on the box office revenue performance of Australian films in Australian cinemas over the years 1997–2015. We find some statistical support for funding increasing the box office revenue of films, but the elasticities are low suggesting the investments do not typically go anywhere near recouping their cost. Of course, we acknowledge commercial success is not the only objective of a national film funding agency and focusing on revenues alone does not provide a complete picture of the role of such agencies.

2 History of Film Funding in Australia

Prior to significant government support of feature film production in the 1970s, the history of Australian film can be described as an early boom followed by a relatively long period of bust. Like most other non-Hollywood production industries, Australian producers struggled to compete against the studio oligopoly with large budget productions, international distribution, star system, significant marketing expenditures, guaranteed screens, and restrictive trade practices. In order to survive, Australian filmmakers had to be opportunistic and stubborn.

2.1 The Early Years

Australia was an early adopter and innovator in the film industry and lays claim to producing the first feature film *The Story of the Kelly Gang* (1906). Tulloch (1982) suggests that the primary source of film finance during the early period of Australian film production was private bankers and other financiers, production companies, and studios. Government mostly stayed out of the machinations of the forming industry.

In 1915, US-based Paramount Pictures set up its own film exchange in Australia and was soon followed by Fox, First National, and Metro (later to become MGM).

With the war in Europe restricting supply, Hollywood solidified its stranglehold over the local industry.

One of the key mechanisms of the Hollywood juggernaut was the notorious contract system of block and blind booking system. For Australian film production, this ensured Hollywood productions had a guaranteed audience and income stream and dramatically reduced the screen space available for productions from other industries, including the local industry. The federal government imposed a tariff on imports in 1914, but this was later reduced as a result of pleas from importers over wartime difficulties during World War I and was removed in 1918.

While Australian production was shrinking, cinemas were expanding. By 1927, there were 1250 picture theatres in Australia that drew 110 million admissions (Shirley & Adams, 1983). For over a decade, there had been many calls for government intervention to support local production. The government began to hear producers' cries, but there were disagreements amongst Australian producers as to what role it should take.

In 1926, the Royal Commission on the Moving Picture Industry in Australia was announced. Consisting of 147 sittings, and stretching from June 1927 to February 1928, the Commission considered issues of importation, distribution, exhibition, and production as a means to legislate future strategies concerning its global integration (Gaunson, 2012). Despite not finding any evidence that a 'combination' of exhibition and distribution interests existed, the Commission made a number of recommendations to support local production, namely, the introduction of a quota and a system of awards, which ultimately failed.

By 1929, no single locally made picture was released and the federal government went to an election. The Labour government of James Scullin that followed showed no political will to support local production or upset a powerful media player in the film industry. By all accounts though, it wasn't the collusion of an embedded distribution and exhibition sector that prevented the local production industry from gaining meaningful outcomes from the Commission. Rather it was a lack of organised, coherent, and consistent voice from producers.

A patchwork of production continued during the introduction of sound, but after World War II, Australia became a virtual backlot for overseas film production, namely, British and American films. Most films made after the war were produced and financed by British and American companies motivated simply by the need to use capital frozen in Australia by wartime restrictions. Sir Robert Menzies, Australia's longest serving Prime Minister, took office in 1949 and also introduced capital issues restrictions in 1951, which prohibited the formation of public companies that sought to raise capital beyond £10,000 limit (Pike & Cooper, 1998). This stopped Australian production of major features and made it difficult for local producers to raise funds from local investors.

During this period, there were a number of developments which would prepare the government for a greater role in the industry. In 1940, UK documentarian John Grierson visited Australia. He made the case for distributing documentary films outside the sphere of commercial film trade, which the federal government adopted. Founded as the *Film Division of the Australian National Film Board* in 1945, it was renamed *The Commonwealth Film Unit* in 1956 and in 1973 became Film Australia until it merged with *Screen Australia* in 2008. It grew to be one of the leading producers of television documentaries and educational videos with purpose-built studios, its own distribution, a stability of production, and professional practice.

Possibly the most important development though was the introduction of television in 1956. The rapid acceptance of television did much to establish the preconditions for a renewal of government interest in the Australian film industry, and the decision in 1960 to restrict imports on locally made television commercials gave stability to a local production industry (Dermody & Jacka, 1987).

Between 1962 and 1963, a Senate Select Committee on the *Encouragement of Australian Production for Television* was set up in response to community dissatisfaction with a lack of Australian content, particularly in drama. This led to more vocal and organised lobbying of government for assistance for feature film production. By this stage, industry professionals had begun to organise themselves into producer associations, writers' guilds, directors' guilds, and other professional associations.

In 1967, Liberal Prime Minister Harold Holt set up the *Australia Council for the Arts*, and in 1968 a Film and Television Committee was added to its structure. In 1969, it recommended the establishment of a National Film and Television School, the *Australian Film Development Corporation*, and an 'Experimental Film Fund' (Bertrand, 1989). The *Experimental Film and Television Fund* (EFTF) set up in 1969 had a budget of $300,000 per year. It ran until 1977 when the fund was rolled over into the *Australian Film Commission* and was the first step in a broader plan to revive the industry (French & Poole, 2011). It was an initiative of the conservative Prime Minister John Gorton who was a vocal supporter of film and was designed to fund film culture and provide an alternative career option for filmmakers other than through TV broadcasting or the Commonwealth Film Unit (French & Poole, 2011).

2.2 Australian Film Development Corporation

In addition to the EFTF, Prime Minister John Gorton also established the *Australian Film Development Corporation* (AFDC) in 1970. The AFDC's brief was 'encouraging the making of Australian cinematograph and television films and encouraging distribution of such films within and outside Australia' (Molloy & Burgan, 1993). The AFDC bill was significant because it made 'Australian film' defined by a parliamentary act. It was a policy of encouragement rather than protection and made no attempt to change the exhibition or distribution system (Bertrand, 1989). The establishment of the AFDC was in effect the beginning of public funding of film in Australia and over subsequent years led to increasing levels of film production (Fig. 1).

In selecting projects, the Corporation was expected to give preference to the most commercially promising proposals, although exceptions on grounds of artistic excellence were permitted. Assistance was provided in the form of loans,

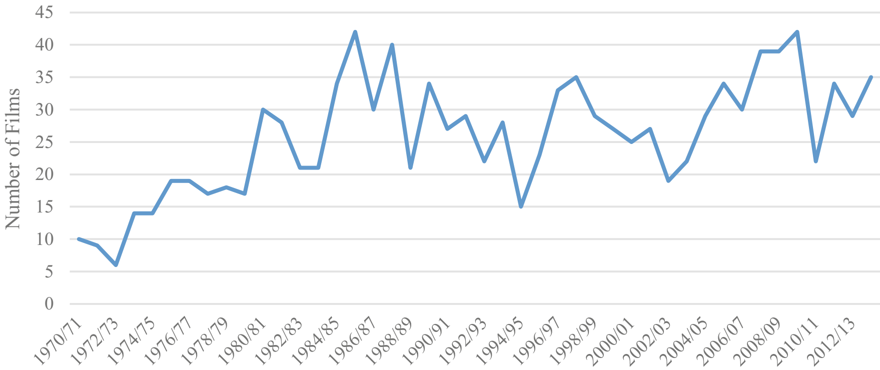

Fig. 1 Number of Australian feature films produced since 1970–1971 (Source: Screen Australia (2015f), Production Industry: Drama)

guarantees, or equity investments. AFDC investment contributed on average 30% of film expenditure according to some sources, although in later years this was between 53% and 58%.

Between September and November 1972, *The Tariff Board Inquiry* was held to determine whether the Australian film industry required industry assistance. In addition to outlining industrial barriers to profitability, the report also acknowledged that the local production industry performed other important role other than an industrial one. It stated, ‘In other words, a variety of national, cultural, artistic and aesthetic aspirations, for which film is an important, if not the most important, medium were not being adequately catered for under present circumstances’ (Tariff Board, 1973, pp. 5–6).

In December 1972, a new Labour Government under Gough Whitlam came to power, and the results and recommendations of the Inquiry were submitted. The report recommended divorcement and divestiture of ‘concentrations of commercial power that favour the films of overseas producers’ between distributors and exhibition in order to provide ‘equality of opportunity in the marketing of Australian films’ (Tariff Board, 1973, p. 7). Jack Valenti, Head of the *Motion Picture Distributors Association of America*, visited Australia in April 1973 on the eve of the release of the report, and most of the recommendations of the Tariff Board were not implemented. Whitlam did act on one recommendation and set up an interim board for a new organisation to replace the AFDC and to rationalise government involvement.

2.3 The Australian Film Commission

In 1975, the *Australian Film Commission* (AFC) was established under Prime Minister Gough Whitlam. His government lost office soon after but the Commission was continued by the new conservative Prime Minister Malcolm Fraser. This was despite attacks to other areas of cultural funding by the new government like the *Australian Broadcasting Corporation* (ABC). It was believed that this was because the government had recognised that diplomatic and trade benefits were derived from film.

The AFC had a broader brief than its predecessor and included the funding of script development, distribution and promotion, and research and policy advice. In general, it sought to provide an environment that nurtured film ideas, personnel, and culture. The new agency also took over administration of the *Commonwealth Film Unit*.

The years 1977–1979 saw an increase in the number of films produced in Australia (see Fig. 1) and an increase in budgets, but fewer films made returns on their investment. Formica (2012) notes the industry was characterised by low-budget production in the first half of the 1970s where private investment was more significant. After 1975, when the industry received a dramatic boost from the government, private investment 'failed to keep pace with the growth of the industry' and declined.

In 1979, an independent review entitled *Towards a More Effective Commission* suggested that the AFC should be restructured into a more business-like entity. According to the report, Australian films in the early years were a novelty and quoted a one-in-five success rate for local productions, but a glut of Australian product meant that the 'mystique' of Australian films had begun to disappear. The report also stated that 'the financing of feature films is a complex procedure which within Australia is becoming increasingly sophisticated although still, by world standards, lacking in sophisticated financing techniques' (p. 28). Evidence indicated that alternative tax schemes were being used to fund Australian films at the time that pushed the spirit if not the letter of the tax law.

The report recommended deductions on the subscription of shares in a company that produced Australian films such as those used in the mining industry. This was not supported by the AFC or Treasury, but in the run-up of the federal election in 1980, changes to the tax legislation were announced by the Liberal-Conservative Party as their primary policy to support the industry.

2.4 Section 10BA

In May 1981, after the Fraser government returned to power, *Section* 10BA was introduced. Although the *Australian Film Commission* remained, the tax act would become the primary vehicle for film industry assistance and an alternative to increased direct funding. The initial 10BA incentive provided for a 150% tax deduction on eligible expenditure on qualifying Australian films in the year the expenditure was incurred, as well as a tax haven on returns up to 50% of the initial investment. With the top marginal tax rate in that year being 60%, this effectively meant a 90c tax deduction for each qualifying dollar spent for those earning enough income. The effects were almost immediate.

Table 1 10BA tax concession rates

10BA concession	Marginal tax rate (%)	Amount at risk (as % of amount invested)	Break-even point (as % of amount invested)
150/50 From October 1980	60	10	10
133/33 From August 1983	60	20.2	20.2
120/20 From September 1985	60	28	40
120/20 From July 1987	49	41.2	61.6
100/0 From July 1988	49	51	100
100/0 From July 2006	46.5	53.5	100

Source: AFC (1986, p. 4, 2006)

In 1979–1980 the total budget amount raised for films was A$10 million, with A$3 million from private investors. In 1980–1981, A$50 million was raised with A$45 million from private investors (AFC, 1986). Production boomed in 1981 but by 1982 it had slumped again. This was largely attributed to the ‘12-month rule’ in the legislation which required the deadline for completion of film production to be the 30th of June (the end of the financial year). This created compliance issues, especially for films that had seasonal or location requirements (Formica, 2012). The result was a bunching of production, leading to competition and an inflation in costs of cast and crew. In January 1983, the government modified the tax scheme so that investors could claim in the year of expenditure, and the problem was solved.

In March 1983, the new Labour government of Bob Hawke set about modifying the 10BA concessions due to concerns over costs to government and cut back the concessions to 133%/33%. They were later reduced again in 1985 and in 1988 (see Table 1). According to the *Australian Film Commission* (1986), as government decreased the level of subsidy, gaps in finance began to emerge as investors required presales to optimise the incentive through the tax haven. The level of guaranteed presale income required to attract investors had reached 65% of the budget by 1985 and was predicted to climb to 75–80% once the changes to marginal tax rates in 1987 were introduced.

Although 10BA was not the only way to fund film production during the 1980s, it was the primary means by the majority of producers (Fig. 2). In later years, non-10BA films also included low-budget projects from first-time filmmakers that had some market presales and direct investment from the AFC and state

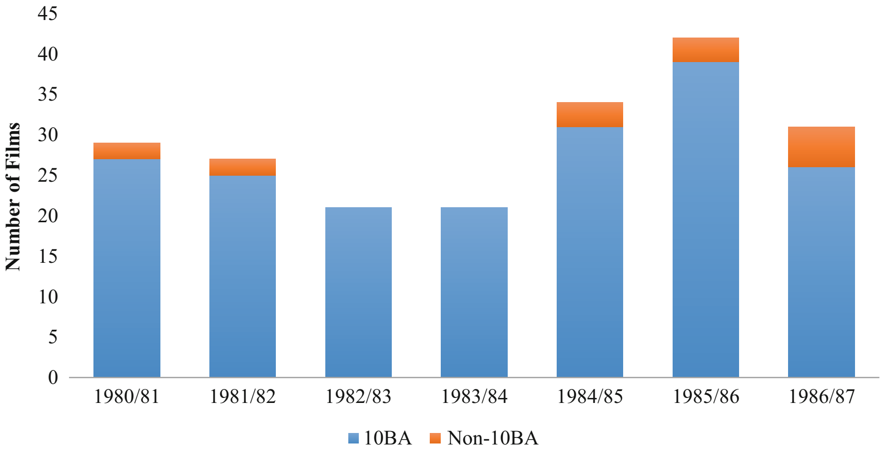

Fig. 2 Australian feature films produced (10BA and non-10BA), 1980/1981–1986/1987 [Source: AFC (1988)]

organisations. During 10BA, the AFC played a very different role to the one it had played in the 1970s. The Commission was restructured at the time 10BA was introduced, separating script and production from screen culture funding (AFC, 1988). Previously it invested up to 50% of a films budget, but under 10BA it put money in ways that would enhance the attractiveness of the financial package to a potential investor. It continued to invest in script and project development which would later be bought out by the investor if the project went into production. It gave marketing assistance and also began to offer new financial facilities such as bank guarantees, completion guarantees, 'overage loans', and underwriting facilities (Dermody & Jacka, 1988). It was able to do this principally through the *Special Production Fund*, which was provided by the government after the August 1983 budget reduced the size of the incentive from 150/50 to 133/33, to compensate for an anticipated drop in production, which did not actually occur.

By the mid-1980s, Treasury became concerned that the cost to revenue had become excessive in the absence of any cap on 10BA raisings each year (Fig. 3). Many investors were being secured on the basis of attractive tax breaks rather than any inherent interest in film and the filmmakers they had backed. Government still wanted to support the industry and its cultural objectives but wanted to do so by reducing the annual cost to revenue for production support.

The AFC undertook to find an alternative mechanism for support, and the idea of a 'film bank' came in the discussion paper, *Film Assistance: Future Options*. Rather than 'picking winners', the proposed agency would allow the market to lead its decisions on which projects to support. The 'market' consisted of broadcasters, distributors, and sales agents both in Australia and abroad. Under the proposals, 10BA would cease. The AFC would gain A$10 million for a fund to fully fund riskier films.

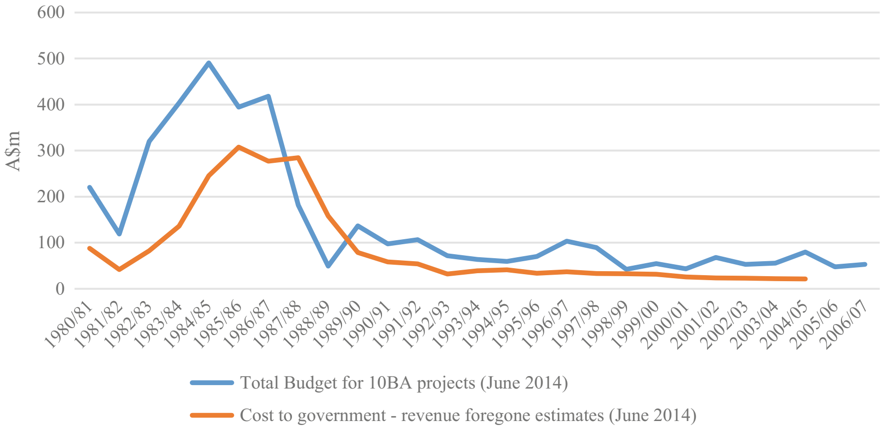

Fig. 3 10BA budgets and estimated cost to government (Source: Screen Australia, Archive: production Incentives, Levels of financing of 10BA projects and effects on government revenue, 1980/1981–2006/2007)

The idea was supported by industry and was set up in the mini-budget of May 1988, with initial funds for 4 years. Future funding was to be pinned to a review of its performance in 1991, but the then treasurer Paul Keating 'had bought the idea of the FFC from the industry in the belief that it would become self-funding' (Maddox, 1996). 10BA was not revoked, but the level of incentive was reduced to 100% write-off but with no tax haven on income. The AFC remained with its focus on project and professional development and policy.

2.5 The Australian Film Finance Corporation (FFC)

The notion of a film bank proposed by the AFC was short-lived. Established in 1988, the FFC ended up making equity investments rather than loans. FFC investments depended on meeting a minimum level of investment from private investors or the marketplace. Other factors such as the experience of the team, the commercial track record of the producer, expected returns to the FFC, and the size of the budget were secondary factors. This was somewhat different to the approach of the AFC where the decision was largely made by government employees on the basis of 'perceived quality' or 'cultural merit' and in contrast to the funding decisions under 10BA which may have had little to do with the films or the filmmaker themselves.

The early years of the FFC were troublesome with non-FFC films outperforming FFC films in the marketplace. Luckily, 1992 saw the release of *Strictly Ballroom*—a surprise hit from a first-time producer, director, and star. The extent of the success of that film validated the FFC in the eyes of the government of the day, and when *Muriel's Wedding* and *The Adventures of Priscilla, Queen of the*

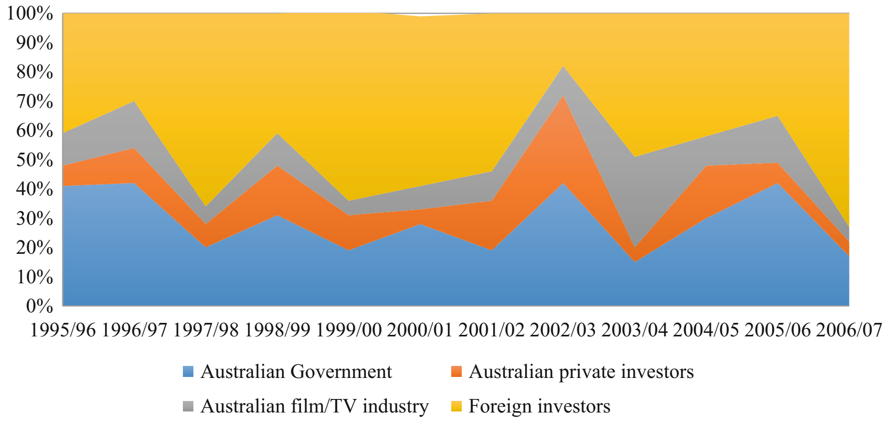

Fig. 4 Sources of finance for Australian feature films, 1995/1996–2006/2007 (Source: Screen Australia (2015g), Production Industry, Drama: Features, Sources of finance)

Desert became both critical and box office successes in 1994, the policy appeared to be working.

In 1997, the industry was beginning to change. There were increasing levels of international trade in audio-visual products and global strategies to liberalise it; new technologies were influencing the way in which films were produced and delivered to audiences (including pay TV); and there was a convergence of technologies creating increasingly dominant global communications and media companies (Gonski, 1997). The international marketplace became an important financier of Australian films (Fig. 4). Over the FFC period, a number of international sales agents grew to connect the local industry to the global marketplace, including Beyond Films and Southern Star (now major production houses).

In 1997 the *Review of Commonwealth Assistance to the Film Industry* was conducted by David Gonski and found that only 20% of Australian films were made without direct government funding. The review introduced the concept that 'many doors' were needed for producers to seek assistance. The report warned against the 'informed subjective' decision-making that was 'confined to a small number of (influential) individuals whose personal opinions or taste may be reflected in what is supported and ultimately screened to the public' (Gonski, 1997, p. 10).

The report was also concerned about the existing number of agencies resulted in overlap and duplication. It outlined the core functions of the agencies:

- FFC—to provide assistance for film and television production, including documentaries
- AFC—script development and professional development of new entrants to the industry
- AFTRS—advanced training to the industry

- National Film and Sound Archive—collection, preservation, and provision of access to the Australia's audio-visual heritage
- Film Australia—commission products under the National Interest Program

While this was important for the industry, the report did not lead to any lasting changes for the way feature film production was funded in the industry, other than the pilot Film License Investment Corporations (FLIC), which were ultimately unsuccessful at providing a 'second' financing door for producers.

Between 2004 and June 2007, the Australian *Film Finance Corporation* (FFC) implemented their own "two-door" financing policy for Australian film producers. Although not quite that envisaged by Gonski, the first door, or the *Marketplace*, provided automatic funding by the FFC for feature films that had financing from non-government (marketplace) sources that made up a minimum of 25% of their budget. This was largely a commitment by an Australian theatrical distributor to release the film, usually but not always, through the provision of a guarantee of sales revenue (referred to as a distribution guarantee or minimum guarantee). The FFC would contribute no more than 45% of the budget of these films.

The second door, the *Evaluation*, provided potentially higher levels of government funding as a percentage of budget for films that had some degree of commitment from the marketplace (financial or nonfinancial) but which also passed an evaluation by an internal assessment committee (a 'panel of experts'). There was no prescribed level of contribution needed from the marketplace for the *Evaluation* door.

The *Marketplace* films were assessed only by experts that came from distributors and/or broadcasters, while the *Evaluation* films had marketplace endorsement as well as an assessment from internal and external assessors.

In terms of performance, there was very little difference between *Marketplace* films and *Evaluation* films when measured by box office (Rossiter, 2013). The median box office for *Marketplace* films was A$690,000 as opposed to A$620,000 for *Evaluation* films. However, 75% of *Marketplace* films earned less than A$2.5 million, while 75% of *Evaluation* films earned less than A$1.6 million. The key difference was in the cultural performance of the films. More *Evaluation* films were screened at A-List film festivals than did their *Marketplace* counterparts.

In 2006, the government called for a *Review of Australian Government Film Funding Support*. Questions the review posed were directed at identifying the most appropriate model for direct government support of the industry and whether the current model under the FFC, AFC, and Film Australia delivered the best outcomes.

The FFC argued that the current structure, where the AFC funded development and it funds production of feature films, did not promote cohesion and lacked a genuine rationale (FFC, 2006). While not arguing directly for a restructuring of agencies towards a more unified approach, it did argue that keeping the agencies as separate divisions would produce problems. It also argued that the 'many-doors' approach was not working effectively in Australia and that the small market in Australia meant that value could not be maximised except through a coordinated

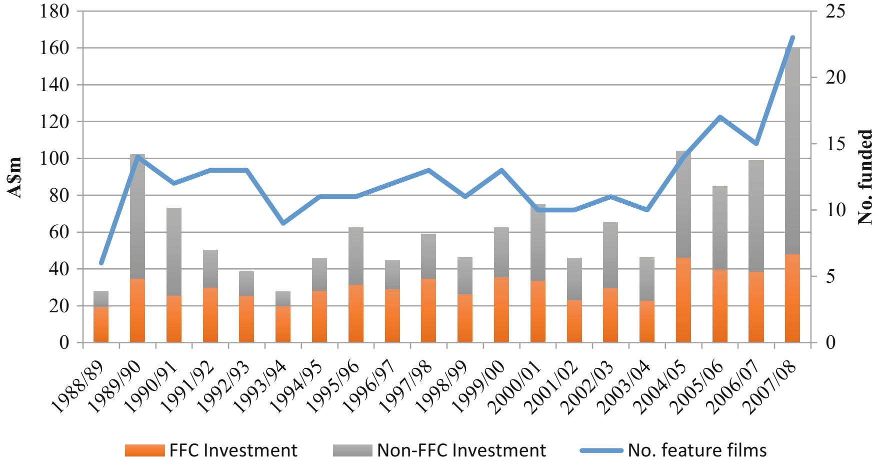

Fig. 5 FFC feature film investment, 1988/1989–2007/2008 [Source: FFC (annual report, 2007/2008)]

approach, the exception being production support—one through direct funding and the other through indirect (for larger productions).

The AFC also supported the idea that ‘there are some obvious efficiencies and synergies that could be gained by locating all the directly supported programs under one agency’ (AFC, 2006, p. 56) but that any change in industry structure needed to be consequential to the introduction of a ‘tried-and-tested’ indirect funding alternative, arm’s length from the government, and it would be preceded by wide consultation.

Over its 20-year history, the FFC supported 248 feature films with an investment of A$622 million (almost A$1 billion in 2014 dollars). The total production budgets were A$1.3 billion (Fig. 5).

2.6 Screen Australia

Screen Australia came into effect on 1 July 2008 by virtue of the *Screen Australia Act* (2008) with the following functions:

(a) Support and promote the development of a highly creative, innovative, and commercially sustainable Australian screen production industry.
(b) Support or engage in:
  – The development, production, promotion, and distribution of Australian programmes
  – The provision of access to Australian programmes and other programmes; and support and promote the development of screen culture in Australia
(c) Undertake any other function conferred on it by any other law of the Commonwealth.

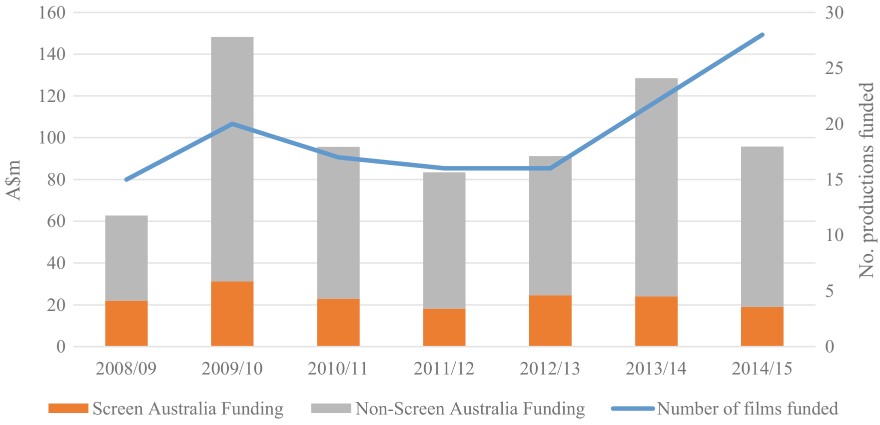

Fig. 6 Screen Australia feature film investments, 2008/2009–2014/2015 (Source: Screen Australia Annual Reports 2008/2009–2014/2015)

Screen Australia investment funding is available to feature films of any budget range, including low-budget non-offset projects, that is, films with qualifying applicable production expenditure (QAPE) below the threshold of A$1 million, as well as to offset-eligible projects. *Screen Australia* originally operated with a capped investment of A$2.5 million in a single feature film. As a result of significant reductions in appropriations announced in the federal budget in May 2014, this cap was reduced to A$2 million (Screen Australia, 2014).

By end of June 2015, *Screen Australia* had supported 134 feature films. The nominal investment of A$161.8 million generated total budgets of A$705.3 million (Fig. 6).

2.7 The Producer Offset

The history of 10BA as a means of support during the 1990s and early 2000s was largely one of disappointment (Fig. 7). It had become too complex for investors, and risk/return level was deemed too high. There were some exceptions, but many of the films funded through 10BA during its last two decades were low budget and used as an option to fill a gap, rather than fully fund a film.

During the 2006 *Review of Australian Government Film Funding Support*, there was general agreement from the industry that greater incentivisation of production through indirect support of the industry was needed through some form of offset, and for feature films, that offset should be set at 40%. A large part of the reason for the introduction of an offset was that in 2001 the *Refundable Film Tax Offset* was introduced to encourage large foreign productions to shoot in Australia (later the Location Offset). This was set at 12.5% of budgets with expenditure over A$15 million but now sits at 16.5%.

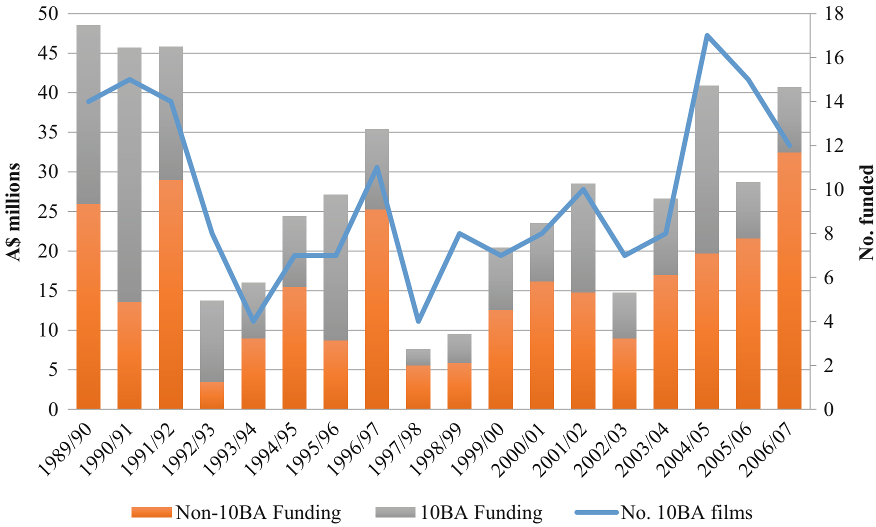

Fig. 7 10BA-funded feature films, 1989/1990–2006/2007 (Source: Screen Australia (2015a), Archive, Production Incentives: 10BA, Number of projects and estimated total value of production budgets raised through 10BA, according to type of project, 1980/1981–2006/2007)

Introduced in July 2007 and further refined in July 2011, the Producer Offset is administered by *Screen Australia* and offers a 40% tax rebate for feature films. Originally, the threshold for eligibility was A$1 million dollars in eligible production expenditure (which did not include financing or marketing expenditure) but after a review in 2010 was reduced to A$500,000 to encourage more low-budget films.

In addition to the format requirement, there are two primary criteria that need to be met—the *Significant Australian Content* (SAC) test and the *Qualifying Australian Production Expenditure* (QAPE) threshold. Further requirements include meeting relevant commencement and completion dates and eligibility of applicants. The Offset is only available to companies, and the company must be an Australian resident or have a permanent establishment in Australia and be able to lodge an income tax return in Australia.

The SAC test will be met where the film has a sufficient level of Australian content, which can be determined by subject matter, the place the film was made, the nationalities or places of residence of the persons involved in making the film (including directors, producers, scriptwriters, cinematographers, actors, and editors), where the funding came from for the film, or any other matters considered to be relevant by Screen Australia. The efficacy and the secrecy of the SAC test have been called into question at times. When first introduced, George Miller's high-budget *Justice League: Mortal* was refused its Australian certificate. Alex Proyas' *Knowing* was also rejected at first but then later passed the SAC test enabling the producers to claim the Offset.

One of the more contentious issues is that the film must be produced for public release or distribution in some form. Feature films, being the only form of production receiving a 40% tax rebate (others receiving only 20%), must show evidence of intent to have a cinema release in Australia, screened as the main attraction in a commercial cinema. A distribution agreement with an established distributor, not necessarily with a corresponding minimum guarantee, is considered proof enough (Screen Australia, 2010). This puts limits on a producer's ability to self-distribute or utilise alternative distribution mechanisms and reinforces if not increases the market power of distributors to greenlight Australian feature films.

In February 2007 Senator George Brandis, the then Minister for the Arts, issued a press release in which he said that 'the Government expects the Producer Offset will provide a real opportunity for independent producers to retain substantial equity in their productions and build stable and sustainable production companies, and should therefore increase private investor interest in the industry' (SPAA, 2010). *Screen Australia*, however, reports that private investment has actually decreased since the *Producer Offset* as a proportion of budgets in comparison to the trend during the FFC period. In the 2010 *Review of the Independent Screen Production Sector*, *Screen Australia* reported that the industry perceived there to be a lack of private investment partly due to the removal of 10BA and that some sections of the industry called for its reprisal (Screen Australia, 2010).

3 An Empirical Evaluation of Public Film Funding in Australia

As the second major contribution of this chapter, this section outlines a simple statistical model that builds on the study of McKenzie and Walls (2013) published in the *Journal of Cultural Economics*. The objective is to analyse a sample of Australian feature films that received funding support from the *Film Finance Corporation* (FFC) over the years 1997–2007 and *Screen Australia* over the years 1998–2015 and assess the impact of this funding on box office revenue outcomes.

3.1 Hedonic Model of Demand

Many academic studies have now amassed that investigate the correlates of successful films (McKenzie, 2012). Scholars have typically considered these in the form of a 'hedonic' regression model in which various film attributes are quantified and considered as explanatory variables of box office revenues. This section presents one such model similar to that described by McKenzie and Walls (2013). The specific hedonic model presented below is standard in many ways but introduces two additional explanatory variables relating to whether a particular film received public funding from the (former) *Film Finance Corporation* (FFC) or *Screen Australia* and, if so, at what level.

Letting j index individual films, the OLS regression model has the following form:

$$\begin{gathered}\ln\ \text{Revenue}_j = \beta_0 + \beta_1 \ln\ \text{Budget}_j + \beta_2 \ln\ \text{OpScreens}_j + \\ \beta_3 \ln\ \text{FFC}_j + \beta_4 \ln\ \text{ScrnAus}_j + \beta_5 \text{Review}_j + \\ \beta_6 \text{Star}_j + \beta_7 \text{Sequel}_j + \Gamma[\text{Genre}, \text{Rating}]' + \varepsilon_j\end{gathered}$$

where 'Revenue' may refer to opening week or total box office revenue; 'Budget' is the film's production cost; 'OpScreens' is the number of screens upon which the film was released in opening week; 'FFC' and 'ScrnAus' are the amount of funding (if allocated) under the FFC or *Screen Australia* system, respectively; 'Review' is the average critical review; 'Star' is a dummy for whether any of the lead actors are an A or A+ talent; 'Sequel' is whether the film was a sequel; and 'Genre' and 'Rating' are sets of dummy variables for the respective genre and classification rating assigned to each title.

The revenue and screen count data were compiled by the Motion Picture Distributors Association of Australia (MPDAA). Budget data was collected from various sources (Rentrak, IMDb, Box Office Mojo, etc.). FFC and *Screen Australia* funding data was compiled from annual reports. Review data was compiled from ABC and SBS film reviews from popular Australia television programmes (except for 2015 for which SBS or *The Sydney Morning Herald* reviews were used). Star data was constructed using James Ulmer's Hollywood Hot List for 1997–2007 and Quigley's Lists for 2008–2015. Finally, Genre and Ratings were constructed from MPDAA information. More details about the data can be found in McKenzie and Walls (2013).

Descriptive statistics are provided in Table 2 for the subsamples of films that did and did not receive funding, as well as being broken down by FFC or *Screen Australia* funding classification. All dollar amounts are reported in Australian dollars December 2015 prices. On average, across the years of the sample 1997–2015, Australia released an average of 29 films per year equating to approximately 13% of all theatrical releases. However, as noted in the introduction, the claim on box office is considerably less with an average of about 4.5% across the sample period. This is also reflected in the average (median) revenues received by individual films. Over the 477 film samples, the average (median) opening weekend and total revenues were approximately A$511,100 (A$100,500) and A$1.81m (A$300,500), respectively. Of course, with average (median) budgets of A$11.6m (A$5.3m) and average (median) release screens of 54 (17), this may not be entirely unsurprising considering the typical budgets and release scale (and associated marketing) of Hollywood films.

3.2 The FFC and Screen Australia Data

As discussed in the previous sections, the government-owned *Film Finance Corporation* (FFC) provided public funding for television and feature films between the

Table 2 Summary statistics of Australian films

Variable	Non-financed films				Financed films			
	N	Mean	Median	Std. dev	N	Mean	Median	Std. dev
Opening week revenue ($Am)	271	0.43	0.04	1.23	205	0.56	0.19	0.94
Total revenue ($Am)	272	1.62	0.15	5.04	205	2.06	0.56	3.62
Opening week screens	272	46	9	85	205	67	27	81
Production budget ($Am)	141	11.70	2.96	26.20	125	6.43	5.16	4.85
Review (0–5 stars)	193	3.41	3.50	0.62	186	3.40	3.50	0.72
Star (= 1 if A/A+)	272	0.03			205	0.02		
Sequel (= 1 if prequel/sequel)	272	0.02			205	0.01		
	FFC financed				Screen Australia financed			
Opening week revenue ($Am)	126	0.51	0.23	0.79	79	0.63	0.10	1.14
Total revenue ($Am)	126	2.08	0.76	3.52	79	2.03	0.41	3.81
Opening week screens	126	58	27	61	79	80	27	103
Production budget ($Am)	78	6.18	5.14	3.87	47	6.84	5.19	6.16
Review (0–5 stars)	116	3.43	3.50	0.77	70	3.36	3.50	0.64
Star (= 1 if A/A+)	126	0.01			79	0.04		
Sequel (= 1 if prequel/sequel)	126	0.00			79	0.03		

years 1988 and 2007 in Australia. Thereafter, this role was assumed by *Screen Australia* and continues through to the present day. Using FFC and *Screen Australia* annual reports from the years 1995–1996 to 2014–2015, we have data on the 205 funded films out of 477 films theatrically released over this period. Of the 126 films that received FFC funding, the average amount awarded was A$3.35m (2015 dollars) (note that in this analysis no distinction is made between 'Marketplace' and 'Evaluation' films). Of the 79 films that got financed by Screen Australia, the average amount of funding awarded was A$1.53m.

Under the FFC, the amounts funded ranged from A$400,000 (*Gettin' Square*) to A$8.1 million (*Oscar and Lucinda*). Under Screen Australia, the amounts ranged from A$100,000 (*Electric Boogaloo: The Wild Untold Story of Cannon Films*) to A$3.9m (*Tomorrow, When the War Began*). Figure 8 shows the relationship between the amount of FFC and Screen Australian funding and total box office revenues, respectively. As the linear predictions illustrate, there is some evidence of positive correlation between total revenue and FFC funding (0.27) and between total revenue and *Screen Australia* funding (0.59).

In terms of a simple naïve measure of rate of return (defined as total revenue divided by funding), the average for FFC films was 0.75 with a median of just 0.27,

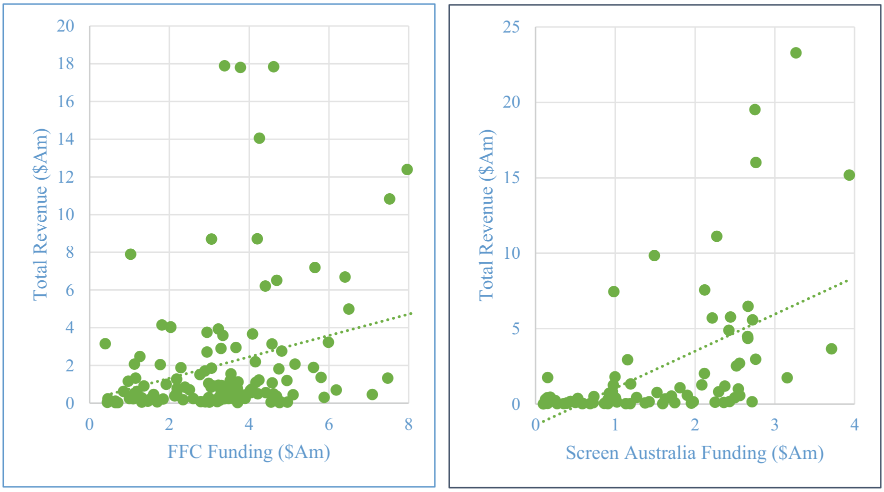

Fig. 8 Box office revenue vs. funding

implying the typical FFC film not even recouping its funding outlay. The *Screen Australia* naïve average (median) rate of return is slightly better at 1.34 (0.49). Clearly, however, the amounts of revenues finding their way back to the FFC or *Screen Australia* after exhibition and distribution expenses would have been considerably less implying an even lower actual rate of return than the naïve measure presented.

3.3 Empirical Results

Results of variants of the hedonic regression model above are presented in Table 3. Primarily, the objective is to assess whether FFC or *Screen Australia* funding has any measureable effect on box office revenues after controlling for various film-specific observable covariates. It should be noted from the outset that such an approach presents significant statistical challenges as isolating contributing factors of a film's success cannot be done in a controlled environment. For example, the interplay between budget, opening screens, and star presence makes identifying individual factors of success extremely difficult. Therefore, the regression results presented here should be cautiously interpreted and are more a story of correlations than causation. However, there are still certainly insights that can be gained from this exercise.

Models 1 and 5 of Table 3 present the results where the only explanatory variables are whether or not the film received FFC or *Screen Australia* funding and, if so, the level (films without funding are recorded as zero to avoid problems with a log transformation of the zero value), reviews (insofar as they may influence box office), star presence, sequel, and controls for genre and rating. In both

Table 3 Hedonic regression model results

	ln opening week revenue				ln total revenue			
	1	2	3	4	5	6	7	8
ln Budget			0.633***	0.053			0.599***	0.053
			(0.104)	(0.056)			(0.104)	(0.070)
ln OpScrns				0.990***				0.931***
				(0.056)				(0.070)
ln FFC	0.080***	0.067***	0.037**	0.024***	0.086***	0.073***	0.044**	0.032***
	(0.013)	(0.017)	(0.015)	(0.008)	(0.014)	(0.018)	(0.016)	(0.011)
ln ScrnAus	0.066***	0.077***	0.047***	0.006	0.071***	0.073***	0.044***	0.005
	(0.017)	(0.021)	(0.018)	(0.011)	(0.017)	(0.022)	(0.020)	(0.015)
Review	0.682***	0.750***	0.593***	0.602***	1.030***	1.150***	1.000***	1.010***
	(0.139)	(0.184)	(0.163)	(0.081)	(0.146)	(0.196)	(0.177)	(0.113)
Star	3.550***	3.510***	1.740***	0.957***	3.710***	3.690***	2.020***	1.280***
	(0.522)	(0.484)	(0.433)	(0.248)	(0.583)	(0.530)	(0.517)	(0.385)
Sequel	2.670***	2.340***	1.810***	0.892***	2.670***	2.390***	1.890***	1.030***
	(0.622)	(0.533)	(0.428)	(0.359)	(0.668)	(0.647)	(0.533)	(0.499)
Const.	7.650***	8.180***	−0.506	5.360***	7.550***	7.940***	−0.277	5.240***
	(0.560)	(0.712)	(1.580)	(0.772)	(0.603)	(0.763)	(1.590)	(0.979)
Genre dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rating dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	370	209	209	209	370	209	209	209
R-sq	0.335	0.36	0.511	0.858	0.362	0.406	0.519	0.775

Note: Standard errors in parenthesis
*, **, and *** represent two-tailed significance at 10%, 5%, and 1%, respectively

instances, positive statistical significance of funding is observed, albeit with low elasticities (i.e. coefficients in the log-log specification). Given the spotty coverage of budget, the number of observations is reduced when this variable is introduced.

Models 2–4 and 6–8 provide results for the reduced sample of 209 films. Models 2 and 6 are identical to Models 1 and 5 but are estimated on the reduced sample. All variables maintain their sign and significance. Inclusion of budget in Models 3 and 7 shows a significant positive relation and still a significant role for funding from both sources. In these models, there is some evidence that the funding level impacts box office by creating a more commercially appealing project or alternatively making more efficient use of the available budget.

Further inclusion of opening screens in Models 4 and 8, however, removes significance of budget and also the *Screen Australia* funding variable. This result is not atypical of models of this type given the high correlations between screens (theatres) and revenues. Of course, as pointed out above, establishing causality is difficult given the interrelationships between variables. The fact FFC funding remains significant, however, is interesting and potentially suggests the FFC funding model was more successful in identifying and investing in relatively more commercially successful films. Although, as also discussed above, the low rates of return observed certainly do not imply positive returns on investment from the theatrical release of these films.

Of course this analysis has been premised on determining whether FFC and/or *Screen Australia* funding leads to better commercial outcomes for films at the box office. The objectives of public funding, however, are likely more nuanced. Ostensibly, the objectives of a national funding agency are to support the arts and culture of the society and support local filmmaking talent. So while funds may not always be recouped at the box office, the support afforded to the film industry through funding provides an important tool of support to filmmakers and talent while providing the society a means by which to reflect on itself—one of the fundamental objectives of cultural subsidisation. Indeed, *Screen Australia* recently outlined cultural impacts (understanding ourselves), audiences (inform, entertain, educate, and inspire), craft skills (working on projects of varying scales), and international resonance (projecting Australia to the world), in addition to economic dividends (returns for businesses and the economy) as the main reason for supporting the local film industry.

4 Conclusion and Discussion

This chapter has examined the recent history of public film funding in Australia. Through various governments and arrangements, there has been considerable experimentation with different forms of funding and assistance. The primary ways in which government has opted to support the Australia film industry have been through subsidy (direct funding) or incentive (indirect funding). During the 1990s, the primary means of support was through subsidy. With the turn of the century, government has opted for an increasing mix of both subsidy and incentive.

For the time being, the Producer Offset looks here to stay, but with convergence of media platforms and changing audience viewing behaviours, there is some debate about the relevance of a distinction between an offset for a feature film which is set at 40% of eligible funds and 20% offset for other programmes such as TV drama and documentary. The federal government's *Convergence Review* conducted in 2011 raised the idea of a 40% offset for all types of production (DBCDE, 2012).

This distinction is important because Australia, like many other countries, has experienced an increasing convergence of media channels. While cinema has not been the only means by which audiences can view feature films for some time, there are now more screens than ever before delivering more content in more ways to more fragmented audiences. Cinema competes with television, DVD or Blu-Ray, and video online. Assessing the performance of a feature film must take into account these various access points across the entire lifecycle of the film. Theatrical revenues tell a vital but incomplete story about the performance of feature films. Assessment of the performance of Australian feature films must move beyond the box office, despite it being a significant lead indicator, it is not the only one.

A further issue not directly discussed in this chapter is the role of foreign co-productions. The most significant advantage of co-productions is the access to extra finance that the structure offers. By qualifying as a co-production, a project is automatically classified as a national production in each of the participating countries. This opens up access to government funding in each territory, both direct (government investment, grants, and loans) and indirect (incentives such as tax credits and rebates), which is often restricted to national films and programmes. Access to additional finance can enable producers to work with larger budgets than might be possible on a domestic project and/or can ease the burden on each producer to raise large amounts of finance, by splitting the costs of production.

Australia's International Co-production Program began in 1986 and has been expanding ever since. To date, treaties and partnership agreements have been signed with 12 countries. The longest-running agreements are with France (the first to be signed), the United Kingdom, and Canada. China was added in 2006. These countries have been involved in 57 projects as of December 2014. There have been five projects involving more than one co-production partner. The total value of the budgets of these projects is A$642 million (not adjusted for inflation).

As Hollywood moves towards a reliance on tent-pole and franchise films, countries like Australia become attractive for co-productions. The issue for local filmmakers is how much funding gets diverted towards such projects at the expense of their own projects. This is relevant as public funding becomes increasingly scarce and competitive. Over the last three years, federal appropriations for *Screen Australia* have been cut significantly as the Australian government attempts to reign in a growing budget deficit. Total reductions to the agency since the 2014–2015 budget amount to A$51.5 million (Karlovsky, 2015), while an estimated A$47.3 million in support is being diverted toward large-budget foreign films such as the next instalment of *Thor* and *Alien: Covenant* (Frater, 2015). These highlight the issues of equity and opportunity provided by the subsidy system of who wins and who loses.

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Exploring the "Ecosystem" and Principles of Austria's Film Subsidy Schemes: Is Austria a "Best-Practice" Model for a Successful Film Policy?

Roland Teichmann and Paul Clemens Murschetz

1 Film in Austria: A Great Past, a Vibrant Future?

Austria's Film Industry Has an Eventful Past as a "Film Nation". Austrian or Austrian-identifying actors who have achieved international success especially in the USA from the 1920s to the present include Erich von Stroheim, Elisabeth Bergner, Joseph Schildkraut, Paul Henreid, Hedy Lamarr, Walter Slezak, Oskar Homolka, Nadja Tiller, Senta Berger, Klaus Maria Brandauer, Maximilian Schell, Maria Schell, Romy Schneider, Oskar Werner, Vanessa Brown, Gusti Huber, Curd Jürgens, Lotte Lenya, Kurt Kasznar, Marisa Mell, Helmut Berger, Arnold Schwarzenegger, and, lately, Christoph Waltz.

Today, Austria is reinventing its status: Austrian documentaries, short films, and dramas are more present than ever at film festivals and win key awards every year. Austrian films are expanding the horizons of their artistic tradition, while achieving public and international success well beyond expectations proves for outstanding diversity and originality.

The 1950s brought Austria the largest film production boom in its history, but without a neorealist or "New Wave" school, which had revitalized other European cinemas during this era, and with no national subsidies, the commercial Austrian filmindustry collapsed by 1968 and experimental film remained very limited (Dassanowsky, 2005). With national subsidies arriving, however, only in 1981, a new generation of Austrian filmmakers was able to continue working at home and international festivals, among them Axel Corti, Niki List, Paul Harather, Michael Haneke, Barbara Albert, Stefan Ruzowitzky, and Ulrich Seidl (Dassanowsky &

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Speck, 2011; Horwath, 2008). Biting satires and socially critical documentaries effortlessly carry forward the new blood of the successful traditions. Nominations andawards in Berlin, Cannes, and Venice and numerous awards at other relevant international film festivals brought Austrian film back on the centerfold, where even the *New York Times* critically acclaimed that the "quality of Austrian film's new waveis its willingness to confront the abject and emphasize the negative" has made the tiny country with the size of New York "the world capital of feel-bad cinema" (Lim, 2006). If this should prove true at all, Austria's key contribution to international film history lies in contributing to "avant-garde" film, i.e., noncommercial, experimental film genre exploits filming techniques outside established traditions.

The successes of Austrian actor Christoph Waltz, who earned an *Oscar*, a *Golden Globe*, and a *Cannes* award for *Best Supporting Actor* in Quentin Tarantino's *Inglourious Basterds* (2009) in 2010 and returned for the 2013 *Best Supporting Actor* Oscar and BAFTA (UK) Award for Tarantino's *Django Unchained* (2012), are also fostering new recognition for the concept of "Austria" among young Americans. Hosting the classic television comedy skit show *Saturday Night Live* in February, Waltz wryly informed the audience that he is the first German-speaking host in the 38-year history of the show, but there should be no confusion about his nationality.

And for the second time after *The Counterfeiters* (2008), an Austrian-German co-production, Michael Haneke's poetic meditation on the end of life but the continuation of love, *Amour/Liebe* (2012), was nominated for the 2013 *Best Foreign Language Film* Oscar, which it finally received: it was also was honored with the *Cannes Palme d'Or*, a *Golden Globe*, two BAFTA *Awards*, and five *Césars* (France).

2 Film Subsidies in Austria: The "Ecosystem"

Evidently, the introduction of the *Filmförderungsgesetz* (Film Funding Act) in 1981 and its first comprehensive amendment in 1987 have occupied a period in funding when the idea of funding film, according to *both* artistic and economic aspects, was becoming more pervasive as core principle of the creative industries. This move was innovative and heavily disputed. "In Austria, there will never again be a true *film* industry, instead an industry for television movies or advertising films at best," as Alexander Horwath, long-time director of the *Austrian Film Museum*, based in Vienna, wryly noted (Horwath, 1992, pp. 362–363).

In the first decade of the twenty-first century, Austrian cinema found its long-delayed "New Wave" and international critical success. The maturation of "New" Austrian Film, which is not guided by any manifesto and includes many styles and genres, came with Michael Haneke's *Funny Games* (1997) which was the first Austrian film to compete at Cannes since the 1950s and with Barbara Albert's award-winning *Nordrand* (1999) (Nüchtern & Omasta, 2012).

When interviewed, Roland Teichmann, director of the Austrian Film Institute, the national film funding agency to support cinema productions as a cultural product, referred to the DNA of *State aid for film* in Austria as essentially and primarily being support to culture and not to film business. Still, as argued by Teichmann, the basic dilemma of an active state-driven public policy funding purpose or "ethos" as purported by the *Austrian Film Institute* (of course, built on concrete Film Funding law) can be summarized as follows: "Of course, we are attacked by politicians when a funded film's box-office figures are low. But we just have to deal with that. The important thing is enabling films that would not be possible to make on the free market." Importantly, Teichmann claims that a film's success cannot be measured in terms of box-office revenues and cinema admissions alone. Invitations to international A-festivals and a good reception by the media, both domestic and international, are also keys. "A film cannot be modelled for by success, or the result will be films without a soul," claims Teichmann. Much more important is supporting projects that demonstrate an independent style:

> We must enable stories that are difficult, extraordinary and highly relevant—while (as governor) being a reliable partner for the filmmaker. Of course, the international community needs to become aware of Austrian films and cross-border funding is essential for strengthening Austrian film as a brand. However, we will never make Hollywood films, but we make auteur films that would not be produced elsewhere. That makes us unique. (profil, 2008; Teichmann, in an interview, March 17, 2017)

Further, Austria's film policy is also based on the fact that Austria's Public Service Broadcaster ORF plays a substantial but yet only subsidiary role as film co-funding body. Television can provide support solely for cinema films that have already received approval of a grant from the *Austrian Film Institute*. Eight million euros are disbursed to such films yearly. Thus, the ORF has less say than the country's film funding bodies. Arguably, this is one of the reasons that more radical and courageous films can be branded as "Made in Austria" than, for example, in Germany where the state-owned broadcasters have much more say as a subsidizer. The perception of Austrian film abroad is, however, selective: "there's more here than just this radical cinema with a distinctive style. Most Austrian films are wholly conventional and intended for a wide audience." For this reason, more courage to implement a radical funding policy that provides more money for unconventional films would be needed (Süess, 2012).

In this chapter, we provide a synoptic overview of Austria's film support institutions and their film subsidy schemes and governance, hence unpacking selected issues of the "policy support ecosystem" in Austria. Importantly, we are inspired to stressing the importance film funding in Austria has on culture and the wider public sphere by presenting the position of the *Austrian Film Institute*. We believe that the debates on the effects of film funding have to be redirected on issues surrounding artistic innovation, originality, and quality. We are convinced that public money has to be wisely spent on film and the wider effects this has on film culture and the public at large, well considering the financial restrictions and peculiarities of Austria's funding history and traditions.

When asked about the specifics of the country's creative potential, Martin Schweighofer, head of the *Austrian Film Commission* (AFC), the country's key organization dedicated to increasing awareness of Austrian filmmaking abroad, stated that “in contrast to the large countries, we do not have an industry. However, I consider this to be a huge advantage. It means that we are forced to think in terms of the bigger picture and that we have to identify niches. In other words, we have to look for a certain amount of internationality in the stories. We need this international resonance.” (Schweighofer, Ungerböck, & Schreiber, 2012, pp. 8–9).

Still, would 20 million euros of federal state film subsidies a year be enough in a country that considers itself as a “nation of culture” and, hence, developed a substantial funding structure for innovative, contemporary art and the culture scene in Austria since the 1970s with the help of state subsidies and public investments (Knapp, 2005; Schlesinger, 1999)?

Hence, this chapter will open the discussion on state subsidies to film in a two-pronged way: in the first part, we deliver a synoptic overview to the supply of financial subsidies to film in Austria. Being inspired by an “institutionalist” approach to the political economy of government support to media, we describe the funding structures and principles of the *Austrian Film Institute* on the background of the idea that the financial economics cannot be divorced from the social and political context since the market itself is an institution, which is to say is politically constructed (Chang, 2002; Elliot, 1978).[1]

Doing so, we critically appraise the scheme’s stability in safeguarding the development of original films in the country. In the second part, we argue more theoretically, and to some extent contradictorily, and posit that the subsidy discourse is too narrowly focused on the different technicalities and governance structures and processes, and, notably, the intended effects subsidies should have on the players involved. We find that while subsidies have remained the main pillar of the country’s quest for diversity, more attention should be given to funding concepts that support less market-driven productions, that is, independent, original, high-quality productions and the effects these have on film culture and society at large.

3 Austria: Funding Institutions and Policy Activity

Austria’s film industry has grown continuously, with more and more companies and individuals working in the sector. With total funding of almost 82 million euros, revenue in the sector has risen considerably and now totals 918 million euros.

In 2015, the total expenditures of the 19 subsidizing institutions were 81.7 million euros, an increase of 5.8% compared to 2014. National funding bodies disbursed 57.2 million euros or 70% of all funding, while regional funding amounted to 24.5 million euros or 30% (Österreichisches Filminstitut, 2016). The largest regional source of subsidies by far is the state of Vienna, with just under 19% of total disbursements. Together, the *Vienna Film Fund* and the *City of*

[1] Also see Villa (2013) (www.filmsupport.at).

Vienna's culture department disbursed 63% of all funding from regional subsidizers.

In 2015 and the previous years, *production subsidies* represented the majority of disbursed funds, i.e., 75.8%. The number of films that received funding for the first time in 2015 was 315. There were 84 "cinema films," 83 "television movies and series episodes," 141 "other films" (i.e., films which do not belong to either of these categories, because they are shorter or the primary type of exploitation has not yet been decided upon), and 7 "foreign productions" (i.e., projects that are shot in Austria at least in part although they fail to satisfy the criteria for recognition as Austrian-foreign co-productions or when the production company that files the subsidy application is based abroad). Eighty-five percent of all films that received funding had production costs of <800,000 euros. Seven percent of the cinema films that received funding had production costs of over 2.1 million euros. Amounting to 17.8% of the disbursed funds or 14.6 million euros, the *Institutions and Infrastructure* (see Table 1) area represented the second most important type of funding.[2]

In Austria, 19 institutions disburse funds to film, 5 on the national level and 14 in the country's 9 states (*Bundesländer*). These are briefly described here.

3.1 Austrian Federal Chancellery: Department II/3—Film

At national level, the Federal Chancellery's film department *Kunst und Kultur—Film II/3* supports innovative projects involving fiction features, documentaries, and animation and experimental film and also specifically targets funding for talented (in terms of age and experience) young filmmakers. Also part of the film department's responsibilities is film's cultural heritage and supporting institutions and associations related to film.

The Art Section of the *Austrian Federal Chancellery* supports innovative projects in the fields of feature films, documentaries, animations, and experimental films as well as young filmmakers and new talent.

Funding is available not only for script writing, project development, production, and distribution but also for scholarships, repertory cinema, festival participation, etc.

Eligibility to file applications is based on Austrian citizenship or permanent residence in Austria (for at least 3 years). Applications are usually accepted three times per year (sometimes at different dates for the various fields of promotion). Funding is awarded according to the recommendations of an advisory board.

[2]Comprehensive information on film and cinema in Austria is provided by the Austrian Film Institute (*Österreichisches Filminstitut*) which publishes a film industry report (*Filmwirtschaftsbericht*) once every year.

Table 1 Areas of funding, 2012–2015, disbursements in %

Year	Script/project development	Production	Exploitation[a]	Infrastructure[b]	EU programs
2015	2.9	75.8	2.9	17.8	0.7
2014	2.5	75.7	3.5	17.5	0.8
2013	2.8	75.4	3.3	17.7	0.8
2012	2.9	71.0	4.7	20.5	0.9

Source: ÖFI

[a]"Exploitation" means funding granted for the distribution of an Austrian film, particularly to cover advance distribution and sales cost and to test and develop new forms of distribution, for foreign-language dubbing or subtitling as well as for participation in international film festivals and markets (exploitation funding)

[b]"Infrastructure" means subsidies to the *Austrian Film Archive* [The *Austrian Film Archive* (*Filmarchiv Austria*) is an organisation for the discovery, reconstruction and preservation of Austrian film record material: films themselves, literature about film and cinema, or film-related periodicals. With over 100,000 film titles, 2,000,000 photographs and stills, 25,000 cinema programmes, 10,000 film posters, 30,000 books, and an extensive collection of apparatus, documents and costumes, it is the largest such organisation in Austria], the *Austrian Film Museum* [The *Austrian Film Museum* (*Österreichisches Filmmuseum*) is a film archive and museum located in Vienna, Austria. It was founded by Peter Konlechner and Peter Kubelka in 1964. The collection comprises approximately 31,000 films from 1893 to the present and all genres], and the *Austrian Film Commission* [The *Austrian Film Commission* (AFC) represents the Austrian film industry at all important festivals and markets, principally the Cannes Film Festival, *Berlin International Film Festival*, *Venice Film Festival*, *Toronto International Film Festival*, *San Sebastián International Film Festival*, *International Film Festival Rotterdam*, *Locarno International Film Festival*, *Karlovy Vary International Film Festival*, *Pusan International Film Festival*, *Buenos Aires International Festival of Independent Cinema* and the *American Film Market* in Los Angeles]

3.2 The Austrian Film Institute

The Austrian Film Institute (*Österreichisches Filminstitut*—ÖFI) is the national film funding agency supporting cinema productions. The annual budget for subsidies is 20 million euros. The ÖFI's activities are described in more detail in Sect. 4.

3.3 Film Industry Support Austria (FISA)

FISA is a film fund of the Federal Ministry of Science, Research and Economy designed to support the production of cinema films with an annual budget of 7.5 million euros. Funding is granted for Austrian productions, Austrian-international co-productions as well as international productions obliged to work with an Austrian service production company. The non-repayable grant amounts to a maximum of 16% of the eligible Austrian production expenditures and 25% for international service productions and is capped with 1.2 million euros, allocated on a "first come, first served" basis. Basic requirements for international productions with an Austrian service production company are a minimum shoot of 5 days in

Austria and total production costs of at least eight million euros (feature films) with a minimum of one million euros spent in Austria. For service production documentaries the minimum production cost must be one million euros.

3.4 ORF Film/Television Agreement

The Film/Television Agreement is an agreement between the *Austrian Film Institute* and the *Austrian Broadcasting Corporation* (ORF) designed to promote the cooperation between film and television, particularly in the context of Austrian cinema film productions. The agreement is in place since 1981.

According to this agreement, the ORF provides funding for Austrian cinema films. The yearly amount for that is determined by law (ORF Act) and is currently (2016) eight million euros. In exchange, the ORF keeps the terrestrial TV rights for Austria, Southern Tyrol, and the satellite rights for a maximum of 7 years. Therefore, a joint committee was set up to implement it. It consists of six members, three of whom are appointed by the Film Institute and three by the ORF. The Committee may take decisions provided that at least four members are present, by a simple majority of the votes cast.

3.5 The Austrian Television Fund

The *Austrian Television Fund* (*Fernsehfonds Austria*[3]) subsidizes Austrian films and co-productions involving Austrian and foreign partners. The annual budget for subsidies is 13.5 million euros. The maximum subsidy amount is one million euros for TV movies and 200,000 euros for TV documentaries and series (per episode). The minimum length is 23 min. 150% of the funding has to be spent in Austria. An Austrian co-producer as well as the cooperation of an international or national TV-station is necessary to apply for the funding. On four scheduled submission dates, the general manager of the *Austrian Television Fund* selects films for subsidies. Grants can be awarded to cover a maximum of 20% of reasonable overall production costs. The decisive criterion for receiving a subsidy is the TV production's explicit cultural significance for Austria or Europe. Prerequisite for funding is the compliance with at least three criteria related to "cultural content" such as:

- Production set in Austria/EEA.
- Use of Austrian settings and shooting locations.
- Participation of filmmakers from Austria/EEA.
- Minimum length of 23 min.

[3]It is based on KommAustria-Gesetz (KOG), BGBl. I Nr. 32/2001 idF BGBl. I Nr. 86/2015. The *television fund* is part of state media governor *Rundfunk und Telekom Regulierungs GmbH*.

- Qualified independent film production company with a permanent establishment or subsidiary in Austria.
- One or more television broadcasters furnish at least 30% of the total production costs.
- Broadcasting companies may acquire the rights to television films and documentaries for a maximum of 7 years or 10 years for series.
- Funding support is capped at 20%, in exceptional cases at 30%, of adequate production costs.
- Any given television series may be supported with up to 200,000 euros per episode, TV films with a maximum of 1,000,000 euros per film, and TV documentaries with a maximum of 200,000 euros.
- Expenditures in Austria should amount to at least 1.5 times the awarded support and may not fall below that.
- Special consideration is given to projects with high production expenses in Austria and a high international budget contribution.

Funding support is awarded in form of a non-repayable grant. Applications are accepted four times per year. Funding decisions are made by the respective managing director for media of RTR under consideration of the RTR funding objectives and reports from the review committee.

3.6 The Regional Funds

Regional film funding is primarily based on the "Culture Promotion Act" (*KulturFörderungsGesetz*, KFG) and either directly assigned to the culture departments of the respective provincial governments or represented by independent institutions. In such cases, regional film commissions are often responsible for processing funding programs.

3.6.1 Provincial Government of Burgenland

Film projects by institutions and individuals are promoted based on a small production grant. Moreover, the provincial government awards scholarships for "artistic training." The key factors of eligibility are the project's regional connection and artistic quality as well as recommendation by the relevant cultural advisory board.

3.6.2 Carinthia Film Commission

The *Carinthia Film Commission* was established to provide film funding on behalf of the federal province of Carinthia and is available to filmmakers as an advisory organization for filming in Carinthia. Funding is available for project development, production, and exploitation. Selected projects with a cultural connection to Carinthia that meet the Funding Guidelines receive an adequate production cost subsidy.

3.6.3 Federal Province of Carinthia

Funding is primarily available for smaller film projects of high artistic level as well as new talent projects with a cultural connection to Carinthia.

3.6.4 Lower Austrian Film Commission

Lower Austria promotes film productions in the fields of cinema, television, new talents, and art that are either content-wise or personally connected to Lower Austria or produced in Lower Austria. Aside from cultural aspects, eligibility is also based on the project's touristic value. Moreover, the following reference rates apply for cinema and TV productions in terms of their effect on Lower Austria related to the awarded support: 100% for documentaries, 150% for feature films, and at least 200% for TV series. The reference value for funding is about 4–10% of total production costs.

3.6.5 Filmlocation Salzburg

The regional film commission of the federal province of Salzburg promotes commercial film productions in the field of cinema and television. The overall and film-related effect for Salzburg is a crucial guideline for assessing the eligibility of a project. Expenditures in Salzburg must amount to at least 200% of the awarded support ("Salzburg effect"), while at least 100% must be spent on goods and services of the Salzburg film industry ("Salzburg film industry effect"). Another key aspect of funding is the clear international exploitability of filed projects. *Filmlocation Salzburg* prefers promotion applicants with a permanent residence or establishment in the federal province. Funding is available for cinema films and TV productions.

3.6.6 Federal Province of Salzburg

The free film funding program of the federal province of Salzburg is primarily designed to promote cinematic art. Funding is available for feature films, animations, experimental films, and documentaries.

3.6.7 Cine Styria Film Commission and Fund

Funding is available for cinema and television productions related to Styria. The projects need to be at least partially realized in Styria and have both touristic and economic value for the federal province. Expenditures in Styria must amount to at least 1.5 times the awarded support. Another key aspect of funding is the international exploitability of filed projects.

3.6.8 Cine Art

Cine Art is the Styrian film promotion program for artistic cinema and TV productions. It pays special attention to aspects of aesthetic film and the critical examination of audiovisual media.

3.6.9 Cine Tirol Film Commission

Selected cinema and television productions are offered a *Cine Tirol* Production Incentive in form of a non-repayable production grant. Moreover, Cine Tirol Location Service provides extensive information and assistance to filmmakers. Eligibility is based on the project's Tyrol-related content as well as its economic effect on Tyrol (local production expenditures). Further assessment criteria by *Cine Tirol* are the artistic quality of the film project and its international exploitability. Only both creatively and economically experienced producers are qualified to apply.

3.6.10 Federal Province of Tyrol

The federal province offers annual subsidies for institutions as well as project grants and stipends in the field of "film, video and media art." Among other aspects, eligibility is based on the project's connection to Tyrol (content-wise, institutionally, or personally/biographically).

3.6.11 Federal Province of Upper Austria

Funding is available to project development, production, and exploitation of film projects with an artistic focus and a regional connection in the fields of experimental film, documentaries, and feature films. Awarded funding may amount to a maximum of 10% of total eligible costs. Taking into account artistic, touristic, and economic aspects, qualified filmmakers receive support in form of funds and services to realize their film projects.

3.6.12 Vienna Film Fund

The *Vienna Film Fund* (*Filmfonds Wien*) is Austria's the largest regional funding body, budgeted with an annual funding value of EUR 11 million financed by the *City of Vienna*. The *Vienna Film Fund* promotes not only the quality and diversity of Austrian film but also Vienna's cinema industry. Funding is available to feature films (of at least 70 min) as well as children's films and documentaries (of at least 59 min) for cinema and television. The project's cultural, artistic, and economic value is a key aspect of eligibility and measured based on the Vienna film industry effect: at least 100% of awarded funding must benefit Viennese filmmakers, Vienna's film infrastructure, or Vienna as a film location. Funding is available in the fields of:

- Project development
- Production
- Cinema release
- Other exploitation measures
- Structural measures
- Cinema promotion

Funding decisions are made by a jury and/or the *Vienna Film Fund*'s managing director. Applications are accepted four times per year.

3.6.13 Vienna Film Commission

The *Culture Department* (MA 7) of the *City of Vienna* promotes film projects (e.g., production, festival, institution) related to Vienna.

3.6.14 Federal Province of Vorarlberg

Funding is available for artistic film projects (including film festivals and smaller cinemas) as well as film projects of regional-economic and touristic-cultural value. This additional, earmarked promotion fund of 250,000 euros was established in 2014 to promote films addressing Vorarlberg as a place of culture, economy, or tourism. Eligibility is based on the project's quality, connection to Vorarlberg, exploitability, and range. Awarded funding may amount to a maximum of 20% of total eligible costs without exceeding 150,000 euros per production. Both Austrian and international productions (EEA region) may apply.

4 The *Austrian Film Institute*: Subsidizing Originality

In Austria, financial subsidy to film seek to balance the objective of promoting economic competitiveness in the media grid with the wider objective of securing cultural diversity.

4.1 Tasks and Aims

According to the Federal Film Funding Act,[4] state film funding in Austria via the Austrian Film Institute (*Österreichisches Filminstitut*—ÖFI) aims at:

- Contributing to the preservation of the common cultural heritage of Europe and the further development of European culture with its national and regional diversity in special consideration of the Austrian identity
- Supporting the production, dissemination, and marketing of Austrian films which are suitable to enhance the quality, autonomy, and cultural identity of the Austrian film sector
- Supporting the cultural, economic, and international interests of the Austrian film industry, especially by measures aimed at developing new talent and through the publication of an annual film industry report
- Improving the international orientation of Austrian film and thus improving the basis for the dissemination and market-oriented exploitation of Austrian films in Austria as well as its cultural impact and its exploitation abroad, particularly by supporting the presentation of Austrian film domestically and abroad

[4] Bundesgesetz vom 25. November 1980 über die Förderung des österreichischen Films (Filmförderungsgesetz) StF: BGBl. Nr. 557/1980 (NR: GP XV RV 277 AB 544 S. 51. BR: AB 2225 S. 403.).

- Supporting Austrian-foreign co-production
- Supporting cooperation between the film industry and television providers to strengthen Austrian cinema films
- Working toward a harmonization and coordination of film funding between the Federal and *Länder* levels (regional funding)

The ÖFI has the task of taking appropriate measures to realize these aims, particularly through granting funding in line with available funds based on a selection process or by providing technical or organizational assistance within the context of its activities as a center of competence.

4.2 Eligibility

In order to be eligible for funding, the application has to comply with the *Funding Guidelines* (https://www.filminstitut.at/en/) of the Film Institute. These Guidelines are pursuant to Commission Regulation (EU) No 651/2014 and § 14 of the Film Funding Act (as published in the Federal Law Gazette, BGBl. I No. 81/2014 on November 21, 2014) and the decision of the Supervisory Board on December 3, 2015.

4.3 Types of Funding

The ÖFI supports films selectively on basis of newly filed project applications (*selective funding*) or automatically (*automatic funding*) based on performance success of a prior film (also called "reference film funding") in which support is given to a new project based on the applicant's success with its previous reference film. This scheme represents a dual system of film funding.

4.4 Supervisory Board

The responsibilities of the Board include among others the determination of the Funding Guidelines and the by-laws, approval of the annual budget estimate, and the evaluation of the funding aims. The Supervisory Board consists of representatives of the *Ministry for Education, Arts, and Culture*, the *Federal Ministry of Economy, Family, and Youth*, the *Federal Ministry of Finance*, and the *Federal Law Office*; members of the Trade Union and the *Austrian Economic Chamber*; as well as five expert representatives from the Austrian film industry, representing the areas of production, direction, scriptwriting, and marketing.

4.5 Project Commission

The Project Commission meets regularly to decide on the submitted film projects. The commission consists of the director of the Institute (chair) and four experts. Eligibility to file applications is based on sufficiently professional qualification, a registered office or subsidiary in Austria for companies, and Austrian citizenship or a permanent residence in Austria (in case of EU citizens) for individuals.

4.6 Funding Areas

Funding is available in the fields of:

- Script development ("incentive funding")[5]
- Project development[6] (i.e., all measures prior to film production and/or shooting)
- Production of "Austrian films" (cinema films, TV movies, other films) produced by Austrian producers under their own responsibility and international co-productions with Austrian participation
- Exploitation of "Austrian films" and films equated to "Austrian films" (i.e., cinema release funding, foreign-language dubbing or subtitles, and the participation in international film festivals and film markets)
- Continuous vocational training of professionals working in the area of film in creative, technical, or commercial positions[7]

Table 2 shows the levels of disbursement of film institutions in Austria between 2012 and 2016.

[5]Funding for script development may only be granted for scripts or shooting outlines (documentaries) if the film promises to improve the quality and economic viability of Austrian film. A description of the project (treatment with one sample finished dialogue scene or shooting outline) shall be attached to the application. Script development according is funded through a non-repayable contribution (exempt from income tax).

[6]A film producer is entitled to submit an application for funding of project development. Funding takes the form of a non-repayable contribution, with the proviso that as a rule the funding awarded by the Film Institute may cover half of the entire development budget. In exceptional justified cases, especially if the Film Institute is the only major funding partner, funding may amount to a maximum of 80% of the overall costs. Project development comprises all measures prior to actual film production and/or shooting ("advance costs," according to the "Funding Guidelines"), especially the elaboration of the final version of the script/shooting outline, the production management outline, as well as the project-related marketing concept and distribution plan. If the applicant uses the funded script/shooting outline as a basis for a TV movie, he/she shall be required to repay the allocated funding. This obligation to repay is not applicable if the realization starts more than 6 years after disbursement of the last installment.

[7]Continuous film-related vocational training is supported through non-repayable contributions (exempt from income tax).

Table 2 Film: National subsidies per year (budgets), 2012–2016, in million euros

National film subsidies	2012	2013	2014	2015	2016
Österreichisches Filminstitut	16.57	20	20	20	20
FISA	7.5	7.5	7.5	7.5	7.5
ORF *Film/Television Agreement*	8.0	8.0	8.0	8.0	8.0
Television Fund	13.5	13.5	13.5	13.5	13.5

Source: ÖFI (2012–2016)

4.7 Support from Europe

On European level, another 2.79 million euros were paid out in 2015 to Austrian filmmakers through:

- *Creative Europe Desk Österreich*—MEDIA in 2015, 1.6 million of which were allocated for by distribution subsidies to Austrian distributors.
- *Eurimages* contributed with production subsidies to four co-productions under Austrian participation (1.16 million euros, in 2015).

In Austria and the majority of other European Union member countries, the largest funding area is production funding (of "Austrian films"), which represented 75.8% of 2015 funding expenditures. The producer of the film to be funded is entitled to submit an application. Funding is granted in the form of a conditionally repayable grant. Conditionally means that the grant has to be repaid in case of a success of the film.

A film is considered artistically successful if it has been selected for participation in or awarded a prize by an internationally significant film festival, whereby the Institute determines the festival list annually (https://www.filminstitut.at/de/festivalliste/).

Further, a film is considered economically successful if it has achieved 40,000 admissions in Austrian cinemas. Less demanding funding requirements, particularly lower admission requirements (20,000 admissions), apply to children's films, documentaries, and new talent films as laid down by the Funding Guidelines of ÖFI. "New talent films" are the first two films in which a director assumes directing responsibility for a cinema film. For documentaries and children's films, the determination of audience response can be based on admissions determined over an extended period after first screening in a domestic cinema in case of a reasoned request by the producer. The duration of this extended observation period shall be determined by the *Funding Guidelines*. For documentaries and children's films admissions at non-professional exhibition sites shall be taken into consideration in accordance with the provisions of the Funding Guidelines. In the preparation of the list of internationally significant film festivals, festival practice with regard to documentaries and children's films shall be sufficiently taken into consideration.

In 2015, 61.9 million euros were disbursed, an increase of 5.9% or 3.5 million euros compared to the previous year. The biggest chunk of this funding area went to cinema films. Approximately 40.6 million euros were disbursed for cinema films in 2015, an increase of just under 3.8 million euros from 2014; this figure has risen for 3 consecutive years. This is primarily a result of additional disbursements made by the Film Institute (an increase of 2.7 million euros) and according to the *Film/Television Agreement* (an increase of 1.4 million euros). Of the 84 films that received disbursements for the first time in 2015, 48 were provided with funding from more than one organization (ÖFI, 2016).

4.8 Number of All Productions Subsidized

In all, subsidizers reported to have disbursed funds to 549 films in 2015. The number of films that received funds for the first time in 2015 was 315. The drop in the number of production subsidies in 2014, 14 fewer, is primarily a result of fewer TV movies (9 fewer fiction features and 19 fewer documentaries). Compared to 2014, the number of cinema films also dropped (by six films), while the number of “other films” rose. These statistics concerning the films that are produced illustrate the current development of government aid to film production in Austria: it is increasingly diverse and can no longer be described in terms of classic categories. “Cinema” and “TV films” represented only slightly more than half of all projects that received funding.

4.9 Festival Funding and Awards

Participation in selected competitions at international film festivals and awards based on domestic box-office figures qualify Austrian cinematic works as reference films for film funding (*reference film funding*) provided by the Film Institute. Reference film funding is given in the form of grants that need not be repaid. It is intended to provide eligible producers with basic financing for production of a new film. In addition, the screenwriters and directors of reference films receive certain fixed subsidies for independent story development (“incentive funding”).

In 2015, three films, the same number as in 2014, satisfied the criteria for reference funding due to their awards and participations in festival competitions (in combination with box-office statistics) (ÖFI, 2016). The importance of film festivals has risen rapidly in recent years in a permanently changing landscape of film exploitation. In view of the increasing number of films produced worldwide, they are often the only place where a film finds its audience. Through their temporal and local concentration, film festivals generate a specific attention for the cinema. The accompanying activities (talks, films, mediation, supporting programs) make film festivals an event, an important factor for the successes of the Austrian film festivals in recent years (Zachar & Paul, 2016). Smaller festivals in particular are strongly dependent on public subsidies to survive.

4.10 Cinema Subsidies

Cinema subsidies entail financial support for:

- Structural and infrastructural measures (renovation, expansion, etc.) of cinemas
- Promotion of program content of cinema
- Technological improvements, notably digitalization

In 2015, Austrian cinemas were supported with some 1.6 million euros, of which 94.9% were attributable to annual subsidies and program funding and 5.1% to digitalization.

After growth in the years 2013 and 2014, imbursements in cinema subsidies (without digitization) slumped to 1.6 million euros in 2015 (ÖFI, 2016). The full digitization of Austrian cinemas thus gives best evidence to a successfully targeted support scheme.

5 Conclusion: Deficits and Desiderata

As a whole, the Austrian film industry has been supported by public subsidies in ways that *generically* should help innovative and original film to develop sustainably, all granted by a plethora of financial schemes on various levels. And, importantly, the Public Service Broadcaster ORF has safeguarded these developments by several agreements to support the Austrian film industry. Arguably, this support diversity has greatly contributed to the success of Austrian film productions at home and abroad.

As mentioned, this success is not self-evident as Austria's film industry is small and has limited resources (Meier & Trappel, 1992). Located in central Europe with some eight million inhabitants and divided into smaller regions—with the Viennese region of two million inhabitants being the exception—Austria has to cope with two basic conditions: (1) the shortage of resources of the markets for film and audiovisual services and (2) Germany as a large neighboring country with a highly developed range of audiovisual media products belonging to the same language area (Trappel, 2007). While these conditions would speak for dependency in terms of artistic creativity and production, however, Austrian films and its industry today loom big on the international film horizon without much international money. Lately even, Austrian filmmakers received more festival participations, more international visibility, and more recognition than ever, fortunately also at the home box office, thanks to filmmakers like Nikolaus Geyrhalter, Ruth Beckermann, Händl Klaus, Patric Chiha, Tizza Covi and Rainer Frimmel, Ulrich Seidl, Virgil Widrich, Dieter Berner, Mirjam Unger, Marie Kreutzer, and many more.

Still, and perhaps naturally, over the years, the schemes have been hotly debated and strongly criticized. The *Austrian Audit Office*, for example, criticized the total funding ecosystem for being too complex and not being transparent enough (Landsgesell, 2007; Rechnungshof, 2011). Films would be subsidized that had received funds from different bodies which themselves would not cooperate. And even on a more fundamental level, so the base line of many criticisms, state subsidies for film would be basically flawed because:

- Policy objectives were not formulated alongside binding targets.
- Instruments applied were not earmarked.
- Costs of government intervention were not held low.
- Processes in the film funds' decision-making were not transparent and clear.
- Practices of political lobbying were not avoided.

Critics argue that some of these critical instances would be found in Austria as well. For example, when interviewed, the Austrian filmmaker Paul Poet (PP), an Austrian "independent" film director, author, producer, journalist, and curator, would attest to both up and down sides of the Austrian funding scheme:

> Unsurprisingly, there were good and bad experiences in unequal measures. You can estimate that only 15–20% of all funding applications will be supported in the end, and this regardless of whether you produce as a "no to low budget production" or work together with the more established companies in a range from smaller to bigger projects. This high rate of rejection that does not make it too attractive to join this business as an artist. (PP, in an interview on June 20, 2017)

Still, he continued,

> The really good thing is that there is a highly communicative level of willingness and support by the heads of the funds to develop strategies that support finalizing movie projects until the end, even if those were dismissed in the first round of the funding application. Even being able to improve and repeat the application is very positively unique here.

At the same time, by Poet's reckoning, the funds would, however, be

> Authoritarian and mainly supported populist and politically favorable filmmaking, as the decision making committees were by the majority not impartial in their decision-making. On top, since private investments and entrepreneurship would get discouraged in favor of state control through the funds, the filmmakers and distributors would be less and less willing to take risks to have much needed international success but would instead only stretch out their hands for the next funding cheque. (PP)

Clearly, as it seems, from a policy- and supply-side view of subsidies, evidencing the effects of film subsidies has become an important rationale for state intervention, if not its raison d'etre. This is not surprising in times when art film culture is considered as belonging to the "creative" or "cultural industries" (Caves, 2000).

Against this background, we wish to conclude with our insights into the importance of public support for film for culture in an advanced society in the digital age. For us, efficiency and innovation in public film funding is based on three main pillars: (1) the quality of policy designs and public governance in achieving intended effects, (2) the controlling mechanisms in measuring the outcome efficacy of the government schemes, and (3) the continuous innovation of the scheme (see Murschetz & Karmasin, 2014, for the press subsidies scheme in Austria where policy innovation, however, is half-hearted). Given the current state of knowledge in the field, we believe it is especially important to engage in basic, foundational research activities such as these on the efficacy of subsidy instruments and tools offered.

5.1 Improving Governance Quality

Although creating benefits from subsidies to culture is far from being a new academic proposition (Heilbrun & Gray, 2001; Towse, 2014), the "subsidy effects debate," on our view, warrants much closer study. Why should government subsidize film? What policies need to be formulated in order to achieve expected results? What are the effects of these subsidies on the film industry, its markets, the production companies, the distributors, and all other stakeholders, as well as culture and democracy as a whole? And is a focus on narrow economic benefits of subsidies to film and its impacts on economic growth, job creation and employment, and positive knock-on effects on the regions and their people sufficient for society as a whole? Does it not need a bigger picture that includes the wider effects on culture as well?

Hence, we wish to offer some arguments regarding the wider and perhaps more unintended effects on culture of public subsidies for film. By this, we wish to initiate debate as we think that the subsidy discourse is too narrowly focused on the different forms of aid, public policy activity, and administrative governance structures and processes, their potential impact on the industry, and, of course, the sums involved.

Still, in Europe, film and *cinema* is conceived more as an art than as a business. And this is why we believe that one-sided arguments exclusively employing economic effects ignore an extremely important area: film production's cultural value and its effects that *must* be considered equally when evaluating the overall effects of subsidies to film and film production.[8] And one might even argue that a creeping economization of culture in times of increasingly shorter public budgets hinders innovation and tends to produce "functional films" with less courage and relevance.

The "cultural effects" of film again becomes evident when a subsidized film created a wider public sphere, a cultural space where film is discussed, evaluated and reported on and in extreme cases even developed further. This connection is vitally important for the development and transport of a film's effects, since it has a

[8]On top of this, a purely economic reasoning also ignores the fact that subsidies themselves are highly competitive among the creative industries as such. Who will receive public-sector funds, which are themselves becoming increasingly scarce? Theaters, opera houses, museums, or films?

decisive influence on the interaction between all the other areas. In this area of effect, fundamental and radical changes are also taking place, and they can either support or hinder this function. First of all, the dwindling number of professional critics in print media, which are in poor economic shape, is being accompanied by an explosion in the number of websites that publish evaluations of films, blogs, chatrooms, etc., offering a large space for all kinds of film lovers to express their opinions and discuss the object of their passion.

5.2 Enhancing Subsidy Outcome Efficacy

Essentially, we argue here that subsidy success needs to be understood as an outcome that is not contained within the limits of budgets and policy frames and guidelines. Instead, we believe that it is the aggregate subsidy culture that make's a country film culture thrive.

To conclude, we can affirm that Austria is a "best-practice" model country with regard to its overall success toward an effective film subsidy policy. As a consequence, we confirm that it is both a film's economic and non-economic effects which account for the success of "good governance" in film. Today, film(making) is both an art form and a business undertaking and must be considered jointly when it is supported by government. While a film's international dissemination, the broad discussion around it at festivals and in the media, other films' quotations of it, etc. cannot be measured in economic terms only, they certainly have economic effects. But purely economic reasoning should not be the sole purpose for its funding.

As indicated, however, we do certainly recognize that the pendulum has swung in a neoliberal direction of markets organizing cultural matters, from justifying state subsidies for cultural enrichment to emphasizing pure economic effects of government intervention into the arts. However, for us, this means entering a danger zone: expenditures for culture are suddenly compared to those for business.

Alas, culture's role in an advanced society is insufficiently brought to bear in such evaluations. Not least, film faces the danger of losing its status as an *exception culturelle*.[9] In the end, a film which is primarily produced for economic reasons does not require the protection offered by state financing.

Due to a misunderstood compulsion for economic effects, film funding in general also lags behind an important general trend, that of "impact assessment." At EU level, the Union, and all its member States, is enforcing a yardstick that is increasingly comprehensive for evaluating political action and therefore cultural policy indirectly. It requires systematic evaluation of the effects produced by political initiatives: "An impact assessment provides systematic analysis and evaluation of the economic, social and environmental impacts of policy options."[10] In other words, not only an isolated economic evaluation of state action is involved.

[9] § 107 (3) d) AEUV together with Item 5.2 of the "Communication on State Aid for films and other audiovisual works," 2013/C 332/01.

[10] Council of the European Union, "Handling impact assessments in Council," p. 4.

Film funding institutions that intend to apply an evaluation within the framework of their tasks would be well advised to network and regularly exchange examples of "best practice." Even if the overall system employed for surveys varies greatly from one funding body to another, uniform survey methods in individual areas that remain constant in the long term not only increase the comparability of results, such as among European film funding institutions, they can also incorporate long-term change.

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Film Subsidies, History, and the "Economization of Culture" in Austria: An Expert Interview

Alexander Horwath and Roland Teichmann

Roland Teichmann To start with, let us please first talk about a visionary outlook on *state aid for film* and discuss how film and cinema will develop in the future, in particular with regard to government support and subsidy schemes. Why, in your view, should funding remain important in the future? What has changed in recent years, decades? And, of course, how does film and cinema themselves have a future at all? If yes, which?

Let me please point to one particular view with regard to the future of film and cinema: I have recently read an article by the British film journalist Nick Bilton in *Vanity Fair*, who claimed that, in his view, film was dead in its classic form, and he meant that Hollywood would be dead, not only because theater attendance would be shrinking (in the USA) and profits were dwindling but more because the kind of disruption that hit music, publishing, and other industries would also drastically reshape the movie entertainment business. This view is, of course, fueled by thinking about film media as being purely "economized," hence oriented toward full market exploitation. Hence, the overriding theme is one of an increasing "economization of culture" and the "corporatization" of film in particular as entertainment media today, with its primary focus on delivering audiences seen as consumers to advertisers and not delivering content to audiences as critical publics. And, does this trend also increasingly question classical government support for film?

And then he described the future as something like this: The scripts are written by computer programs selecting the best and most successful films, whereby a range of businesses have appeared that specialize in predictive analytics, services

As interviewed by Roland Teichmann. The Interview was held on June 8th 2017 in Vienna.

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that rely on big data sets to predict marketability and success of blockbusters. Some companies offer to use "big data" to test the script before it is completed and advise on scenes that will make it more marketable—for example, *Epogix*, which offers advanced artificial intelligence in combination with proprietary expert process to provide studios, independent producers, and investors with early analysis and forecasts of the box office potential of a script. Clients then make evidenced decisions about whether or not to spend their scarce capital, adjust budgets, or increase the box office value of the property.

And, as if naturally, a consequence of this is that only films would be produced that are judged for satisfying advertising and "addressable audience" needs, which leaves us worried that knowing every detail about how tens of millions of subscribers watch movies (over any platform) would make creative filmmakers beholden less to their own creative visions and more to the demands of the "algorithmic culture."

This is to say that there is this threatening trend that film production is economized in all areas. And this megatrend is, and this is, in my personal opinion, already also happening in the field of government support for film. It seems to be one of the great megatrends: governments think of film as dominantly a commercial product, even if it is still considered as a "cultural asset." Would you agree with this proposition? Is this dystopian vision realistic, or do you have a different picture of the future of film and cinema?

Alexander Horwath Generally speaking, this tendency of "economization" in all its forms can be observed in many areas. And the role of algorithms and machines for covering economic needs of various kinds is a clear trend of the last 15 years. For most people, and for me as well, *Amazon*'s recommender system signifies this trend. Lately, *Netflix* has made it clear that recommender systems do work well: about 75% of what people watch at Netflix is due to a recommendation. But what is even more fascinating is the evolution of the technology throughout the history of the company. And Big Data services promise to reveal audiences, not only in what they are watching and listening to but through large data sets predicting what they want before they even know what they want.

I see this tendency in many areas. But as I am sitting here with some historical film equipment, I should also say that capitalism and Western culture began to strive for standardization long before the Internet was invented. If we determine film entirely by economic factors, as you have explained, we must also state that the medium of film has always been marked by this tendency. Maximizing profit has always been *the* driving force.

Roland Teichmann But isn't it also true that, roughly speaking, only two or three out of ten *Hollywood* films which are developed, produced, and exploited are successful, while the other seven flop at the box office and do not recover their costs; but the two to three are so successful that they also recover the cost of the others?

Alexander Horwath Yes, this is certainly true. The big manufacturers have mixed calculations, and they know that, by the end of a year, they will write off several films as a loss and only a certain percentage will figure in the books as profit generators. This strategy is always geared to the entire film bundle in a given period. In the classical *Hollywood* studio system, actors and directors were usually employees. It was therefore known that for the next 7 years, for example, the Clark Gable brand could be exploited in multiple ways and could be used broadly across certain types of roles and genres. Thus, a program could be developed for one or more seasons, in which the genres, narrative modes, and stars would alternate in accordance with the perceived and statistically monitored needs of the public, including the knowledge about differences between urban and rural audiences, foreign audiences, and so on. The technical production on the set itself was subject to standards and rules that were closely followed. When we speak of the classical or "golden age" of *Hollywood* cinema, we actually speak of the one in which standardization was most advanced and efficiency gains were the highest. Standardization, now we call it algorithms, is a mode of achieving predictability, in terms of production and distribution costs as well as audience behavior. The notion of automated screenwriting is just a more advanced version of this trend. It is driven by capitalism in every industry. Thus, to answer your question, if we define film as an industry like any other, we will also see standardization as a capitalist strategy in the film sector.

Hollywood's notion of "four-quadrant movies" which are meant to appeal to all four major demographic "quadrants" of the movie-going audience (over and under 25 years old, male and female) is a specific case in point. It complements the diversification strategy, i.e., the production of different types of films to different sectors of the audience. The recent history of animated feature films is a good example here. This genre currently experiences the commercially most successful moment in its entire history. This can be explained by the fact that the Hollywood industry has managed to expand the market for animated features by shifting its focus from just one audience sector—children—to a many different sectors, incorporating different forms of humor as well as specific references to the pop-cultural tastes of different generations in one and the same film. But let us talk about film as an art form, which in my view, also includes issues of the film industry.

Roland Teichmann Yes, please, what is your understanding of film as art?

Alexander Horwath Let us accept that film is a cultural industry. Even then, doesn't it still involve some sort of unpredictable, emotional reactions and irritations that also contribute to our understanding of the arts? In the case of industrially produced narrative film, for instance, the sheer temporal lag between the stages of conception, investment, production, and exhibition is enough to guarantee at least some sort of unpredictability. To a certain degree, the social mood, the reigning trends, and the surrounding culture which shape the design on any given film will already have changed by the time the actual product reaches the market.

This is a real factor of uncertainty. There are many others, of course, but this gap between product design and finished product is something we can even see with commodities in the supermarket. They are constantly facing the process of market adaption, too. We have not yet arrived at any description of film as an art form, only at the point where the fantasy of total predictability can be understood as rather weak. Most importantly, of course, the industrial logic to design films as pure entertainment products still has to confront the human mind, and as long as the viewer is not a machine, *films* will have to be created with real *audience*s in mind and, thus, a multitude of reception qualities. Such kinds of uncertainty can never be wiped out, so I would contradict the dystopian vision of film that you've described at the outset. Nonetheless, I would affirm that there is an ongoing tendency toward "economization" which, in capitalism, follows film production and exhibition from the start.

Roland Teichmann Let us talk about state support for film and government subsidies. Government funding was designed as a sort of counter-model to the purely economic concept discussed above. What would you say? Should it be a "competitive model," and to what extent should subsidies take on economic aspects, or should it work against this economization of film, which includes these practices of standardization that would lead us exactly to what we are fundamentally trying to avoid since the beginning when we wished to promote individuality and diversity? What, in your view, should be the purpose of modern state support for film in this increasingly economic process? We know that state subsidies operate with public money, which is increasingly becoming scarce, and therefore face an ongoing legitimation crisis. Subsidies seem to address a "conflict zone" between the arts and commerce. Stimulate or simulate the market? How would you purpose film subsidies in this game of "free" market forces?

Alexander Horwath Let me begin with a few excursions into film history, because film subsidies do not coincide with the invention of film. As a medium, film developed from other media, out of certain manufacturer, exhibitor, and audience constellations, which had initially existed with other profitable media. Georges Méliès (1861–1938), for example, was a French illusionist who turned to filmmaking because it fit his interest in magic tricks. It was from this viewpoint that he discovered and applied several technical and aesthetic innovations during the earliest days of cinema. Others were busy with other forms of entertainment or science to which the new technology of film and its specific capacities could be applied in a profitable manner. The profit was mostly monetary, but it also took the form of increasing knowledge, as in the case of scientists, geographers, or historians who saw the potential of film to expand their horizons. Thus, film as a medium developed in various forms. And the only forms of public or institutional sponsorship were those geared toward film's scientific usefulness, to its role as a document, or its promotional capacities concerning the reputations of political figures and topics.

In the realm of art, nonprofit film investments came in the form of individual support, a famous example being the Comte de Noailles, a man of means who financed Buñuel's *L'Age d'or*. These types of patronage, besides the industrial system of production, existed from the beginning. Until the mid-1950s, or at least until after WWII, there were no publicly supported feature films as far as I know. For five or six decades, cinema developed without any direct state support. Nevertheless, a rich palette of works emerged during that period which needs to be understood as *the* formative years of cultural expression in the moving image. Thus, if any event had ended the film medium, we would still speak of film as an art form and as cultural heritage of considerable proportions, without any state film support.

In the course of this pre-funding period, we also know that governments and special interest groups used film as a medium of propaganda, either explicitly or implicitly, simply because it was a spectacularly popular medium. As such, it was always part of cultural and political struggles. It was an important tool in revolutionary situations, in totalitarian states, and in democratic societies. In the USA, during the Roosevelt era, for example, film and radio played an especially important role in achieving and sustaining a certain consensus in society.

But cinema was still predominantly produced by private enterprises. And I would also differentiate between the earlier attempts by governments to use cinema in order to manage public discourse and the later concept of state support for film, which, as the name implies, is strongly tied to a particular image of cultural policy and the acceptance of art funding in these democracies.

The development of French film culture, and of its support systems, after WWII was the early model for practically all film subsidy programs installed elsewhere. Because of its reach and industry-wide acceptance, then as now, the French model is still being viewed as the one to copy, no matter how much it may have changed over the past 60 years and no matter how applicable it may have been at different points in time to the different landscapes of film production around the world. At its core, this is due to the lasting influence of the French cinema discourse between 1945 and the early 1960s. Its notions of film authorship and style established a certain understanding of cinema as *something more* than just an industry. It allowed governments, filmmakers, and industry captains as well as French citizens to consider cinema alongside the other arts, as a form of individual expression that can carry as much cultural value and meaning as a great novel, painting, or opera. Ironically, however, the French critics and filmmakers who set the stage for this model of individual film authorship had derived their convictions to a large degree from the products of the Hollywood film industry. Looking at the American cinema, they saw artists at work where previous critical generations had only seen purveyors of trivial mass entertainment. They identified director-*auteurs* with a specific worldview and style the less educated viewer could only consider as anonymous or "typically American" commodities. Alfred Hitchcock and Howard Hawks were the two most famous early examples of this revision in film taste which quickly gained influence all over the world during the 1960s and 1970s.

At the same time, and already during the 1950s, the American film industry had massively strengthened its hold on European film distribution and consumption so that European film producers found it harder and harder to recoup their investments. Broad shifts in leisure time priorities and the rise of television as the new go-to medium for certain entertainment needs also contributed to a shrinking of the market for profit-oriented film producers in Europe. Thus, the new and widely disseminated image of narrative cinema as a sphere where important director-"authors" practice their "art" not only opened the doors for a new generation of individualistically minded filmmakers who would never have entered the traditional pathways into the industry; it also came to the rescue of the old European film industry. Producers, still commercially minded, could now reframe their business as a cultural activity with national and artistic impact. An activity whose protection against monopolistic market forces could be legitimately argued vis-à-vis policy-makers and taxpayers. Thus, state subsidy for film production was born. The noble humanist argument that film is an art and can play a major role in the democratic process of identity-building through culture was understandably met with applause by those who stressed the need for national European film industries independent of the American model—even if, in the end, it was all about keeping their business afloat. To this extent, I believe that the legitimacy of state funding for film emerged much more strongly than it would have solely on the basis of artistic reasons. Which is why, from the very beginning, the distribution of state subsidies in most European countries was carefully orchestrated. It aimed at focusing on the needs of the large production companies and not just that of the artists. In several countries, though, there have been phases where the role of the producers was diminished and film subsidy policies were influenced more by the filmmakers' point of view, such as West Germany between the late 1960s and early 1980s or Portugal for much of the post-1974 era.

But today, it seems that the general European film support model is once again dominated by what we might call the "pseudo-commercialism" of "pseudo-producers," if we truthfully compare them to the classical model of subsidy-free film production. To this day, the wider public still understands cinema to be a full-fledged entertainment medium, even if its role in the wider field of entertainment and leisure activities has once again been shrinking for some time now. Alongside this view, a wealth of other legitimate identities has been established for film. Neither perspective can be easily dismissed, so to a certain degree, I understand the need to base film subsidy policies on both types of acceptance: subsidized film production should be widely visible in the cultural life of a nation, and it should also be distinctive enough to merit participation in the global arena where film is being discussed as an art practice. And other, currently more visible moving-image practices may already wait at the door to compete with cinema for state subsidy. They might reach a wider audience than films do today, they might carry just as much cultural and artistic value in the eyes of the commentators, and they still might not be able to recoup their investments in a pure market-economy model.

Roland Teichmann And what about Austria?

Alexander Horwath Historically speaking, Austrian cinema is one of the latecomers to the state subsidy party. Individual feature film productions began to receive subsidies from 1973, coming directly from the culture ministry. It was only in 1981 that the Austrian Film Institute (ÖFI) began as a fully state-funded independent agency for distributing subsidies to producers of feature-length works. The Film Institute followed the existing European model, but by that point in history, any private, unsubsidized feature film production in Austria had more or less ceased to exist for a decade and a half. During that highly precarious period for narrative Austrian cinema, and already since the mid-1950s, a strong and unusually visible movement of independent and experimental filmmakers staked their claim for a very different definition of film as art, with or without subsidies.

To this day, it seems that Austrian film culture has managed to keep up a less hierarchical view of the various forms of cinema; the role of the artist-filmmaker or *auteur* is still a bit stronger in this national cinema culture than elsewhere in Europe. Earlier, you addressed recent changes in the understanding of how subsidy schemes should be designed in the future. In this first phase of state support for Austrian cinema, these were the questions: Should we "simulate" a major market for Austrian cinema and rebuild the industry of old? What is the quantity of production that needed to be achieved so that a new generation of craftsmen and filmmakers can arise from the ashes? Should the distribution of subsidies be motivated by issues of national identity and cultural diversity, in order to counter the dominance of Hollywood? Why should Austrian film audiences be swamped with the "American way of life," with no local stories available at the cinema? These justifications for film support are still to a certain degree related to the protection of film art as a culture for minorities. This is how legitimacy is produced in a democracy. The market for these "art-house" films may be small, but the product that the taxpayer will have to invest in comes with other dimensions relevant to his or her identity as a cultured person and as Austrian citizen. It could be argued that at different points in the history of Austrian film subsidies, different interests gained the upper hand. But throughout, there was also a basic consensus that it is the aim of public film funding to safeguard a cultural and arts-based approach to film, to enable the creation of a cinema that is not dependent on the model of the capitalist free market. Such a view had of course been tested—and mostly approved by the public—in earlier, more conservative decades when it came to public funding for high culture such as classical music and theater. And so, to this day, film funding has primarily been in the purview of the education and culture ministries. Only recently, and only in a limited fashion, an additional funding tool has been set up by the Federal Minister of the Economy.

However, the more our democracy changes from representative to plebiscitary, in which all possible questions regarding society are no longer delegated to elected representatives of society, but instead questioned publicly, the more this consensus had run into difficulties. I see more and more postings every day which read: culture, which does not carry itself, because it does not interest enough people, is not needed anymore. To me, this kind of reasoning seems to become ever more socially acceptable. This pressure is felt by all because democratic societies in Europe tend to develop in this direction. And now, unfortunately, as audience figures of non-entertainment works in cinema decline, the legitimacy of film funding for cinema is ever more endangered.

Now, let me recap briefly: in the 1950s and 1960s, the *auteur* movie, the individual work as an art form, had established itself in such a way that state support systems had developed for this kind of film. However, subsidy schemes were always trailing societal developments. The films of Doris Dörrie in Germany, Luc Besson in France, and James Ivory and the *Heritage Films* in the UK—a critical term used in opposition to a film genre label used by the film industry—these were all cinematographic forms with a wide public audience, were triggering the question as to whether we should subsidize films more generally and not just grumbly auteur movies.

For example, the transformations of support to the German film industry into one, if you will, strong support for more conventional, generic forms, which had later turned out to become more strongly supporting the economics of film, had actually meant that Germany could do these sorts of films. In the 1970s, German film was Werner Herzog and Helma Sanders-Brahms, sometimes they were original, sometimes they were less so. But then came "Das Boot" from Bernd Eichinger, and then certain forms of German cinema have proved their worth on the market, and state subsidies had followed suit.

So, I do not believe in an idea of funding that can preempt or determine the kind of films that will have success in the market, but I also believe that state support is always catching up with societal developments. I believe it does not mean anything negative; it is its identity: public funding is compensatory and works better when artists have done their part. State support has changed since the 1980s because a small number of commercially highly successful European films like "Le Grand Bleu", directed by Luc Besson, or some of Bernd Eichinger's productions in Germany, became reference points for cultural politicians in Europe: If such films have more than 30 or 50 times the number of spectators in the local market than the average subidized "art-house" film, doesn't this show that taxpayers prefer these films? And shouldn't subsidy schemes, therefore, adapt to become more in tune with such preferences?

Instead, I believe that subsidy schemes should ask: what does it mean when the dominant ideas of a medium change? For example, when we say that between the 1960s and the 1980s, a clear broadening of what film or film can be had been established in the German-speaking world. Larger sections of society had more and more embraced this concept that film is more than what it had been in Germany or in the German-speaking countries in the 1950s. This widening had been something socially desirable because I find it desirable if an artistic or cultural expression widens the range of possible forms and modes of action of artistic expression, in particular once these are intriguing dominant forms of culture but still fertilize society. Thus, in the cultural policy of a representative democracy, state aid for film would have to compensate for the fact that social change is limited to a dominant paradigm of what film is. Instead, it should realize the vision that film can be much, much more than what our present social climate may represent.

And then there is the question whether cinema is still the place where critique can happen, and when we say cinema, we come from the promotion of filmmaking to the promotion of film culture. From what I have said before, I would wish to know more about individual European countries, the ratio of the total public funds to the arts as compared to state aid for film, and also the total tax levies a state, including the municipalities and so on for the production of film, is collecting, from the avant-garde film to the blockbuster movie, and the public funds for film-cultural infrastructure spent, such as cinemas, festivals, heritage institutions, film science, film studies, and the like. To a certain extent, I am aware of the funding policy of the Austrian Film Institute in the last 10 years, that, for example, also DVD production can be subsidized and also activities related to cinema in school as well as publications and research about film.

But I am also aware of the fact that attention for film subsidies for the film as culture is likely to weaken throughout Europe. I suspect that the relationship between public funds for filmmaking and public funds for film culture is only balanced in France. Being a film museum director, I am generally concerned about the importance of film for culture. If there is a strong film culture, with problems and debates and a vital discussion about these things, then an effective subsidy scheme would, however, also have to be equipped for the latest challenges. Austrian "art-house" movies are now having fewer viewers and are given only limited attention by the cinema audience. But I do not believe that a whole lot of people are still watching movies in cinema theaters at all. Still, albeit being a cinematographic person, I do not consider dwindling audience figures as being too dramatic. I believe that these works are well seen, but we have too little reliable statistical knowledge about the perception of running images in all possible forms and formats. This has improved, but I would wish to see this improve even more.

Roland Teichmann With regard to these new forms of distribution via online portals, *Amazon*, *Netflix*, and countless others, we would also wish to see data more openly accessible.

Alexander Horwath But these platforms don't seem to be interested in such forms of transparency.

Roland Teichmann Because the numbers are obviously not so good and that would be bad for business.

Alexander Horwath I do not want to overburden this issue, but I believe that, as citizens and taxpayers in a system where private investment and cultural subsidy intermingle constantly, we also have a certain right to transparent information about all the forms of reception that films and other cultural products engender.

Roland Teichmann Indeed! But as Film Institute, as you may know, we are legally obliged to regularly publish audience cinema attendance figures. On top, we can access figures from Rentrak Corporation, a global media measurement company serving the entertainment industry, albeit against fees (Rentrak merged with comscore in 2016). In fact, the international figures in the form of visits, sales, revenues, and festival participation numbers are key factors for the success and the relevance of subsidized films. But these are less well recognized in public than the figures on national market shares.

Alexander Horwath Okay, but I reckon that these international figures are also only halfway reliable and do say little about the real use via DVD and other contemporary online consumption forms through the new online and video streaming portals that we know of today.

Roland Teichmann I would like to come back to another important point we have already mentioned before: I find the idea exciting that we live in times when demands for data transparency become stronger every day. We all want to know more and more fully which money is being used, who benefits, and to what effects the money is spent. And, on top, we live in times of growing competition for public money, money that is becoming increasingly scarce and its allocation ever more competitive. Finally, what do you think about our selection mechanisms for funding? We find that more and more projects are receiving too little money; this is why we need a smart and fair allocation strategy which requires clear criteria to be implemented, right? In your view, which should be the essential criteria for a film to be subsidized by a public funding body like us?

Alexander Horwath Perhaps, surprisingly, I would argue that tax incentive models are a good idea to attract money for film. However, this has nothing to do with funding for the arts, nothing at all. To my knowledge, film funding for the arts has had a difficult time to develop, and, lately, film culture is increasingly being questioned again. And this has certainly got to do with digitization and the changed forms of communication in society.

It is state film policy and government subsidies to stop and revert this trend. And this can only be done by involving the entire film sector. This is not just because it is directly related to my past activities, but because one can see through film history that strong, outstanding quality of individual works and individual careers and *oeuvres* of film makers have emerged because the *whole* film culture of a society made this happen. The great epochs of the avant-garde film have not simply emerged coincidentally, but are associated with institutions, with structures and with critics and magazines that have exchanged over these films. Today, in Austria, however, I see film funding mainly as an economic struggle of people working in an industry where money has become the one and only "production factor" for creativity. Well, to return to your question, I believe that, for the size of our country, we face one big problem: too many films are publicly subsidized, and far too little amounts of public money and support are invested into film culture as a whole. Here, it is important to know how much public money is invested into the media and entertainment industries at large, be it TV, film, cinema, or else. What is actually paid out as media subsidies to the industry as a whole? If you look at how much money public broadcasting gains from obligatory audience fees collected, subsidies to film as an art form only account for three percent of that money (600 million euros are collected from broadcasting fees, whereas only 20 million are spent by the Film Institute, as annotated by the interviewer). And the films funded have 1.000 spectators only? I follow the speech you recently gave at the Film Academy and in which you decided to take a strong stand against the tendency to economize film funding in general. But I do not believe you or anyone else would say that film is only to receive public funding if there is a clear proof that these funds only go out as funding for film as an art form. I think Austrian filmmakers face too little competition. In almost every other European country, producers have to overcome higher hurdles to receive support. This may surprise you now, but I believe that large numbers of films in Austria have been realized much too quickly in order to economically sustain the production companies. And money is given out too easily. And at the same time, the producers are meant to be blamed for this malaise too. They are, of course, to a certain extent, because they are submitting their projects in line with the requirements, but, as a matter of fact, the decision about whether or not a production is subsidized is practically exclusively made by two or three funding institutions, their juries, and their managers. This is not a satisfactory situation. It is therefore necessary to create forms of communication in which *real* accountability and transparency can take place.

What I am criticizing is that the communication between the funding bodies and the beneficiaries is much too anonymous. Accountability of success of the schemes is apparently a big problem. In fact, these shady, often untransparent practices and the institutional structures that carry them are a nuisance, and I believe it is at least worth trying to be much clearer about this because the funding bodies shape the face of Austrian film to an extremely high degree. I do not want to say that individual artists are incapable of producing good films. Michael Haneke, Ulrich Seidl, or Jessica Hausner came that far mainly due to their talent, abilities, and skills. Without state subsidies, however, talent careers would have stopped too soon. Haneke's trajectory as an artist is the best proof that long-term public support via subsidies can enable an outstanding oeuvre that would not have been created if the audience numbers of his first few films had been used as the sole measure of his films' value. His first feature films had no commercial success at all in Austria. But funding bodies applied different measures of value such as international festival awards and success with both Austrian and international film critics. Thus, Haneke's work could develop over a longer timeframe and eventually led to a career which can certainly be deemed artistically *and* commercially successful, as far as "art-house" cinema goes. This is a subsidy tradition which I continue to find valid and which one should also pursue in the future. But it is always a matter of accountability vis-a-vis society at large. Subsidy schemes that are based on a stated *cultural* mission should not, by a sleight of hand, turn into a routine service for an *industrial* sector. I'd rather keep the arguments arpart and introduce two separate subsidy schemes—one to support the business of film, the other to support the art of and culture of film. There are valid arguments to be made for both; and the respective results of such subsidy schemes could then be responsibly measured according to their own logics—instead of the muddled discourse that seems prevalent now. Again, I would call these accountability concerns as extremely important. And I do this because

I want to point out that this would also imply a somewhat "harsher" treatment of subsidy applications, a type of policy innovation that is really tackling with the issues in better ways. We can either continue moaning about the current policy practices of "muddling through" or focus more concretely on what film and cinema would today really need and on what filmmakers would really require in the digital era.

Roland Teichmann Yes, and recent changes in the economies of film, which threaten existing business models (trends such as technology convergence, declines in DVD sales, and the rise of digital downloads and the emergence of streaming portals, etc.), do not only affect the financing of film but also the ways film is now migrating into the net content, right? But in which form? This issue was massively debated at the Cannes Film Festival, also by Pedro Almodovar, who resided as president of its main competition jury, when he complained that a movie of *Netflix* or *Amazon* gets no prize, because it does not come from the cinema.

Alexander Horwath He has taken that back, didn't he?

Roland Teichmann Yes, he did. But still, that was his first message! This issue of competition between classic cinema and VoD is one of great concern. You have already mentioned it before: far too many films come to the cinema, and cinema becomes something like a "water heater"; the films cannibalize themselves with the audience. At the same time, there is a growing online market.

Alexander Horwath And their offers are not at all satisfactorily structured. When something offered by *Netflix* and *Amazon* is not well publicized, which libraries may be accessed and which may be not?

Roland Teichmann Do you see a fusion between what happens in the Internet and what is developed, financed, and exploited by the great American players and the European cinemas? Are cinema and VoD two separate worlds? Does content follow the appropriate form?

Alexander Horwath I think that cinema is a format of film distribution that will continue losing its audience appeal, such as theater will be for theatrical plays. Nonetheless, these traditional forms of arts distribution have long thrived without public support. Now that cinema is losing its importance, we should not stop doing it. Because cinema still attracts different people at the box office, it creates different perceptions of a wide variety of works of creativity. And this does not seem to lose its legitimacy at all. Still, while online consumption is growing fast, cinema as an art form now becomes like a theater or a concert. This also makes it possible to prescribe clearer funding structures. Film as art and its support respectively will have to live with the idea that it will become a smaller segment in the overall game of promoting culture. But film designed for "art-house" cinema has got a lifesaving power. This can be proven by growing importance of film festivals around the globe. And the success of festivals will not disappear so quickly, so cinema, the classic, regular cinema, and the number of cinemas in a city will survive. Subsidies can be complementary, but they cannot change things for the better. In this respect, one has to live optimistically and positively with the historical changes that are currently happening and also accept that there are fewer and fewer sites where cinema will give space to the public who want to watch a movie.

To conclude, I would like to stress that public film funding is at the center of a complex interplay of powers. Economic support, tax incentives, and clearly differentiated financial support for art-house films need to be rightly defined in order to be culturally effective. The powers need to be balanced out carefully.

Roland Teichmann Well, let us please stop here. Thank you very much for this interview.

Alexander Horwath, b. 1964; curator and writer on film and the arts; director of the Viennale—Vienna International Film Festival (1992–1997); curator of the Documenta 12 film programme (2007); director of Österreichisches Filmmuseum—the Austrian Film Museum (2002–2017); several book publications; member of the Akademie der Künste, Berlin.

Roland Teichmann LLM, is director of the Austrian Film Institute. After initially studying history, political science and ethnology at the University of Innsbruck, he obtained a law degree at the University of Vienna. Among many other functions, he is member of the board of the Austrian Film Commission, board member of European Film Agency Directors (EFAD), advisory board member of Film Industry Support Austria (FISA), national representative for Austria at Eurimages and member of the European Film Academy (EFA).

Public Film Funding Under a Federalist Paradigm: A Synoptic Analysis of State Aid for Film in Germany

Udo Bomnüter

1 Germany: A Plethora of Film Subsidy Schemes

Germany spans a large institutional network of public film funding schemes across the country. In total, these schemes account for (federal and regional) subsidies of more than 300 million euros per year. Support schemes come as direct subsidies supporting national film culture. State film support is organized on federal, regional, and local levels, through either conditionally (i.e., when films are successful at the box office) repayable loans or as nonrepayable grants (including prizes).

On the federal level, nonrepayable grants for the production of theatrical films are available under the *German Federal Film Fund* (*Deutscher Filmförderfonds*, DFFF), provided by the Federal Government Commissioner for Culture and the Media (*Beauftragte der Bundesregierung für Kultur und Medien*, BKM). BKM also provides approx. EUR 44 million each year via several subsidy schemes and prizes (Bundesfinanzministerium, 2015). The *German Federal Film Board* (*Filmförderungsanstalt*, FFA) grants film production funding under the *German Film Subsidy Act* (*Filmförderungsgesetz*, FFG) by way of limited recourse loans (so-called project funding). Furthermore, producers may benefit from the economic success of their previous film by way of applying to the FFA for reference funds, which are disbursed as grants ("reference funding"). Since 2016, production funding for theatrical films as well as for TV series is available under the new scheme of the German Federal Ministry of Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie*, BMWi), the "*German Motion Picture Fund*" (GMPF). DFFF, GMPF, and FFA funding under the FFG are all administered by the FFA. In addition, almost every German state maintains a regional film and TV subsidy scheme. Most provide regional production funding

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in the form of limited recourse loans, which must be repaid from certain proceeds of the exploitation of the film/TV project according to a recoupment plan.

All German funding programs may be combined with each other as well as with European funding programs if the total amount of subsidies does not exceed 50%, or 60% for co-productions funded by more than one Member State, as provided by the European Commission's *Cinema Communication* (as renewed in November 2013). Difficult projects (such as short films, films by first-time and second-time directors, documentaries, or low-budget or otherwise commercially difficult works) as well as co-productions involving countries eligible to receive official development assistance from OECD are exempt from these limits.

Now, the main purpose of this chapter is to provide a synoptic overview of Germany's multidimensional and highly complex system of State aid for film. Mainly descriptive in fashion, it will present the country's film policy ecosystem by taking public funding institutions as the key elements responsible for designing and implementing the various subsidy schemes. It will apply a so-called meso-level perspective to study institutional policy design and practice.

We know from theory that institutions may function as "micro-macro-links," as has been theorized by Altmeppen (2011), links that work between the macro-level of the political and legal environment and the microlevel of individual stakeholders who are active in film production and distribution. Subsidies, it is assumed, link up elements of both the "media system" with all its recipients on the one side and all other stakeholders affected on the other side. Typically, these "linking pins" are film funding bodies and film production and distribution companies, but also TV and video production companies. Analyzing subsidies on a "meso-level" of film policy thus means to link institutional structures and processes with those committed via the institutional frames that these regulation instruments involve.

In the following, a synoptic overview of Germany's public film supply support schemes is provided, and present policies, instruments, and measures are outlined. These schemes run under a "federalist governance paradigm" (Halle, 2016). Federalism is a unique feature of German policy making that has grown out historically and combines high levels of central State funding with a decentralized governance structure through regional funding bodies installed in the *Länder*. Then the performance of public film funding in Germany is critically acclaimed. Theoretical concepts are used only sporadically in this chapter.[1]

[1] Some of them do apply such as *bureaucracy theory* from the field of new political economy (Kumb, 2014; Niskanen, 2007) or *governance theory* with a special focus on policy design and practice (Howlett & Rayner, 2013; Linder & Peters, 1990).

2 Key Film Industry Facts, Governance Principles, and Funding Institutions

2.1 Key Film Industry Facts

Germany's film industry is one of the strongest in Europe (European Parliament, 2014; Lange & Talavera, 2015). According to a new study on behalf of the BMWi, since 2009, film producers' revenues have remained stable at around 4.5 billion euros. As measured by volume of revenues, German TV stations are still by far their largest clients. The number of feature-length films with German participation, which were first shown in the cinema, has steadily increased from 2009 to 2015 to finally 226. However, further significant growth is not expected, whereas 84% of the cinema operators surveyed believe that too many films are starting. Likewise, the turnover of cinema houses in 2014 was slightly lower than in the two previous years, at an average of 1.49 billion euros, but in line with the average from 2009 to 2014 (Goldmedia, Hamburg Media School, DIW Econ, 2017). By this, Germany continues to be among the top ten of global film markets (Lange & Talavera, 2015), with a cinema audience of 139.2 million in 2015, triggering gross box office revenues of 1167 million euros. On top, the domestic market share of German films reached a 5-year high of 27.5% in 2015 (Filmförderungsanstalt, 2016a).

What makes the German film industry so successful? First and foremost, it is assumed that public film subsidies play a significant role in contributing to the overall performance of the industry. Within Germany, 40% of all "classical" subsidies including TV, film distribution, and cinema, all worth ca. 275 million euros, come from federal institutions and 60% from the *Länder*. Since 2007, the *Deutsche Filmförderfond* (DFFF) has also provided an *incentive promotion* tool which was endowed with 50 million euros in 2016. In addition, the *German Motion Picture Fund* (GMPF) of the BMWi has been funded since December 2015 with a subsidy budget of 10 million euros (Goldmedia et al., 2017). Overall, some 90% of all German films have received some sort of public funding annually over the years. This is exceptional because, on average and in EU comparison, only 40–50% of all the national films production budgets are financed for by public money. With the public hand spending more than 300 million euros per year, public funding constitutes the most important financing source for film in the country (Castendyk & Goldhammer, 2012; FFA, 2016a; Wendling, 2012).

Table 1 offers key data of the German film industry (2011–2015) by number of film releases, German films (co)-produced, number of US films, their admission numbers and market shares, and box office gross revenues.

2.2 Governance Principles

2.2.1 Film Policy Goals

German media and cultural policy aims are generally directed at ensuring the freedom and diversity of the media. It is claimed that public media policy is to

Table 1 The German film industry—key facts

Year	Film releases[a]	German films (incl. co.-prod.)[a]	US films[a]	German films: admissions (million)/market share	US films: admissions (million)/market share	German films: B.O. gross (million euros)[b]	US films: B.O. gross (million euros)[b]
2011	532	212	144	28.0 (21.8%)	72.5 (61.2%)	206.9	535.8
2012	551	220	148	20.5 (18.1%)	74.7 (61.1%)	156.8	571.5
2013	563	223	159	30.4 (26.2%)	83.7 (65.4%)	239.8	660.4
2014	570	229	143	25.7 (23.7%)	67.7 (62.6%)	206.9	545.0
2015	596	226	152	37.1 (27.5%)	69.9 (58.7%)	311.3	586.5

Sources: *Filmförderungsanstalt* (2012, 2013, 2014, 2015b, 2016a)
[a]Premieres only
[b]Based on average ticket prices

integrate political, cultural, and economic goals (BKM, 2014; Müller & Gusy, 2012). Film policy as a subfield prefers economic and cultural over political goals such as media pluralism (Knorr & Schulz, 2009; Storm, 2000).

2.2.2 Legitimacy

Three main aspects legitimize government intervention for film in Germany: (1) *market power*, (2) the character of film as *merit good*, and (3) the existence of *external effects* (Knorr & Schulz, 2009; Kumb, 2014; von Rimscha, 2010). The problem *of market power* is a big one and has its origin in the worldwide dominance of US films. In 2015, their EU market share was 64% by admissions (EAO, 2016), and in Germany nearly 55% of films were of US origin (Filmförderungsanstalt, 2016a). The superior market performance of US films is also observable in Table 1. On the supply side, the German film industry is rather fragmented, in contrast to the vertically concentrated US film studios. Hence, the financial performance of most German film production companies is weak: 23% realize negative returns, another 42% hardly break even (Castendyk & Goldhammer, 2012). Weak finances, high levels of capital demand, and audience demand uncertainty are characteristic for the film industry (Morawetz, Hardy, Haslam, & Randle, 2007) and hinder the majority of production companies from building a strong equity base (Keuper, Puchta, & Röder, 2008). Strengthening German film companies is thus a frequent argument in favor of state intervention by means of financial support (von Rimscha, 2010).

2.2.3 Economic and Cultural Objectives

As mentioned, policy objectives are either driven by economic or cultural goals (Duvvuri, 2007; Storm, 2000). *Economic objectives* primarily aim at the structural improvement of economic conditions for Germany's film industry and the boosting of its international competitiveness (BKM, 2012). Additionally, regional funding institutions pursue the promotion of their respective filming locations (Kumb, 2014). *Cultural objectives* are focusing on the advancement of quality and diversity of German films and may include the support of new talented artists (BKM, 2014).

2.2.4 Funding Processes and Tools

In Germany, financial grants have been the dominant tool employed for achieving the objectives of film policy (Cooke, 2007). The funds are allocated through public bodies acting on behalf of their respective national or regional governments (Kumb, 2014).

Historically, public funding for film had its beginnings in the 1950s in the industrial policy program of so-called deficiency guarantees, funds provided by the Federal German Government and Bavaria to cover any shortfalls arising from capital or cash flow. The program was a reaction to the film industry's post-war decline. "Cultural funding" took up in 1956 when the *Federal Film Prize* was endowed with substantial premiums by the Ministry of the Interior. A further milestone was the establishment of the *Foundation for Young German Cinema* (*Kuratorium junger deutscher Film*) in 1965. "Economic funding" was boosted by several developments: the decree of the *German Film Subsidy Act* (FFG) in 1967; the beginnings of regional film funding in the late 1970s in Berlin, Hamburg, and Bavaria, which also covered cultural aspects; and, more recently, the introduction of the *German Federal Film Fund* (DFFF) in 2007 (Castendyk, 2008; Knorr & Schulz, 2009).

The DFFF's launch was a particular case in point as it expressed an important change in policy design: until 2005, Germany's film policy mix included a tax shelter for investments in film production. This induced a massive accumulation of private equity with media investment funds. Since the late 1990s, nearly 15 billion euros were used to finance US movies. Not surprisingly, this move was later labeled "stupid German money" in Hollywood circles (Pauly, 2008). Due to this undesired effect, the tax shelter was abandoned and the DFFF introduced instead (Brehm, 2009).

Today, the *Korda* database (2016) lists a total of 16 German funding bodies supporting film production plus *Eurimages* as the EU's supranational institution. There are four national and twelve regional funding bodies. Three cultural institutions for Bremen, Saxony-Anhalt, and Rhineland-Palatinate have not been included, possibly due to their limited film funding activities. Some *Länder* have mutual funding bodies, e.g., Berlin and Brandenburg or Hamburg and Schleswig-Holstein, whereas Saxony and Saxony-Anhalt not only participate in the *Central German Media Fund* (MDM—*Mitteldeutsche Medienförderung*) but also support film and other culture-related activities through their cultural foundations.

Most institutions provide a range of funding schemes, each focusing on different aspects. The resulting variety is unique and reflects the specific history and political traditions of Germany, more specifically, the existence of many sovereign states of various sizes and kinds within the country, which dominated until the late nineteenth century (Toepler & Zimmer, 1997). Based on the principle of *cooperative federalism*, the "cultural sovereignty" of the *Länder* sets out their primary responsibility for cultural matters. Naturally, this restricts options for national support (Gerlach-March, 2010). As a consequence, the *Länder* have a much greater weight in German film policy than regional states in other European countries. Hence, the federal government's support activities consequently focus on economic dimensions of film funding, complemented by the promotion of cultural projects with national significance (BKM, 2014).

2.2.5 Specific Funding Purposes

The film funding bodies' specific targets are formulated in relatively general terms, both in the national film funding law (FFG) (par. 59: *quality and economic efficiency*) and in the different funding guidelines of the regional support schemes (Duvvuri, 2007). Existing specifications refer to promoting particular federal states, young filmmakers, or special kinds of films. In view of the apparent low level of differentiation, the present description chooses a simple dichotomy to categorize funding bodies as either economically or culturally focused. An economic focus does not rule out pursuing secondary cultural objectives (Daamen, 2008).

Clearly, a funding institution's focus is mirrored by its decisions for funding. For example, if a body mainly supports documentary features—a genre which is typically less commercial than fiction and might thus be associated with "arthouse" cinema (Austin, 2007), it may well be focusing on a cultural orientation of funding. Similarly, the average funding amount indicates an institution's tendency to support higher-budgeted (commercial) projects.

2.2.6 Funding by Type

As in all European funding systems (Newman-Baudais, 2011), German funding bodies regularly assign the greater part of their support to feature film production. Film subsidies are regularly earmarked and paid out through either conditionally repayable loans or grants (including prizes). Their allocation is either *selective*, i.e., based on decisions of competent bodies, or *automatic*, providing that eligibility and award criteria are met in advance.

2.3 Funding Institutions

In 2015, the ten biggest national and regional funding bodies provided a total of 191 million euros in production support for theatrical films. This amount has remained relatively constant since the introduction of the DFFF (2012, 2016; Filmförderungsanstalt, 2008, 2016a). The national funding bodies operated with a slightly higher funding total than the bigger regional ones. By adding the smaller regional institutions, the ratio currently comes to 50:50. The three regional bodies with the highest budgets are all located in regional centers of film production: North Rhine-Westphalia, Bavaria, and Berlin-Brandenburg. Together they account for by almost two thirds of total regional funding, distinctly ahead of the *Filmförderung Hamburg/Schleswig-Holstein* (FFHSH) in the Hamburg region.

Taking into account "territoriality" and "focus of objectives," the various funding bodies can be grouped into four basic categories, as shown in Table 2.

The positions of bigger regional funding bodies with a relatively strong cultural focus, e.g., MDM or FFHSH, are less distinct. Due to their emphasis on supporting local film industries and relatively high budgets, however, their positions are closer to the group of bigger, economically oriented institutions than with the smaller cultural ones.

Table 2 German film funding—by category

<table>
<tr><th rowspan="2">Focus of objectives</th><th colspan="2">Territoriality</th></tr>
<tr><th>National</th><th>Regional</th></tr>
<tr><td>Economic</td><td>FFA, DFFF</td><td>FMS, FFF, MBB, FFHSH, MFG, MDM, Nordmedia, HessenFilm</td></tr>
<tr><td>Cultural</td><td>BKM, Kuratorium</td><td>Filmbüro Bremen, Saarland Medien, Filmbüro MV, Kulturstiftung Sachsen</td></tr>
</table>

Source: The author

Regarding the average funding amount per film, there are significant differences that reflect the institutions' foci of objectives: In 2015, the economically oriented DFFF was on top of the national funders averaging 573,600 euros per film, with the *Kuratorium*'s 44,500 euros at the bottom (DFFF, 2016; Kuratorium, 2016). Among the regional institutions, the highest average amount was provided by the *FilmFernsehFonds Bayern* (FFF) (2016a) with 384,800 euros, the lowest by small cultural institutions like the Filmbüro Bremen (2016) with a maximum of 30,000 euros. Accordingly, the share of funded movies tends to be higher at economic than at cultural institutions, which have a greater preference for documentaries.

Overall, 675 positive funding decisions were made by national and bigger regional funders in 2015 (Filmförderungsanstalt, 2016a; Kuratorium, 2016). Considering that annually 220–230 German films are released, this implies the majority of films receive multiple funding, on average 3–4 times. Correspondingly, larger German film companies often have subsidiaries in multiple regions which enable them to accumulate funding from several regional schemes. Examples are *X Filme*, who besides their Berlin headquarters also operate subsidiaries in Munich and North Rhine-Westphalia, and *Wiedemann & Berg*, who run offices in Munich, Berlin, Cologne, and Ludwigsburg.

Further differences between regional and national funders lie in the application frequencies, which are especially high in production-intensive regions. In Bavaria, 90 applications for production funding of theatrical films were submitted in 2014, two thirds of which were approved (Bayrisches Staatsministerium, 2015). Berlin-Brandenburg even received 188 applications, with a funding quota of 40% in 2015 (Medienboard, 2016a). At the national institutions, application frequency and funding quota vary with their focus: at the BKM, 16% of ca. 220 applications were approved (Bundesregierung, 2015a, b, c, d), at the *Kuratorium*, for all types of funding, 15% (Kuratorium, 2016); at the FFA, the quota for project funding was 35% of 124 applications (Filmförderungsanstalt, 2016b). The DFFF's budget was entirely used up in 2014 without any application being rejected (DFFF, 2015). In 2015, however, an overbooking by more than 20% could only be compensated by the one-time-only use of commitment appropriations (Bundesregierung, 2016a).

3 Federal Film Funding Bodies

3.1 Filmförderungsanstalt (FFA)

Germany's biggest national funding body, the FFA, is allocated with a budget of 73.2 million euros (in 2015). Its budget is mostly financed by the film and television industry. Pursuant to the FFG, companies exploiting feature films must pay a legally binding proportion of their revenues to the FFA. This so-called film levy finances all of the FFA's funding measures and must be paid by the exhibitors, the video industry, the broadcasters, as well as the program providers. All support activities are fully governed by the FFG. Production funding is granted in two forms: project funding (*selective*) and reference funding (*automatic*).

Project funding is provided through conditionally repayable loans in a proportionate share of the production budget but limited to one million euros (FFG: par. 60). The selection of projects is made by a committee of industry experts. A decisive criterion is the projects' potential to improve the quality and economic efficiency of German films (FFG: par. 59), which underlines the FFA's economic focus (Kumb, 2014). In 2015, grants amounted to 14.4 million euros for 44 projects selected from 124 applications. Usually, 70% of the funded projects are movies and 30% documentaries (Filmförderungsanstalt, 2015a, 2016b).

Reference film funding retroactively rewards producers of successful films through grants earmarked for the development and production of new films. A points system serves as basis for their allocation. The number of reference points is calculated from a film's audience numbers and successes at festivals and awards. Funding is awarded automatically once the film reaches a predefined threshold. In 2015, 64 grants were awarded totaling 15.9 million euros. Two thirds of all reference-funded films have additionally received project funding (Filmförderungsanstalt, 2015a, 2016c).

3.2 Deutscher Filmförderfonds (DFFF)

DFFF is a German Federal fund that has supported approximately 1100 film productions, more than a third of which are international co-productions, with almost EUR 600 million since its inception in 2007. The DFFF scheme operates as a nonrepayable grant. It is only available for theatrical films; TV-only productions do not qualify. The film needs to be feature-length (at least 79-min runtime) with a minimum production budget of 1 million euros (movies), 200,000 euros (documentaries), or 2 million euros (animated films), respectively. The film must be theatrically released in Germany with a certain number of copies. At least one final version of the film has to be in the German language; a dubbed or subtitled version will meet this requirement. As a rule, principal photography may only start after an approving decision by the FFA, but producers may apply for exemptions. Following the award decision, shooting must commence within 4 months (BKM, 2017).

On March 20, 2017, the German Government passed the draft budget for 2018. It provides for a substantial increase of the DFFF from its current 50 million euros to a total of 125 million euros per year. This is good news for the film industry; in particular as the DFFF saw an initial increase earlier this year from 50 to 75 million euros to specifically serve international and VFX-heavy productions in a separate fund under the DFFF becoming available in summer 2017. It is understood that the new increase from 75 to 125 million euros will again be dedicated to that new fund of the DFFF. This would mean that a total of 75 million euros would be earmarked for international and VFX-heavy projects from 2018 onwards. Details remain to be determined as the responsible Federal Government Commissioner (BKM) will release further information upon short notice (GreenbergTraurig, 2017). In 2015, 61.4 million euros was awarded to 107 feature films, including 78 movies and 26 documentaries. Thirty-six films are international co-productions (DFFF, 2016).

Awarding is done automatically once specified economic and cultural criteria are met: e.g., a minimum "German spend" of 25% of the production costs, a national distribution contract, and the passing of a "cultural test" (Roland Berger, 2014). For requests of more than 4 million euros, an additional decision by the advisory board is required. German Spend is defined as expenditure on film-related goods or services delivered or provided in Germany by companies domiciled in Germany or individuals subject to (restricted or unrestricted) German tax liability. The film has to pass the DFFF cultural test based on a points system to ensure that the project complies with the DFFF's objective to support German film culture. The tests, varying for feature films, documentaries, and animated films, differentiate between content, cast/crew, and the use of production facilities in Germany. Films must meet a specified number of points in each section to pass the test. As of 2017, the fund places specific importance on sustainable production. Under the new regulations, producers who fail to give a voluntary commitment to produce sustainably when filing the application will have points deducted in the cultural test. For international co-productions within the scope of the *European Convention on Cinematographic Co-Production* (the "European Convention"), the points system established therein will be applicable in lieu of the DFFF cultural test (GreenbergTraurig, 2017).

To date, the highest amount granted to a film under the DFFF was EUR 10 million for *Cloud Atlas* in 2011. In 2007, *Speed Racer* was awarded 9 million euros and in 2013, *The Monuments Men* was awarded 8.5 million euros. In 2015, *A Cure for Wellness* received EUR 8.1 million.[2]

3.3 Beauftragte der Bundesregierung für Kultur und Medien (BKM)

The BKM directly supports the production of films with a cultural focus through two instruments: (1) the awarding of the *Federal Film Prize* and (2) *selective production funding*. The prize is endowed with 3.0 million euros for several categories, e.g., best movie or best documentary, and awarded by members of the German Film Academy. Prize monies are earmarked for the production of new theatrical films (Bundesregierung, 2016b).

Production funding is awarded to "culturally excellent film projects" as a nonrepayable grant up to a maximum of 250,000 euros. Lately, it was decided that this limit will be raised to 1 million euros following an increase of the BKM's film-related budget by 15 million euros in 2016 (Bundesregierung, 2016c). An independent jury of experts decides on the applications (Bundesregierung, 2015e).

[2]A list of projects funded by the DFFF and currently in production can be found at: http://www.dfff-ffa.de/foerderzusagen.html (in German) or http://dfff-ffa.de/production-review.html

In 2015, 34 feature films were supported with an amount of 4.9 million euros, including children's films funded from BKM resources through the *Kuratorium*. The ratio of movies to documentaries is 60–40 (Bundesregierung, 2015a, b, c, d).

3.4 Foundation for Young German Cinema (Kuratorium)

The *Kuratorium* is Germany's oldest national funding body. Its cultural focus is on the promotion of talents and the artistic development of German films. The foundation supports works of young German filmmakers with a relatively modest annual budget of around 500,000 euros provided by the *Länder*, not including the joint scheme for children's films by *Kuratorium* and BKM (Schweitzer, 2015). In 2015, nine movies and five documentaries were supported with a total of 623,500 euros (Kuratorium, 2016).

4 Regional Film Funding Bodies

Regional funding bodies can be categorized according to size. The eight bigger institutions have the form of funding limited companies (*Förder-GmbHs*) whose shareholders include the respective *Länder* and in most cases also public and private broadcasters. They usually operate on film funding budgets of five million euros and more and pursue both economic and cultural objectives, however, with different foci: traditionally, the FFF has an economic focus (Castendyk, 2008), whereas the FFHSH displays a stronger cultural orientation. Just like the *Film- und Medienstiftung NRW* (FMS), the FFHSH runs two separate schemes for production funding: one for commercial films with higher budgets and one for lower-budgeted, rather artistic films. This twofold approach can be traced back to the merger of formerly independent funding bodies under the roof of the *Förder-GmbHs* (Hubert, 2015).

The group of smaller institutions are provided with film funding budgets of well under 500,000 euros, e.g., *Saarland Medien* (2015), and are in principle culturally oriented (Zwirner, 2012). They generally support film production through the provision of grants, whereas the bigger institutions mostly provide repayable loans.

Additionally, all regional funding bodies have a strong focus on promoting their locations, which automatically implies economic interests as well (Castendyk, 2008). Being mostly taxpayer-financed, they have to justify their expenses to local stakeholders in politics, business, and society. This applies especially to institutions in economically weaker regions, e.g., Central Germany, Bremen, and Berlin-Brandenburg. Funding is thus regularly tied to the generation of local expenditure ("regional effect"), i.e., for each euro of funding provided, at least one euro must be spent in the region. Some regions even require a minimum ratio of 150%. The projected regional effect is an important criterion for funding decisions since it also represents a key indicator for an institution's performance. To generate

Table 3 Regional funding bodies in Germany (2015)

Funding body	Total funding budget (million euros)	Production funding/ theatrical films (million euros)	Theatrical films supported	Required regional effect (%)
Film- und Medien Stiftung NRW (FMS)	34.78	19.68	73	150
FilmFernsehFonds Bayern (FFF)	30.92	20.01	52	150
Medienboard Berlin-Brandenburg (MBB)	30.48	15.72	76	100
Filmförderung Hamburg/Schleswig-Holstein (FFHSH)	14.92	10.28	51	150
Medien- und Filmgesellschaft Baden-Württemberg (MFG)	14.57	10.40	42	120
Mitteldeutsche Medienförderung (MDM)	14.47	10.18	39	100
Nordmedia	11.15	5.76	32	100
HessenFilm und Medien	6.77	4.91[a]	32[a]	100
Total	158.06	96.94	397	

Sources: Filmförderungsanstalt (2016a), FMS (2016), FilmFernsehFonds (2016a), Medienboard (2016a), MDM (2016), MFG (2016a), FFHSH (2016), Nordmedia (2016), Nünning (2015), Hessische Filmförderung (2015a, b), U. Vossen (personal communication, July 6, 2016)
[a]Aggregated values from former institutions

desired effects, film producers can adjust their production strategies, e.g., through casting talent from a specific federal state.

Table 3 gives an overview of the bigger regional funding commissions, their total and production-related budgets, and required regional effects. Also included are the numbers of supported theatrical films. The data on *HessenFilm und Medien*, which was newly instituted in 2016 through a merger of *HessenInvestFilm* and *Hessische Filmförderung*, is based on values of its predecessors.

Not all regional funds have laid down funding ceilings, possibly to retain greater flexibility in their decisions. The FFF, for example, caps production funding at two million euros (FilmFernsehFonds, 2016b), while the MFG operates with a standard ceiling of one million euros that allows for exceptions (MFG, 2016b). The *Medienboard*, on the other hand, has only laid down ceilings for special categories, e.g., experimental films but not for "regular" theatrical films. Its highest funding ever with 1.5 million euros was awarded to the international co-production *Cloud Atlas* (Niehuus, 2011).

With one exception, all selective funding decisions are made by committees, which usually consist of shareholders' representatives and other stakeholders. The *Medienboard* instead uses a "director's model" (German: *Intendantenmodell*), in which the managing director alone decides on all funding applications. This confers extensive powers to the director who can thus act flexibly and independently. Despite preliminary discussions with funding advisors, however, his/her decisions per se will always have a subjective touch. The formally more complex *committee model*, by contrast, tends to result in "middle of the road" decisions (Castendyk, 2008). Additionally, individual funding bodies such as *Medienboard* and FFF grant success-related loans based on the repayment of funds. Similar to the FFA's reference funding, these reward the successful exploitation of films.

5 Discussing Efficacy

In order to evaluate performance and efficacy of the public film funding schemes in Germany, it is necessary to analyze their degree of achieving specified objectives. However, as mentioned above, the lack of specification of objectives at the microlevel in Germany thwarts the establishment of appropriate evaluation standards for such measurements, for example, a "target-performance analysis" (Duvvuri, 2007). The performance of public funds can thus only be measured by meso- and macro-level indicators of success.

In a survey by the Think Tank on European Film and Film Policy (2008), funding bodies preferred festival selections, awards, and domestic audiences of national films as success criteria for public support. Extant studies and reports (Castendyk, 2008; Daamen, 2008; Duvvuri, 2007; Filmförderungsanstalt, 2015a; Knorr & Schulz, 2009; Kumb, 2014; Roland Berger, 2014) apply a wide range of indicators to evaluate public film funding in Germany. With regard to orientation, these can be assigned to either economic or cultural effects.

The following analysis of selected key performance indicators is based on topical information from professional sources and findings by Castendyk (2008), Duvvuri (2007), and Daamen (2008). A distinction is made between national and regional funding bodies on the one hand and economically and culturally oriented institutions on the other.

5.1 Economic Effects

For the assessment of economic effects, I shall examine "funding-performance ratios" and "market strength indicators" of supported films, "repayment rates," "regional effects," and the "number of international co-productions."

Funding-Performance Ratios In 2015, German funding bodies provided around 200 million euros in production support. Simultaneously, German films generated a domestic box office of 319 million euros and a market share of 27.5%, with a 5-year average of 24.1% (Filmförderungsanstalt, 2016a, d). Under the assumption of constant market conditions, public production funding corresponds to roughly two thirds of the films' theatrical returns. Additionally, the amount of production funding per cinema ticket can be used as an admission-based funding-performance ratio. For reasons of accountability, audience numbers are related to production funding in the preceding year. With 37.1 million domestic tickets sold in 2015 and a funding volume of 205.9 million euros in 2014, this comes to 5.53 euros per ticket (Filmförderungsanstalt, 2015b, c, 2016a; Hessische Filmförderung, 2015c; Kuratorium, 2015; Wirtschafts- und Infrastrukturbank, 2015). In the same year, French films sold 71.8 million domestic tickets and achieved a national market share of 35.5% with a 10-year average of 39.5% (CNC, 2016). Taking into account the slightly lower French funding volume of 184 million euros in 2014 (CNC, 2015), this comes to 2.56 euros per ticket. In addition, 322 French films were released domestically in 2015 compared to 226 German films (CNC, 2016; Filmförderungsanstalt, 2016a). These values indicate a higher efficiency of public film funding in France, although for a direct comparison, country-specific differences in sociocultural context and policy design need to be taken into account.

Market Strength An indicator of German films' market strength is their share of theatrical releases that sold one million domestic tickets and more in comparison with their total share of releases. German films accounted for 37.9% of all released films in 2015 and for 40.2% in 2014. The according shares of top films are 29.0% in 2015 and 22.2% in 2014, i.e., significantly lower. Despite substantial funding activities, US titles keep dominating the charts. Still, all nine German "audience millionaires" of 2015 had received production funding (Filmförderungsanstalt, 2015b, 2016a, e). Most were supported by the economically oriented national institutions (DFFF, eight films; FFA, seven films). The bigger regional funding bodies follow at a distance: The FFF contributed four audience millionaires; the *Medienboard* three and the FMS, despite a higher budget, only two, as many as *HessenInvestFilm*; the MDM one; and all others, including FFHSH and the *Kuratorium*, even none (Filmförderungsanstalt, 2016a; Kuratorium, 2016).

The international market presence of German films is weak with respect to both the number of films released and their market performance in key territories. For example, only 12 German films (including majority co-productions) were released in US cinemas in 2015, the most successful of which achieved an audience of under 400,000 (German Films, 2016).

Repayment Rates Few funding bodies have published data on their recoupment of support. For the FFA's project funding, the repayment rate for 2009–2013 is only 7% (Filmförderungsanstalt, 2015a). Moreover, one third of all FFA-funded audience millionaires in 2004–2013 were unable to make any repayments (Deutscher Bundestag, 2015). The Kuratorium (2016) even received less than 500 euros in repayments for production funding in 2015. For the bigger regional institutions, Castendyk (2008) finds rates of 13–15% yet points out differences in repayment procedures. The *Hessian Court of Auditors* determined for *HessenInvestFilm* a rate of 10.1% (Hessischer Rechnungshof, 2012). More recent information by the FMS indicates a corresponding rate of around 10% (Landtag Nordrhein-Westfalen, 2014). The repayment rate for *Medienboard* film funding in all categories is

Table 4 Regional and national effects of production funding (2015)

Funding institution	Local spend (%)
Deutscher Filmförderfonds (DFFF)	597
Medienboard Berlin-Brandenburg (MBB)	561
FilmFernsehFonds Bayern (FFF)	341
Medien- und Filmgesellschaft Baden-Württemberg (MFG)	230
Film- und Medien Stiftung NRW (FMS)[a]	230
Filmförderung Hamburg/Schleswig-Holstein (FFHSH)[b]	228
HessenFilm und Medien[c]	208
Mitteldeutsche Medienförderung (MDM)[d]	202
Nordmedia	184

Sources: DFFF (2016), Medienboard (2016a), B. Baehr (personal communication, June 6, 2016), MFG (2016a), FMS (2016), FFHSH (2016), MDM (2016), J. Coldewey (personal communication, June 15, 2016); U. Vossen (personal communication, July 6, 2016)
[a]w/o low-budget films
[b]All production funding
[c]*HessenInvestFilm* only
[d]All types of funding

specified by the *Brandenburg Ministry of Economy* for 1994–2011 at an average of 10.1%. Values for 2012–2013 are similar with a slight upward tendency (Land Brandenburg, 2014). Consequently, it can be assumed that up to 90% of regional loans and up to 95% of national loans cannot be recouped and therefore subsequently take on the character of grants.

Regional Effects Regional funding bodies regularly aim at a maximum of regional effects (Castendyk, 2008). These correspond on a national level with follow-up investments triggered by DFFF funding, which in 2015 amounted to 374.5 million euros (DFFF, 2016). Table 4 gives a ranked overview of regional and "national" effects.

The actual effects in all cases clearly exceed the required effects (cf. Table 3). This implies that regional funding bodies as well as the DFFF succeeded in promoting their respective territories, albeit to differing degrees. The outstanding value of the DFFF can be explained by two factors: (1) the funding scheme's deliberate design, which per se implies a minimum effect of 500%, and (2) the inclusion of all federal states' effects in its calculation. The high regional effects of the *Medienboard* and the FFF can be attributed to the institutions' focus on large international co-productions, which in the case of Berlin-Brandenburg constitute nearly 50% of the local spend (Medienboard, 2016a). Still, there is a debate whether such effects also contribute to the intended structural improvements (Duvvuri, 2007; Knorr & Schulz, 2009). Sustainable effects can be assumed at least for the four production-intensive regions. They already have distinct professional structures, like *Studio Babelsberg* in the vicinity of Berlin, which are able to benefit from funding-induced production activities.

Number of International Co-productions The number of international co-productions is an indicator for a film industry's competitive strength. They are not only an expression of Germany's attractiveness as a filming location but also contribute to the artistically significant presence of German films at international festivals. The introduction of the DFFF in 2007 had an observable effect: In only eight years, the number of co-productions grew from 51 to 89 (Filmförderungsanstalt, 2011, 2016a). A positive tendency is clearly recognizable, even though the French level of 142 co-productions (CNC, 2016) is still far from being attained. The economically oriented regional institutions have asserted themselves as well: in 2015, the *Medienboard* supported 33 and the FMS 27 co-productions (FMS, 2016; Medienboard, 2016a), followed by the FFF with 12 titles, 4 of which received funding from a special co-production scheme launched in 2012 (FilmFernsehFonds, 2016a).

5.2 Cultural Effects

Cultural effects are principally difficult to assess due to divergent concepts of films' "quality." In order to avoid biased judgments, quantitative indicators like FBW certificates (denoting films of "special worth") and nominations and awards, especially in festivals, are recommended (Daamen, 2008; Duvvuri, 2007).

FBW Certificates The certification marks of the *Film- und Medienbewertung* (FBW), a German federal authority for evaluating film and media, are explicitly meant to capture the quality of German films. In 2015, 43 movies and 18 documentaries involving German film companies had received certificates for outstanding "value" (FBW, 2016), i.e., 23% of all German films released. Regarding the relationship between funding and FBW certification, the results of Daamen (2008) show a significant positive influence of both national (without DFFF) and regional funding activities on the reception of certificates. A difference between results of culturally and economically oriented institutions was only confirmed for the *Kuratorium* with an above-average share of FBW-decorated films. Similarly, in 2015, 13 of 17 films supported by the foundation received certificates (Kuratorium, 2016).

Festivals and Awards Renowned festivals and competitions are major showcases for funding bodies and the films they have supported. Daamen (2008) points out that from 1995 to 2004, the number of publicly funded films at international competitions was relatively small and mostly comprised co-productions. More recent data show a different picture: From 2009 to 2013, FFA-funded films were four times in competition in Cannes, six times in Venice, four times in Locarno and 15 times in Berlin. They also received four European film awards and one *Academy Award* (Filmförderungsanstalt, 2015a). In addition, 44% of all reference-funded films in 2015 benefited from successes in festivals and awards (Filmförderungsanstalt, 2016b). The *Kuratorium* (2016), despite its limited resources, lists 36 films that achieved festival presences and awards, though most reported non-German festivals are of minor importance. The bigger regional institutions also achieved substantial results: in 2015, FFF-funded films received over 30 awards and nominations, most of them in German-speaking competitions (FilmFernsehFonds, 2016a). The FFHSH (2016) lists more than 50 awards and nominations, some at international "A" festivals like Tokyo and Karlovy Vary. The FMS (2016) even cites 77 participations in major international festivals and awards like the European Film Award and an Academy Award nomination for "best foreign film." The Medienboard (2016a) reports for 2015 more than 90 national and international awards and nominations including four *Academy Awards* and two *Césars*.

Information provided for the smaller regional institutions, on the other hand, is incomplete. Due to the low number of films they support, however, their number of awards is presumably limited. Still, most German funding bodies have a noticeable presence at festivals and competitions. However, the larger share of international awards and prizes has been achieved by German-international co-productions like *Grand Budapest Hotel*.

6 Conclusion: Is All the Money Worth It?

In academia and beyond, public film support has always been strongly criticized. Academics claim that intensified research into the opaqueness and multiformity of the schemes is necessary, as are clarifications into the total volume of money spent and its lack of efficacy and other critical dimensions of the schemes (e.g., Castendyk, 2008; Daamen, 2008; Duvvuri, 2007; Gass, 2015; Knorr & Schulz, 2009; Kumb, 2014; Posener, 2014; Wendling, 2012). Notably, as is shown in the previous chapter, the system's efficacy is strongly challenged through subsidized films having been commercial failures. A good example for such a malaise is the children's film *V8—Die Rache der Nitros* (2015): after receiving public funding of more than 4 million euros, it generated a domestic box office of barely 30,000 euros (Filmförderungsanstalt, 2016b; Mediabiz, 2016).

Further, the system's complexity and lack of transparency with its high number of institutions offering various schemes scattered across the country has also been criticized (e.g., Boeser, 2014; Gangloff, 2016). The country's panoply of funding supply would only contribute to a phenomenon called "subsidy tourism" (Ankenbrand, 2013), which means that German production companies are frequently splitting productions among several regions in order to maximize funding income. This would only artificially increase their costs, e.g., for traveling, transport, and transactions (Cooke, 2007).

In the present chapter, I argued that the German film funding ecosystem warrants much closer examination, in particular when it comes to analyzing policy designs in reaching policy goals and biases between instruments and effects (Freedman, 2014; Kumb, 2014; Picard, 2016). In my view, such research would reconcile limited findings in some of the critical instances mentioned above. I believe that these deficits endanger good governance of public film support and ignore a set of requirements that conform to performance improvements of the schemes at large. Again, the problems are manifold, but the biggest seem to be the following:

- The general lack of policy studies covering discussions about legitimacy and design of State aid for film
- The lack of conceptual perspectives on issues of public film governance
- The lack of suitable frameworks for a comparative analysis of public film funding schemes
- The lack of common, specific standards for evaluating results of instruments and measures applied

Arguably, on the positive side, public funding for film has decisively contributed to the German film industry's strong position in the country and Europe. In this context, I undertook a descriptive analysis of the German film governance ecosystem in order to consider goals and means on various levels of Germany's film subsidy structures.

We have learned that, on the macro-level, German film policy is characterized by building its instruments on both economic and cultural goals. It is by no means a secret, however, that the film industry is ruled by the "market mode" of governance. This means that the film industry is principally governed by the law of supply and demand, and state intervention is only legitimized when the market fails to achieve appropriate results. Nonetheless, when film is to be supported, the state becomes active on the "meso-level," i.e., when it helps out selected players in the industry by boosting of competitiveness, promoting locations and artists, and improving film quality and diversity. Subsidies in various forms have been chosen as central policy tool, which are distributed through specialized institutions, i.e., national and regional public funding bodies.

When it comes to evaluating the respective funding schemes, economically oriented institutions are financially stronger and thus better suited for financing higher production budgets, whereas culturally oriented institutions are mostly limited to supporting artistically ambitious films with lower budgets. The bigger regional funding bodies have a special status: in the context of the States' cultural sovereignty, they regularly pursue cultural objectives as well, for example, through their funding of young talents' and experimental films. The specific organization of funding schemes varies considerably: subsidies are provided in the form of grants or repayable loans; and funding can be awarded automatically or by decision of an expert committee or a director. In contrast to national funding bodies, regional institutions strongly emphasize the extent of regional effects in their decision-making. There are three dominant players: the FMS, the FFF, and the *Medienboard*. All three are situated in regional centers of film production, just like the medium-sized FFHSH.

But is this panoply of support measures and designs all worth it? Results are mixed: they reveal a number of weak points but also suggest favorable developments and some success. Subsidized films show solid domestic market shares at large (against some major flops, as mentioned above), an increased number of international co-productions, and high levels of regional effects, mainly generated by economically oriented national and regional funding bodies. With regard to the rise in co-productions, these can be largely attributed to the launch of the DFFF. German films with public funding also had an increased presence at festivals and competitions. The majority of cultural effects, however, have been limited to the domestic field, at which the *Kuratorium* scores particularly well.

The international market presence of German films is still low. Even their seemingly high domestic market share is dearly bought by a high level of public funding, which is evident from looking at comparable French figures. Only few films achieve strong box office performances and are thus able to recoup their investments. Overall, as a consequence, the German film industry has become heavily dependent on public funding (Duvvuri, 2007).

An additional point of criticism is the complexity and fragmentation of the German funding schemes, which can be traced back to the country's specific governance paradigm of Federalism. This phenomenon contributes to efficiency losses from "subsidy tourism" (Cooke, 2007). Despite all justified criticism at its performance, however, I do strongly support public film funding in Germany in general, mainly because it safeguards the competitive strength of German films as against US film ware. I recommend to modify the existing policy mix through processes of restructuring, which aim at improving coherence, consistency, and congruence of its elements (Howlett & Rayner, 2013). The introduction of the DFFF is a notable example of such a change in film policy design.

What would improve overall efficacy? First, I suggest incentivizing cooperation between regional funding bodies. There have been modest attempts, such as cooperations between MFG and *HessenFilm* (2016) or *Medienboard* and MDM (having started a joint funding scheme with the *Polish Film Institute*: the *German-Polish Film Fund*) (Medienboard, 2016b). The development of a solution including all regional funding bodies, e.g., "effects accounts" for a mutual recognition of regional effects, is altogether a promising subject for further research.

Furthermore, it may not be economically viable for so many *Länder* to set up their own film funding structures. Overall benefits might be increased by instead focusing on already established regional centers of film production, as research by Picard (2009) suggests. This might entail a further merging of funding bodies, just like the merger of the former *Berlin Film Fund* and *Filmbüro Brandenburg* into the *Medienboard* before.

In any case, recent changes of policy instruments mainly focused on the issue of funding volume: Besides the substantial increases in the BKM's budget both for cultural film funding and the DFFF outlined in sec. 3 (Bundesregierung, 2015f), the Federal Ministry for Economic Affairs and Energy enacted the new GMPF fund with a volume of 10 million euros (BMWi, 2015). On the regional level, both Bavaria and North Rhine-Westphalia announced further increases of funds (FilmFernsehFonds, 2017; Nünning, 2017). These decisions clearly express the political will to boost Germany's position in the ongoing competition of filming locations. Competitive pressure has greatly exacerbated in recent years: Besides new schemes and increasing funding budgets in European countries such as France, the UK, Italy, and Ireland, substantial film subsidies have been set up in the USA (Bomnüter & Scheller, 2014). It remains to be seen how far public film funding will succeed in having strengthened the German film industry's competitive clout.

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France's Protected and Subsidised Film Industry: Is the Subsidy Scheme Living Up to Its Promises?

Patrick Messerlin and Isabelle Vanderschelden

1 France's Film Industry: Is It Healthy?

No other country in the world can claim to be involved in as many film productions as France. Over the years, an increasingly complex support framework has emerged in France, in which grants and public subsidies coexist with tax incentives directed at private investors. Supported by state subsidies and partly sheltered from Hollywood hegemony, the French film industry has traditionally been regarded with envy by its European neighbours.

As is shown in Table 1, 2015 was a healthy year for French film production and saw 300 feature films approved for public funding (against 258 in 2014 and 203 in 2006). A record number of 234 were *French majority films* ("French Initiative Films" or FIFs) with over 50% of their budget funded by French interests, while 66 were minority French co-productions or *foreign majority films*. Of these, most were fiction films, but 47 films were documentaries and 3 animation films. 142 films form the total approved were co-productions with 41 different foreign investors. It is also worth noting the high proportion of debut films and second-run film (75 and 38, respectively, in 2015 (CNC, 2016, p. 81), suggesting the good health of the French industry.

Another positive sign is the renewed financial commitment to film shown by TV channels, which invested 377.97 million euros in 2015 (+29.7% compared to the previous year) in pre-purchases and co-production for 168 FIFs. *Canal+* is still leading the way with 178.73 million euros spent in pre-purchases for 128 films, including 113 FIFs, while the other Pay-TV channels making their mark on this

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Table 1 Number of films approved by the CNC in France (2006–2015)

Year	FIFs	Of which wholly French	And co-productions	Foreign majority films	Total approved films
2006	164	127	37	39	203
2007	185	133	52	43	228
2008	196	145	51	44	240
2009	182	137	45	48	230
2010	203	143	60	58	261
2011	206	151	55	65	271
2012	209	150	59	70	279
2013	208	153	55	61	269
2014	203	152	51	55	258
2015	234	158	76	66	300
2015 (%)	78.0	52.7	25.3	22.0	100.0
Avg. growth rate (%)	+4.3	+2.5	+10.5	+6.6	+4.7

Source: CNC (2016, *Bilan* 2015, p. 76)

landscape were *Ciné*+ (20.21 million euros for 114 films) and OCS (Orange) (20.93 million euros for 37 features). 2015 saw the highest level of investment by free channels in the past decade, with 157.92 million euros (+29.8% to 2014), funding 135 films (12 of which were minority films). TF1 contributed with 46.9 million euros in 18 films), *France* 2 46.55 million euros for 48 titles, *France* 3 22.96 million euros for 26 films, *M6* 24.45 million euros for ten films, *Arte France* 9.91 million euros for 26 features, and TNT's free nonhistorical channels 7.06 million euros for 34 -pre-purchased films, including 12 movies for D8 and ten for TMC. The number of FIFs not benefiting from any investment by TV channels has decreased in 2015 (66 films, against 77 in 2014) even though TV is still the main source of funding, covering 35.5% of overall budgets. The remainder of the funding comes from contributions by French producers (30.4%) and mandates for theatrical distribution in France (13.7%), while funds received in advance from mandates of video editions and from international sales continue to decline (Cineurope, 2016).

But there are dissenting voices to this rosy picture. The role of state subsidies has been repeatedly criticised in France and is attracting comments from abroad. The producer Vincent Maraval called 2012 "a disaster [year] for French cinema". He asked for an urgent reform of the system, including a cap on actors' wages: "why is it that well-known French actors—whether it's Vincent Cassel, Jean Reno, Marion Cotillard, Gad Elmaleh, Guillaume Canet, Audrey Tautou, Léa Seydoux—make €500K to €2m for a French film, with a market limited to our borders, while, when they shoot an American film, aimed at the international market, they're happy with €50K to €200k?", Maraval asked (in Brooks, 2013, see also Maraval, 2012). The Oscar-winning director Michel Hazanavicius also blamed the state subsidy scheme for its negative effects on the inflation of salaries for actors and a growing sense of "complacency" in the film profession: "today our responsibility is to denounce the failings of a once virtuous system that is being devoured by gangrene" (Hazanavicius, in *The Guardian*, 2013). His comments are not isolated.

The purpose of this chapter is twofold: The first part introduces France's film funding ecosystem as it stands today, presenting a brief overview of its key elements and evaluating selected support mechanisms. Essentially, it then analyses the public subsidy system for film managed by France's national film agency, *the Centre national du cinéma et de l'image animée* (CNC, French national centre for cinema and the moving image), located in Paris. In doing this, we explain why France's public film policy is still considered by some as being unique and widely acclaimed for contributing to the diversity and richness of French film culture (Creton, 2015, p. 17; Escande-Gauquié, 2012, p. 19).

However, and this is our main argument, the different funding mechanisms reveal discrepancies between perceptions that the French film industry is going through institutional crises conveyed by alarmist reports and press articles on the one hand, and CNC reports continuing to suggest that the production remains healthy and profitable.

This is why the second part of this chapter shifts the perspective to issues of audience demand. It looks critically into demand structures and preferences for choosing French films, to understand its poor performance in terms of attracting audiences at home, especially in the context of changes brought in by the digital era. In short, we question the capacity of the generous existing subsidy system to attract a larger audience for French films and the success of the French film policy through its public subsidy scheme. We argue that the French support policy has failed to increase the attractiveness of French films and highlight the limits and paradoxes of the current system.

Before looking at public funding in detail in the next section, it is important to realise that France's public funding scheme is complemented with various mechanisms designed to facilitate or encourage private investment in cinematographic production via tax credit schemes for private investors or production companies. Two examples are presented here briefly: the SOFICAs (*Sociétés pour le financement des industries cinématographiques et audiovisuelles [societies for the financing of the film and audiovisual industries]*) and the *tax rebates for international productions* (TRIPs).

1.1 SOFICAs

The legislation passed in July 1985 to regulate the development of SOFICAs had for main objective to make it easier to collect private funds to inject into the film industry in return for tax deductions. They can be initiated and managed by cinema professionals or banks. In 2015 and 2016, a dozen companies were accredited by the CNC, i.e. 62 million euros, 90% of which has to be invested in film or audiovisual ventures. As the Table 2 below shows, the SOFICAs are involved in the production package of around 1000 films per year from 2010 to 2015. They

Table 2 The input of SOFICAs in film funding (2006–2015)

	Number of films funded	Of which FIFs	SOFICA (M€)	Avg investment per film (K €)	Budget of films concerned (M€)	Share of Soficas in funding of films concerned (%)
2006	78	72	32.8	420.3	485.7	6.7
2007	88	82	40.6	461.3	562.9	7.2
2008	97	86	38.3	395.2	800.1	4.8
2009	98	91	36.2	369.5	651.3	5.6
2010	108	100	50.0	463.3	632.5	7.9
2011	104	93	36.4	350.3	554.7	6.6
2012	118	102	44.7	378.4	630.7	7.1
2013	99	91	32.9	332.3	443.7	7.4
2014	103	89	34.0	330.0	465.8	7.3
2015	112	101	36.7	328.0	574.2	6.4

Source CNC (2016)

represent 6.4% of the overall budget of films concerned in 2015, which represents a drop from the 3 previous years (7.1% in 2012, 7.4% in 2013, 7.3% in 2014).

A more general tax credit system (*crédit d'impôts*) has also been in place in France since 1994 (for more information, see Escande-Gauquié, 2012, pp. 91–92; Jäckel & Creton, 2004, p. 213). For example, from 2013, tax rebates for international productions (TRIPs) have been introduced in an attempt to reform the system and attract film production in France.

1.2 Tax Rebates for International Productions (TRIPs)

The TRIPs is designed for cinema or audiovisual works of fiction and animations whose production is initiated by a foreign company and that are wholly or partially shot in France. The Incentives Guide published by the CNC (Chebance, Julliard-Mourgues, Bender, & Priot, 2016) lists the different subsidies available to foreign professionals who have a film project that they want to produce in France. TRIPs have undergone several reforms since 2012. The tax credit ceiling increased from 1 to 4 million euros after January 2013, and the tax credit rate rose from 20 to 30% for films under 4 million euros after December 2013. For applications made after January 2016, the 30% rate was extended to all films under 7 million euros. The 2016 Finance Act extended the 30% tax credit rate to films made in French of over 7 million euros and foreign-language animated films or films with extensive visual effects and, in some cases, to films where the use of a language other than French was justified by the script (20% rate) (CNC, 2016, p. 205).

Since 2009, tax credits have been extended to international film productions—30% of the eligible costs of foreign films and television programmes (including animation and VFX). Over 110 foreign productions have benefited from this, including films by Christopher Nolan, Stephen Frears, Wong Kar-wai, Woody

Allen, Martin Scorsese, and Jackie Chan. Other international projects can receive similar support through the co-production scheme (CNC, 2016, p. 7). These co-productions reached a peak in 2015, with 142 films co-produced with 41 foreign countries, the highest figure ever for the past decade. The main partners for French cinema were Belgium (48 films), Germany (17), Italy (16), Canada (12), Switzerland, and Spain (eight each) (CNC, 2016, p. 79).

2 France's Subsidy Scheme: Success Through Public Funding

The *Centre National du cinéma et de l'image animée* (CNC), created (by law) in 1946 and set up as a separate and financially independent entity, is the French national film agency under the authority of the Ministry of Culture responsible for implementing the government's policy for film and moving images.

2.1 The Role of the CNC

Under the authority of the Ministry of Culture, the CNC, i.e. France's national film agency, administers a range of policies that regulate the film industry and ensures the vitality of the film, television, and multimedia sectors through the support funds that it manages. Its public policy serves two key purposes: (1) it maintains the strong presence of French and European projects in France and abroad and (2) fosters diversity and renewal of production. It also archives the film funding and production statistics, producing regular reports and dossiers available on its website. The CNC publishes at regular intervals specialised official reports used by national and European cultural institutions to evaluate policies and their impact, providing valuable statistics on the industry. The 2016 report indicates that 765.2 million euros of support funding were allocated in 2015, representing a slight decrease of 1% (7.5 million euros) compared with 2014, 332.5 million euros of which were for cinema (CNC, 2016, pp. 198–201). This corresponds to a breakdown of 391.5 million euros for "automatic support" (defined below, 51.2%), 347.2 million euros for "selective support" (defined below; 45.4%), and 26.5 million euros for "digital content" (3.4%).

The CNC mission statement makes its priorities explicit: "The CNC provides automatic and selective support for the production, distribution and broadcasting of films. It also finances the film education policy for young audiences. Its mission is the conservation and promotion of film and filmmaking heritage." (CNC, 2016, p. 198). Since 1959, it has managed funds coming from three different sources: the tax on cinema tickets or *special additional tax* (TSA "*taxe spéciale additionnelle*") raised on all cinema tickets sold in France to support the French film industry; the tax on television services (TST); and the tax on video and video on demand (VoD). The TSA corresponds to 10.72% of the total French box office receipts. It brought revenues of 140.3 million euros in 2015 (CNC, 2016, p. 201). The programme of support consists of distinct automatic and selective grant mechanisms for which filmmakers and producers can apply. In 2015, of the 234 French initiative films that received support, 143 requested provisional tax credit approvals. The total expenses eligible for these 143 films were estimated at 328 million euros and an overall film tax credit of approximately 74.9 million euros in 2016 (CNC, 2016, pp. 203–204).

2.2 The CNC Funding Mechanisms

France is arguably one of the systems that is most supportive of its national cinema industry in Europe and even in the rest of the world. It includes a generous subsidy programme for cinema and video worth more than 700 million euros yearly.

2.3 The Cinema Support Fund (compte du soutien)

The *Compte du soutien financier de l'Etat à l'industrie cinématographique* (the state support fund for the cinematographic industry) was created in 1959 and is the major source of subsidies to the film industry in France. Subsidies are available for all sectors of the industry, including for film production and distribution, exhibition, exportation and for related technical industries. Although the CNC administers the fund, it remains technically under the control of the French Parliament, the trustees, and the *Cour des Comptes*. The fund is divided into two sections: cinema and video and audiovisual. The funds available are largely the product of taxes on various sectors of the cinematographic industry:

1. All cinema tickets sold in France are taxed at a rate of 10.9%. This tax is known as the *taxe spéciale additionnelle*, or TSA (i.e. a tax on all cinema tickets sold)
2. Pay and free-to-air television is taxed at 5.5% (TST—*Taxe services de television*),
3. Sales and rentals from DVD/video and VoD transactions (2%)

The CNC also receives grants from the state budget (contributions from the Ministry of Culture and Communication) which vary from year to year, and in addition to this, the *compte de soutien* takes in the repayments of loans it has granted (such as the *avances sur recettes*).

2.3.1 Automatic Support Fund

CNC has a number of different support schemes, both automatic and selective. The decision in the selective schemes is made by committees with representatives from the French film industry. The *automatic support* scheme for production, distribution, and exhibition is accessible on application to producers or directors previously accredited with a business plan for their next project, subject to the film project fulfilling a number of eligibility criteria, i.e. accreditation by the CNC. One automatic support scheme for film production is a tax rebate system where 20%

of certain specified production costs, up to 1 million euros, are exempt from taxation. A similar tax rebate has in recent years been introduced for international co-productions. The other major automatic scheme gives support to producers and distributors based on the total revenues from cinema, DVD/video sales, and sold TV viewing rights for their last production.

Automatic support represented 391.5 million euros in 2015 (+2.2% as compared with 2014; CNC, 2016, p. 128). The broadcasting of the film on television and its release on video also generate returns for the producer credited to his/her CNC account. However, this automatic funding comes with an important obligation—monies deposited in these accounts can only be mobilised for re-investment in a subsequent film accredited by the CNC. If these funds are invested in a French-language film, the CNC will increase the available funds by 25%.

Two automatic funding mechanisms are also allocated specifically to short films: (1) a pre-production aid for films that already have some degree of financial backing from a feature-length film producer and (2) a pre-production aid from COSIP (the Support Fund for Audiovisual Programme Industries operated by the CNC) for films that have audiovisual financial backing from a producer and from a television channel.

Distributors of CNC accredited films can benefit from automatic funding in much the same way as producers. In addition, they receive a sum of money proportional to the box office success of their film. These subsidies are designed to finance the establishment of new cinemas and the modernisation of existing ones, including equipment upgrades. Specific funding mechanisms include: "support for the production of additional prints" (*aide au tirage des copies*) and "support for cinemas within the art and experimental cinema network and for independent cinemas" (*aide aux salles classées "Art et essai" et aux salles indépendantes*).

2.4 Selective Funding

These selective subsidies whose function is primarily to encourage the emergence of new talent and promote the diversity of the French film production are allocated through different commissions following a rigorous selection process for film production, distribution, and exhibition. The funding is awarded after examination of the film/screenplay by specialised commissions who meet three times a year using clearly defined quality criteria. Unlike the automatic funding, which responds to economic objectives, the criteria used for allocating the selective funds are cultural and artistic. The most prominent one is known as the "advance on takings" (*avance sur recettes*).

2.5 Advance on Takings (Avance sur recettes)

Since 1959, the advance on takings fund has nurtured first-time filmmakers and supported independent filmmaking. A commission made up of leading members of the cinematographic profession (one chairperson, three vice chair-persons, and 32 members) examines applications made by French authors, directors, or production companies. The projects are considered in the two separate groups forming the commission: one for first film applications and one reserved to directors who have already made at least one feature-length film. The advance on takings is an interest-free loan (repayable from the receipts of the film) rather than grants. Although it is usually granted prior to filming, it may also (less commonly) be granted after the film is made. The advance on takings represents one of the cornerstone of the support system to this day. It is estimated that only about 10% of applicants receive an advance on takings of up to 700,000 euros, normally prior to shooting, but also sometimes retrospectively. Theoretically, these interest-free loans must be repaid using the profits from the commercial exploitation of the film, but the actual estimated repayment levels remain low at about 10%.

2.5.1 Aid for Script-Writing (or Re-writing)

Instituted in 2002, the aid for script-writing is available to all writers and directors who have previously successfully written and directed a feature-length film, while the aid for re-writing is open to all writers and producers. It is different from development aid which is designed to help producers develop their projects and cover costs for things such as location research and feasibility studies.

2.5.2 Aid for International Co-production

These subsidies are often granted according to bilateral agreements—for example, France and Germany have co-production agreements, which resulted in eight of their co-produced films receiving funding worth a total of 1.77 million euros in 2004. Under this title, the CNC also attributes money to cinematographic production in developing countries (in 2004, 19 such projects received a total of 1.8 million euros in funding).

2.5.3 Aid for Foreign-Language Films

Instituted in 1997, this funding is aimed at supporting the production of feature-length foreign-language films made by French directors or foreign directors of a certain distinction.

2.5.4 Aid for the Production of Short Films

The CNC has four different selective aid mechanisms for short-film production:

1. The "*contribution financière*" which is granted prior to production and aims to encourage new talent
2. The "*aide au programme*", available to companies in the production sector and aimed at promoting the growth of the most dynamic and successful companies

3. The "*prix de qualité*", granted post-production, which aims to acknowledge quality films that have not benefited from state aid and thus to compensate the producers for the financial risk undertaken
4. The "*aide audiovisuelle*" from COSIP available to films that have been financed in part by a television channel.

2.5.5 Selective Funding for Film Distribution

By offering selective funding for film distribution, the CNC supports independent enterprises whose activity favours an increase in the diversity of the cinematographic spectrum. For example, they offer a subsidy for independent distribution companies (*Aides aux entreprises de distribution indépendantes*), which can allow for the wide distribution of quality films whose release on the market would otherwise represent a significant financial risk. There is also selective funding available for the distribution of feature films for young audiences (*aide selective à la distribution de films destinés au jeune public*), of retrospectives or re-issued classic films, of re-edited films, of documentaries, and of films from lesser-known cinematographic traditions and for distribution campaigns. Distribution support also encourages the circulation of quality commercial films from countries whose films are little known in France. The French Ministry of Foreign Affairs contributes to this funding of film distribution alongside the CNC, and in 2004, 20 foreign films—four from Asia, eight from Latin America, one from Eastern Europe, three from northern Africa, and four from the Middle East—received funding amounting to a total of 375,000 euros (CNC, 2015).

2.5.6 Selective Funding for Film Exhibition

The CNC offers a "selective support to exhibitors for the modernisation and construction of cinemas in rural areas" (*aide selective à la creation et à la modernisation de salles*). This funding mechanism is designed to finance the modernisation of movie theatres and technical equipment as well as to promote the creation of new cinemas, especially in rural areas and on the outskirts of large cities. In each *Annual Bilan*, the CNC provides some information on the revenues it gets and on the main types of support it uses for funding the film industry. Table 3 below summarises this information. The main sources of CNC revenues are those described above in the subsection entitled "The cinema support fund", namely, the seat tax (TSA), the tax on pay and free-to-air televisions (TST), and the tax on sales and rentals from DVD/video/VoD transactions. The main types of subsidies the CNC grants are also described above and consist in the automatic and selective funding for the cinema and audiovisual as well as special funds for digitising film production and distribution.

Table 3 CNC revenues and support, € million, selected years

Revenues from the taxes on				"Support" granted to			
	2006	2011	2015		2006	2011	2015
Seats	112.9	143.1	140.3	Cinema	251.6	309.5	332.5
Audiovisual	337.9	631.6	504.3	Automatic	153.0	154.8	171.6
Videos—VoD	44.0	32.0	19.4	Selective	98.6	154.7	160.9
Others	0.8	0.2	0.7	Audiovisual	221.1	287.0	286.3
				Automatic	166.0	201.8	214.9
				Selective	55.1	85.3	71.4
Management costs				Digital plan		35.5	26.5
	−22.8	−42.0	−34.7	Horizontal schemes		91.1	117.1
				Automatic	–	3.9	4.9
				Selective	–	87.3	112.2
Total	472.7	764.9	630.0		472.7	723.1	762.4

Sources: CNC (*Bilans* 2007, p. 128, 2012, pp. 170–171, 2016, pp. 247 and 249)

2.6 A First Résumé

As a number of observers of the French film industry have noted, however, the film support system is driven by incessant controversies (Alexandre, 2015; Vanderschelden, 2016; Nacache, 2016). Regularly, debates are restarted on quality issues as illustrated by the report by the *Club des 13* in 2008 (see Vanderschelden, 2009) and then by the recent reports of Pierre Lescure on the funding of cultural projects, which included sections on film and pressed for reform (Lescure, 2013). René Bonnell's report on the financing of production and distribution of French films in the digital age, commissioned by the Ministry of Culture and released in December 2013, raised a number of issues and made 50 recommendations to engage financing reforms which have been heard but may take time to really make an impact (Vanderschelden, 2016). The Maraval affair in 2012–2013 questioned the commercial viability of films and the inflated star salaries (see Maraval, 2012; Nacache, 2016).

The attempts at reforming the working conditions and social protection of the profession are also a recurrent subject of industrial action. As Olivier Alexandre suggests, "when the different film corporations do not attack one another, it is because they come together to fight over burning issues such as pirating and illegal downloading, these controversies share a common origin in the French model of cinema production." (Alexandre, 2015, p. 13)

3 Have Subsidies Strengthened Audience Demand?

Let us now move to the analysis of film audience demand in France with regard to subsidies—an aspect rarely examined in the scholarly literature. By this, we are able to evidence the attractiveness of films much better than simply counting the number of French films produced. For instance, Table 1 shows a 42–45% increase of the number of films produced between 2006 and 2015: this figure is very close to the 30–40% minimal increase in subsidies over the same period (see Figs. 2 and 3).

In fact, something would be very wrong with the French subsidy scheme if it did not result in more films produced. Pushed to its limits, an indicator based on the number of films produced would qualify any subsidy policy as successful even if the increased number of films produced failed to attract an audience—a remark that echoes the fact that a notable share of the French films produced are actually never shown in cinemas (Cour des Comptes, 2012). As a result, *demand attractiveness* should be defined by a more relevant indicator. The simplest and most reliable one is a demand-based indicator, namely, the number of admissions for French films screened by French cinemas and the number of watchers of French films exhibited by French TV channels.

To start this debate, it is worth mentioning that the French film subsidy policy is so complex that it has generated an increasingly fierce debate over the last 20 years. This debate reached new heights in late 2012 with the Maraval's op-ed on the excessive fees paid to French stars when compared to actors from other countries (Maraval, 2012). For a long time, this debate has suffered from a lack of reliable and exhaustive data on subsidies. However, the situation is different now following the recent publication of three reports by the highest French institutions in charge of monitoring public budget. These include two reports by Cour des Comptes (2012, 2014) and a joint report by the Inspections Générales des Finances et des Affaires Culturelles (2013). Based upon these new robust sources which cover all the various types of subsidies—from *avances sur recettes* to grants to tax rebates, to subsidies to cinemas, etc.—this section will present the first economic and fact-based assessment of France's subsidy policies.

3.1 What Is the "True" Size of the French Cinema Sector?

This section is organised into four steps: (1) estimating the "true" size of the French cinema sector, (2) calculating its "true" subsidy rate, (3) measuring the attractiveness of French cinema domestically, and (4) finally comparing the evolution of the subsidy rate and the attractiveness indicator over the period 2000–2013. Assessing the French subsidy policy as successful requires that the attractiveness indicator has increased more than the subsidy rate.

From an economic perspective, the size of a cinema sector should always be measured by its "value added", not by its turnover.[1] Column 1 of Table 4 presents the value added of the various activities "made in France" of the cinema sector. However, these figures cover activities generated by both French and foreign inputs, such as French and foreign investments, French and foreign actors, etc.

[1] Value added is the value of the products or services sold by a sector minus the inputs (goods and services) that this sector needs in order to produce its own goods or services. For instance, film production includes inputs such as travel expenses for shooting films in various locations. The value added of the cinema sector correctly excludes air services produced by sectors other than the film industry.

There is thus a need to estimate the "true French" value added, that is to say, the one generated only by French inputs. In production and post-production activities (Table 4, rows A and B), a crude indicator of *true French* inputs is the share of domestic investments among those for films considered to be "made in France".[2] This share is roughly 76% over the last decade (CNC, *Bilan*, 2012). The *true French* value added in production and post-production activities (column 2, rows A and B) is thus estimated to be 0.76 times the value added of these activities made in France (column 1, same rows). The value added of film distribution and screening made in France (column 1, rows C and D) includes the value added generated by distributing and screening foreign films in France. The average admission share for French films in cinemas is roughly 38% for the period 2000–2013. Column 2 of Table 4 estimates thus that the *true French* value added in these activities (rows C and D) is 0.38 times the value added of these activities made in France.

The value added of the *true French* cinema sector can thus be estimated at 1.7 billion euros (column 2, row E), which corresponds to only two-thirds of all the cinema activities made in France. It is interesting to compare this figure to the size of another film industry which has received no notable film subsidies until very recently, specifically the Korean film industry. In 2011, the size of the almost unsubsidised Korean cinema sector was estimated at 1.1 billion euros, roughly two-thirds of the *true French* cinema sector. In 2014, the size of the Korean cinema sector was estimated to be almost 90% of the French size in terms of box office

Table 4 Value added and subsidies in the French cinema sector, € million, 2011

Activities in the cinema sector	Value added *"made in France"* [1]	*"True French"* value added [2]	*"Subsidised"* value added [3]
A. Production of films for cinemas	1273	967	1273
B. Post-production	499	380	499
C. Distribution of films to cinemas	526	200	200
D. Screening of films in cinemas	444	169	169
E. Total value added	2742	1715	2141
F. Government-related subsidies			476
G. Labour subsidies ("*intermittents*")			200
H. Total subsidies			676
I. Subsidy rate (in percent of value added)			31.6

Sources: INSEE, Esane database. *Inspection Générales*, report for state-related subsidies; for detailed calculations, see Messerlin (2014)

[2]This is an approximation because the massive French subsidies combined with the many bilateral co-production agreements induce French investment in non-French films.

(Motion Picture Association of America, 2015; Parc, 2017). This rapid evolution raises a key question: could it be the case that a non-subsidised film industry can prosper as well as a highly subsidised one? This question has been examined in depth elsewhere: evidence suggests that it is indeed the case (see Messerlin & Parc, 2014, 2017; Parc, 2016).

3.2 The "True" French Cinema Sector: How Much Is Actually Subsidised?

The *Inspections Générales*' report provides the most exhaustive and robust data of all the government subsidies and equivalents (aids, tax deductions, etc.) granted to the cinema sector for the year 2011 (see Table 4, row F) which is 476 million euros. This amount is higher than the one given in Table 3 for two main reasons: First, the report authors have been able to allocate the appropriate portion of Table 3 "horizontal schemes" to the cinema sector. Second, the report authors have taken into account subsidies that are not channelled by the CNC, such as tax credits (75 million euros) and other "fiscal expenses". In addition, Table 4 (row G) takes into account the labour subsidies associated with the special unemployment regime for part-time workers or *intermittents du spectacle* to be at 200 million euros (for detailed calculations, see Messerlin, 2014). These two combined, the total amount of subsidies granted to the French cinema sector is almost 700 million euros.

From an economic perspective, this absolute figure needs to be related to the corresponding value added of the film sector. This is undertaken by calculating the "subsidy rate" or the share of subsidies in the subsidised value added. The subsidised value added in the production of films and post-production (rows A and B) is defined as the value added for films "made in France". This is a conservative assumption because some foreign investors may invest in French films in order to benefit from the French subsidies—hence "enter" into the subsidised perimeter.

By contrast, the subsidised value added in the film distribution and screening activities is limited to the *true French* value added because foreign films exhibited domestically are not direct beneficiaries of the subsidies granted to French films. Table 4 (row I) shows that the "subsidy rate" in the French film sector roughly corresponds to one-third of the value added of this sector. It should be stressed that this number is an underestimate since it relies on the above conservative assumption of how to define the subsidised value added in production and post-production.

3.3 The "True" Attractiveness of French Films: Stagnant

It is now important to assess the evolution in the attractiveness of French cinema in France since 2000.[3] The absolute number of admissions does not represent a

[3]This section does not look at the attractiveness of French films internationally because reliable data on total admissions around the rest of the world are not available.

satisfactory indicator of this evolution. For example, twice the number of admissions for French films cannot be interpreted as an increase in their attractiveness if total admissions (both domestic and foreign films in France) have increased threefold in France. Rather, a more meaningful indicator for the attractiveness is thus the share of admissions for French films in the total number of admissions nationwide. Figure 1 presents these shares for three major types of films in France: US films, French films, and other films. In order to eliminate any bias which could be generated by picking a good or a bad year as a reference point, the average from the period 1995–1999 has been used. Figure 1 provides three remarkable observations: the lower curve illustrates the share of admissions for US films in French cinemas. Its steady decrease illustrates the erosion in the attractiveness of US films. It is important to stress that this erosion is very similar to the one observed in other EU countries, mirroring a general erosion in the attractiveness of US films across Europe since 2000. In other words, contrary to widespread belief, the French subsidy policy has had no noticeable impact upon the evolution of the attractiveness of US films.

Secondly, the upper curve illustrates the sum of admission shares for US and French films. The distance between the lower and upper curves indicates the admission share of French films in the domestic market. This distance is almost constant over time: this reveals a stagnation in the attractiveness of French films over the whole period.

Finally, the distance between the upper curve and the 100% ceiling illustrates the share of admissions for non-US/non-French films in French cinemas. This distance tends to increase, meaning that the share of these films has risen.

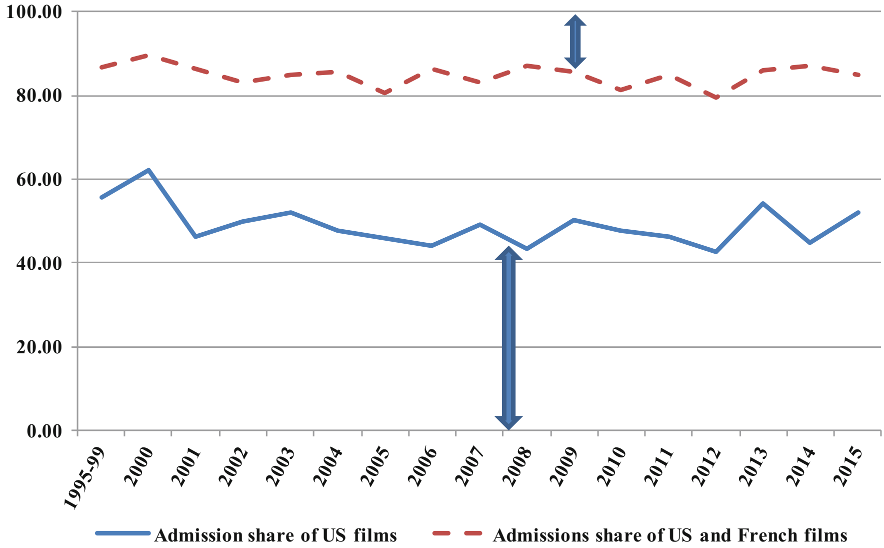

Fig. 1 The attractiveness of French films in cinemas: stagnant. Source: CNC, *Bilan*. Unit share (in per cent) of total admissions in France

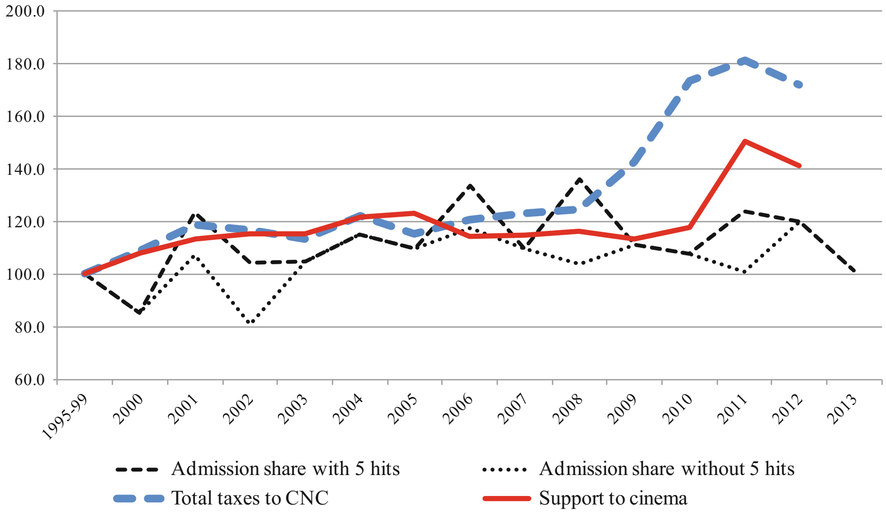

Fig. 2 The cinema sector: The "attractiveness-subsidy" gap. Units: indexes (1995–1999 = 100). Sources: CNC (Annual Bilan). Ministère de la Culture. Cour des Comptes (2012). Author's calculations

3.4 Attractiveness and Subsidies in the French Cinema Sector: Diverging Patterns of Evolution

Figure 2 allows us to compare the evolution in the attractiveness of French films with the evolution in the subsidies granted to French cinema for the period 2000–2012 (no equivalent data are available on subsidies for the period 2012–2015). To facilitate comparative reading, Fig. 2 is based on indexes, 100 being the average for the period 1995–1999. The index of the French film share in total admissions in domestic cinemas trails close to 105.

The peaks observed between 2000 and 2013 are generated by five films (out of a total production of 1900 films during the whole period) with more than 10 million admissions.[4] Figure 2 shows the index of the French film share in total admissions with or without these five films. Figure 2 provides two possible alternative estimates of the subsidies granted to French cinema covering the period 2000–2012. The lower estimate is the sum of the support to cinema (*soutien au cinéma et à la vidéo*) and, for the most recent years, half of the expenses related to horizontal schemes and digital cinema (*dispositifs transversaux et cinéma numérique*) (Ministère de la

[4]These five films are *Taxi 2* (2001) 10.3 million admissions, *Astérix et Obélix: Mission Cléopâtre* (2002) 14.6 million, *Les Bronzés 3* (2006) 10.4 million, *Bienvenue chez les Chtis* (2009) 20.5 million, and *Intouchables* (2011) 19.5 million. Only one of these five films (*Intouchables*) has received wide acclaim in the rest of the world. In 2014, a sixth movie (*Qu'est-ce que j'ai fait au Bon Dieu?*) has entered this very small club, followed by a return to a stagnant situation. 2015 is one of the 3 worst years since 2000 in terms of admission shares for French films.

Culture, 2013). The higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) (Cour des Comptes, 2012, p. 25), an estimate which takes into account the financial links between French cinema and television sectors. Though different, these two estimates provide the same key result: the index on the level of subsidies has skyrocketed—from 100 for the period 1995–1999 to a range of 140–170 in the final years.

Figure 2 shows thus a clear divergence between the stagnant attractiveness of French films and strongly increasing subsidies. It suggests that the French film subsidy policy has not reached its goal in the cinema sector—to increase the attractiveness of French films over the period covered.

3.5 The "True" Size of the French Television Sector

A complete assessment of the French film subsidy policy needs to take into account the television sector because French regulations have created close links between the two sectors in terms of public support and production (films and TV works use overlapping pools of inputs, such as actors, technicians, etc.). In particular, the French television sector is required to produce films in return for receiving subsidies. Thus, it is necessary to include subsidies granted to the television sector. The following analysis is organised in the same four steps as in the cinema part.

As with the cinema sector, the value added produced by the French television channels is not due exclusively to French operators. Table 5 presents two key adjustments required: the production of films and programmes (row A) makes a distinction between those "made in France" and those made by "true" French operators. The share of French investments in television productions is high (95%). Hence, column 2 estimates the value added of the true French production of films and television productions (row A) as 0.95 times the value added of these activities "made in France" reported in column 1. Secondly, the "general" and "thematic" broadcasters (rows B and C) cover two very different types of activities: (i) broadcasting films and television productions and (ii) broadcasting news, sport events, talk shows, and entertainment shows. Concerning the first type of activities, the French spend on average 31% of their television time watching films and television productions (CNC, *Bilan*, 2012, p. 33). As 39% of these films and television productions broadcast in 2011 qualify as French (for simplicity sake, the fact that this percentage has benefited to some extent from foreign investors is ignored), the true French content of broadcast films and television productions represents roughly 12% (31% times 0.39) of the first type of broadcasting activities.

Turning to the second type of broadcasting activities (broadcasting news, sport events, talk shows, and entertainment shows), the absence of detailed information imposes the most conservative working hypothesis—namely to assume that these activities are 100% French. After these adjustments, the value added of the "true French" television sector is estimated at 5.3 billion euros (column 2, row D), compared to a value added of 6.1 billion euros for television activities "made in

Table 5 Value added and subsidies in the French television sector, € million, 2011

Activities in the television sector	Value added *"made in France"*	*"True French"* value added	*"Subsidised"* value added	
			whole sector	"aided produc."
	[1]	[2]	[3]	[4]
A. Prod. of films/works for TV	2460	2337	2460	–
B. General TV channels	3214	2604	2604	–
C. Thematic TV channels	410	332	332	–
D. Total value added	6085	5273	5396	1302.3
E. Government-related subsidies			5006	1112
F. Labour subsidies ("*intermittents*")			200	200
G. Total subsidies			5206	1312
H. Subsidy rate (in percent of total value added)		96.5	100.7	

Sources: INSEE, Esane database. Inspections Générales' report for state-related and labour subsidies. For detailed calculations, see Messerlin (2014)

France" (column 1, row D); that is, only 85% of all the activities in the television sector are made in France.

3.6 The Subsidy Rate of French Television Channels

The Inspections Générales' report provides an exhaustive estimate of all the subsidies and equivalents granted by the French Government to the television sector for the year 2011.

Table 5 (row E) reports the total amount of all these subsidies—roughly 5 billion euros. This amount is much higher than the one given in Table 3 for the two same basic reasons than those mentioned for the cinema sector. First, the report authors have been able to allocate the appropriate portion of the "horizontal schemes" to the audiovisual sector. Second, the report authors have taken into account subsidies that are not channelled by the CNC, such as some "fiscal expenses" (exemption of the tax on TV sets for low-income households) and the huge contribution (3290 million euros) of the state budget to the state-owned TV channels for compensating the absence of advertising revenues. One should add to this amount the second half of labour subsidies provided by the special insurance regime of the *intermittents du spectacle* (that is 200 million euros).

Based upon these two figures, the total amount of subsidies granted to French television is 5.2 billion euros. In order to calculate the subsidy rate, one needs to define the "subsidised" value added. For the production of films and television productions, the subsidised value added is for the one that is "made in France". This is for the same reason as in the cinema sector: foreign investors probably invest to some extent in French television productions in order to benefit from French subsidies; hence, they "enter" into this subsidised perimeter. For the edition of general and thematic television channels, it is best to stick to the most conservative working hypothesis—the subsidised value added is the "true" French value added. This is because public ownership and cross-interests among television channels generated by tight regulations make it extremely hard to disentangle activities that are not directly subsidised. Note that this conservative assumption implies that the subsidy rate provided below is underestimated. As a result, the total subsidy rate (production and labour subsidies) in the French television sector is 97% of the subsidised value added.

This subsidy rate is so high that it deserves confirmation by an alternative calculation based on the "aided production of television productions" which is reported in Table 5 (column 4). When examined, this also provides the same conclusion (for detailed calculations, see Messerlin, 2014).

3.7 The Attractiveness of the French Television Sector: Declining

The attractiveness of the French television sector is harder to estimate than the case for cinema. This is because, since the early 2000s, the television sector has been completely transformed by Internet-driven technical developments and regulatory changes.

Today, the abundance of foreign and thematic television channels through the Internet is such that, if he/she wants to do so, a French viewer can watch television without ever having to watch a French movie, TV work, or even a French television channel.

Second, an increasing number of television audience (especially among the younger generation) tend to create their "own" television channel based on compilations from YouTube or its equivalents which include (or not) French films in a proportion that is impossible to measure.

As a result, the only available option that remains for estimating the attractiveness of French films in the television sector is to use the share of French films broadcast by French television channels (CNC, *Annual Bilan*). The above-mentioned changes in the French television sector strongly suggest that this indicator is an overestimate and has increasingly been the case over recent years.

That said, this biased indicator leaves a clear message: there is a declining trend of French films' attractiveness exhibited by the French TV channels—from an index of 100 for the period 1995–1999 to slightly above 80 for the mid-2010s, as shown in Fig. 3.

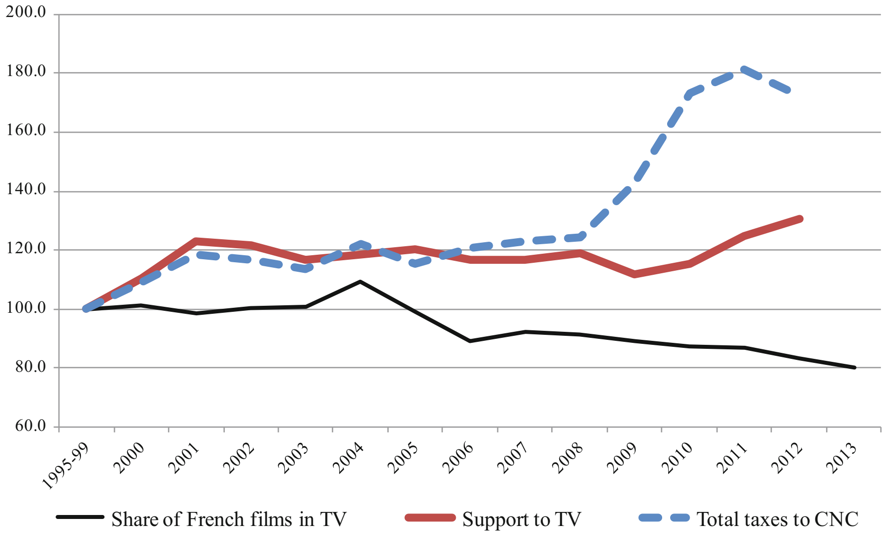

Fig. 3 The television sector: declining attractiveness, booming subsidies. Unit: Indexes (1995–1999 = 100). Sources: CNC, *Annual Bilan*. *Ministère de la Culture*. Cour des Comptes (2012). Author computations

3.8 Attractiveness and Subsidies in the French Television Sector: Strong Divergence

Figure 3 compares the evolution of French television's attractiveness with the evolution of subsidies granted to the French television sector since 2000.

Since the precise assessment of French subsidies done by the *Inspections Générales*' report is available only for the year 2011, Fig. 3 has to recourse to the same approach as Fig. 2 did—that is, to look at two possible alternative estimates of subsidies granted to the French television sector for the period 2000–2012. The lower estimate is the support to the television sector (*soutien à l'audiovisuel*) of the *Fonds de soutien* (Ministère de la Culture, 2013), while the higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) (Cour des Comptes, 2012, p. 25). Though different, these two estimates provide the same key result: the level of subsidies has increased dramatically over this period— from an index of 100 for the years 1995–1999 to a range of 130–170 in the final years. The divergence between the decline of the attractiveness and the skyrocketing subsidies is thus much stronger in the television sector than in the film sector.

To conclude, this part has shown a clear divergence in both the cinema and television sectors between a stagnant or declining attractiveness of French films and strongly increasing volume of subsidies. In short, in our view, the French film subsidy policy has failed to reach its goal—to increase the attractiveness of French films over the period covered. It is beyond the scope of this chapter to present the full list of reforms needed.[5]

4 Conclusion: Booming Subsidies but Declining Attractiveness

This chapter presented the two sides of the current French debate on the film policy.

The first section has argued that the subsidy system has allowed to increase the supply of films and their diversity and greatly boosted the audiovisual sector in France. This is all made possible by the wide-reaching public funding model, which is unique in Europe (and the world).

The second section has argued, however, that these subsidies are failing to improve the attractiveness of these subsidised films by driving higher audience figures for French films into French cinemas and TV channels. Both our sections suggest a need for reform of the French subsidy policy, all the more because it is now under constant scrutiny.[6]

In all, let us bring up two major points: First, this should not be done without taking into account other crucial elements of the French film policy, that is, its huge and complex set of regulations. For instance, there are tight mandatory rules (*chronologie des médias*) on the possible time sequence for exhibiting films in the various distribution channels (cinema, TV channel, DVD, free or paid VoD, etc.), and French TV channels do not compete on a level playing field since they have different rights and obligations in terms of the number and type of films to be produced. These rules have been written for a world that no longer exists, and they impose increasing costs on film production. Second, the need for structural reforms is amplified by the rapid emergence of new instruments brought by digital technologies: crowd-funding techniques for financing small-budget films, the availability of much lower costs for producing films, the emergence of new channels of distribution, etc.[7] Too limited or badly conceived reforms would induce the French film producers to turn faster to these new instruments or to use them more intensively, generating unnecessary conflicts and eroding further the legitimacy of the current French subsidy policy.

[5] See, Bonnell (2013).

[6] See Jäckel (2007) and Jäckel and Creton (2004).

[7] Forest's work on the digitisation process in French cinemas reveals transformations in the distribution and exhibition sectors since moving to digital screens. He shows how these changes have modified the professional landscape, bringing in technical transformations and new financial partners. This has affected the balance of the different stakeholders and increased France's reliance on norms and technological developments coming from the United States (Forest, 2013, p. 163).

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Government Failure: The Ineffectiveness of Italian State Subsidies to Film

Emanuele Teti, Alan Collins, and John Sedgwick

1 Do State Subsidies Help at the Box Office?[1]

The Italian State along with other European countries continues to provide public financial support for their film industries, as well as other media industries such as newspapers and public broadcasting (Aydin, 2007; Brandt & Svendsen, 2009). In their paper investigating the determinants of box-office returns generated by Italian produced films released in the Italian market from 1985 to 1996, Bagella and Becchetti (1999, p. 238) set out five criteria for justifying the allocation of public finance intended to support indigenous film production, each conditional on criteria that perceives film outputs to be 'works of art'. Using econometric techniques, one of their key findings is that subsidised Italian films do not underperform, once account is taken of the lesser talent employed in such productions. They write: 'A result of particular interest also shows that subsidized movies do not exhibit significantly lower performances in terms of total admission, net of other factors, while they clearly underperform on average vis-à-vis non-subsidized movies because of the significantly lower ex ante popularity of their hired cast' (p. 239).

Sourced from the trade journal *Gazzetta del Cinema*, the preferred measure of performance adopted by Bagella and Becchetti is the box-office revenue generated by films in the Italian market. However, while revenue is an indicator of film

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popularity, it does not reflect the resources embodied in film production and distribution, and, hence by implication, the alternative societal uses (opportunity cost) to which those resources might be put, such as the provision of extra hospital beds, or classroom teachers, or operatic productions. Bagella and Becchetti's argument concerning the subsidy seems to boil down to the counterfactual: had more recognised talent been employed in those subsidised films, the box-office performance of those films would not have been significantly different from those Italian films that were not subsidised. However, as the cost of employing 'minor' talent could be expected to be less than employing 'major' talent, the relative costs of production of subsidised films could also be assumed to less, meaning that the revenues necessary to cover those costs need not have been be so high. On this basis, film profitability represents a better measure of public policy evaluation than box-office revenue alone.

In this respect, the conclusion reached by Bagella and Becchetti stands in stark contrast to the results of this study. Again historicising the research, by drawing on data for the later period of 1995–2003, evidence is produced to show that only three of the 135 state subsidised films in our dataset, irrespective of the subsidy, generated sufficient box office to cover their production costs, with a further 14 films needing the subsidy to break even, implying that the bulk of films were extremely unprofitable. The poor performance at the box office is compounded by the fact our estimates of profitability do not include distribution costs.

That the average revenue performance of subsidised films in relation to costs of production was very poor indeed, leads us to question the efficacy of the Italian film subsidy regime operating during the period 1995 and 2003. Indeed, it is difficult not to come to the conclusion that the effect of film subsidy was largely to misallocate resources, demonstrated by the simple fact that Italian film audiences showed very little interest in the resulting films. Furthermore, the subsidised films do not appear to have contributed very much in the way of prestige to Italian Cinema, which as will be shown was an avowed intention of the legislation establishing the subsidy regime. This chapter is structured as follows: some theoretical considerations that emerge from the literature are briefly set out in the next section, followed by an explanation of the subsidy regime in Italy in the years 1995–2003. The next section explains the dataset and methods used in this chapter and raises some data issues. Section 5 presents the results and is followed by a discussion and some concluding remarks.

2 Film Subsidies: A Brief Contextual Retrospect

While there is an extensive literature exploring the determinants of box office revenue and film success (see the surveys of Chisholm, Fernandez-Blanco, Ravid, & Walls, 2015; Hadida, 2009; McKenzie, 2012), the role of public state subsidies in supporting films at the box office has been given little attention, exceptions being Bagella and Becchetti (1999), Meldoni, Paolini, and Pulina (2015) and Meloni, Paolini, and Pulina (2018). In comparing the box-office performance of subsidised and unsubsidised Italian, Bagella and Becchetti (1999) identify five generic objectives for state support for the film industry:

(1) To broaden cultural options—were films of artistic merit not made, the artistic scope of future filmmaking would be restricted.
(2) To redress the commercial imperative, which puts entertainment before cultural enrichment.
(3) To foster cultural identity and national prestige.
(4) To generate positive externalities for the community and businesses tied to the film industry.
(5) To compensate the low productivity associated with 'art' films.

If fulfilled, each of these objectives would impact upon movie supply in that the films made as a consequence would embody characteristics that are 'publically' desirable and thus enrich the movie offer for audiences (Towse, 2010). It will be noted that the intended outcomes are both indivisible and non-excludable—they cannot be divided up and their effects cannot be consumed separately—they are what economists call 'public goods'. In that policy makers perceive them to be desirable; their addition to the stock of films released and available for is beneficial to the general welfare—they function as "merit" goods (Throsby, 2001). Implicit in the policy recommendations listed by Bagella and Becchetti is the idea that if left to itself the market would undersupply films that incorporated these meritorious characteristics and that given each contributes positively to the general welfare of the community, society as a whole would be worse of. The case for the subsidy is thus normative, based upon the positive externalities in consumption that occur as a consequence of audiences seeing films with particular characteristics that otherwise wouldn't have been made.

Public Choice Theory aims to apply positive economic reasoning to political decision-making (Djankov, McLeish, Nenova, & Shleifer, 2003; Netzer, 2006; Prat & Strömberg, 2010; van der Ploeg, 2006). Essentially, scholars in this tradition are concerned with who benefits from making policy. And commonly they come to the conclusion that it is not only the recipients of the subsidy but also the politicians who make the policy and the bureaucrats who administer the policy, rather than consumers or the body politic who benefit from subsidy regimes. Thus, in many cases, the allocation of subsidies is likely to lead to inefficient outcomes, meaning that resources could have been better deployed. Reasons for inefficiency in the subsidy allocation system find their roots in the work of Tullock (1965), Downs (1967) and Niskanen (1975) along with public policy commentators such as Coyne and Leeson (2004), Grampp (1986) and Austen-Smith (1986). While the stated objective of public fund allocation lies in the social and cultural policies pursued by public administrations (Grampp, 1989; Pinnock, 2006), the economic rationale behind any increase in a discretionary budget designed to maximise the quantity of services and products offered should be that of 'deadweight loss': meaning, the value of the output lost by transferring resources to the beneficiaries of the subsidy should not lead to a lowering of social welfare enjoyed by the community as a whole (Olszewski & Rosenthal, 2004). Commonly, policy makers do not adhere to such guidance.

Following Niskanen (1975), biases and inefficiency in budget allocation can be explained by two main elements. First, bureaucrats aim to expand budgets to increase their influence, role and their perceived 'sensation' of wealth and authority and that budget maximisation is a tool to that end. Second, a sort of bilateral monopoly is established between politicians and bureaucrats, giving bureaucrats a status similar to a monopoly organisation. Further, once the funds are assigned, politicians do not have specific instruments or information flows to assess the way the budget is then assigned to the subsidised products, making the allocation procedure even more contentious (McKay, 2011).

Thus, irrespective of the objective to which the funds are actually allocated, and the finance set aside for this purpose, the intrinsic characteristic of bureaucracy is the drive towards expanding the budgets at their disposal (Acemoglu, 2001; Easterly, 2012). Put differently, inefficiency in budget allocation procedures is sustained by a lack of political authority and responsiveness (Downs, 1967), coupled to a tendency for public organisations to have expansion as a primary aim, rather than to follow specifically the objectives for which they are established (Tullock, 1965). Miller (1997) supports these findings, emphasising that allocation inefficiency is strictly related to bureaucratic incompetence and natural inertia. He draws specific attention to the 'self-interested choices of political actors' (p. 1195).

The body of work under the Public Choice banner has been influential in policy analysis and discussions and could be deemed to have discernibly and positively affected government action in many English-speaking and Northern European countries well before the year 2000, with the implementation of various new reforms aimed at reducing bureaucratic inefficiency arising from budget allocation (Aucoin, 1991). Arguably, however, the strength of these ideas had not reached Italy during the years covered by this study. The findings of this study illustrate one high profile policy context in the recent past, in which even an elementary level of public policy thinking was conspicuously absent.

Government Failure

As alternative resource allocation mechanisms, it makes sense to admit the possibility that if markets fail to produce socially optimum outcomes, so might governments. That is, in promoting what government might deem to be "desirable" outcomes, public policy can lead to an oversupply of the product in question. For this to be the case, economic reasoning proposes that at the margin an assessment is necessary as to whether the value of the personal (excludable) and external (non-excludable) benefits that accrue from consumption exceeds the private (excludable) and (non-excludable) external costs entailed in subsidised production. Essentially, the decision to subsidise is an issue as to whether the resources entailed in production could have been better utilised. Government failure will occur where a government persists in supporting the production of a type of product for which there is no strong economic imperative, or, to put it differently, imperatives other than the economic dominate.

Principally, non-market or *government failure* is the case when the costs of intervention are greater than the benefits (Dollery & Worthington, 1996). Government failure in film funding may occur when the costs of setting up, operating and controlling the scheme exceed the benefits (Stiglitz, 1989). *Regulatory capture*, another form of government failure, refers to collusion between firms and government agencies assigned to regulate them (Dal Bó, 2006; Laffont & Tirole, 1991; Zerbe & McCurdy, 1999). Here, rent-seeking behavior is an important explanatory concept in economics. In public choice theory, rent-seeking is the attempt of people to obtain economic benefit for themselves through lobbying the government for privileges.[2] They typically do so by getting a subsidy for a good they produce or for belonging to a particular group of people, by getting a tariff on a good they produce or by getting a special regulation that hampers their competitors. In fact, from a theoretical standpoint, the moral hazard of rent-seeking may considerably endanger any potential efficiency gains public subsidies are about to initiate in the first place (Tullock, 1967). There are various instances of government-beneficent relations which result in a negative net effect of rent-seeking. Then, total social wealth is reduced, because resources are spent wastefully and no new wealth is created. When applied to state aid for newspapers, if lobbying for a favorable regulatory environment is cheaper than building a more efficient production, a newspaper may opt for the latter, and money is thus spent on lobbying activities rather than on improved business practices.

A larger issue concerns the impact that subsidies have on market signals and their supposed self-regulating qualities (a phenomenon that Adam Smith referred to as the *invisible hand of the market*). An alternative perspective comes from Coase's (1937) theory that firms exist in order to economise on the transaction costs inherent in using the market, which in turn provided a platform for Chandler (1966) and Williamson (1975) to develop a modern theory of the firm serving as a *visible hand* of resource co-ordination. Thus, the intervention of government may alternatively be seen in this benevolent light: as a resource coordinator serving to enhance public welfare. Hence, while governments may fail: in our case to design a policy that enhanced the cultural well-being of Italian, this is far from being a rule and more an issue of design.

3 Italy: Subsidies to Film Producers

In 1965, the Italian State recognised the film industry to be of cultural, economic and social importance. The Law established the FUS (*Fondo Unico per lo Spettacolo—Performing Arts Fund*) as the exclusive legal institution responsible for supporting different artistic and cultural activities, including opera, cinema, music, dance, theatre and drama and circus arts.

[2]Tullock, who originated the idea in 1967, was first to point to the negative externalities through rent-seeking behaviour (Tullock, 1967).

The 1965 law was followed in 1994 by Law No.153, in which the distinction was made between films that were of ‘national cultural interest’ and films that were ‘national productions’, establishing different supportive financial regimes for each. According to this law, for a film to be recognised as a ‘national production’ required that it was made by a company that was registered, held the majority of its capital stock, did most of its business in Italy and which paid taxes to the Italian State. In addition, a newly formed “Advisory Committee for Cinema” (*Commissione consultiva per il cinema*) was given the remit to declare films to be of ‘national cultural interest’ and thus entitled to a subsidy. Determined by Law No. 153, Table 1 lists the criteria the Advisory Committee was to base its decisions upon. It is evident that the status of the artistic talent involved was paramount in this process, with by far the greatest weight (0.7) given to the past artistic achievements of directors and the actors they selected.

Once selected, films of ‘national cultural interest’ were then referred to the “Committee for Cinema Credit” (*Comitato per il credito cinematografico*), which made decisions about the loan-worthiness of their producer(s) and the maximum loan to which they were entitled. In financial terms, productions recognised as ‘films of national cultural interest’ could take advantage of the “Participation Fund” (*Fondo di Intervento*), assisted by the “Guarantee Fund” (*Fondo di Garanzia*). The Guarantee Fund was established to support the costs of films of ‘national cultural

Table 1 Films of ‘national cultural interest’ (criteria, threshold value and relative weight)

Ref. Code	Parameter	Threshhold value[a]	Score
A	*Director's artistic contribution*		70[b]
A1	Awards won by the director for direction or best film	1	20
A2	Contribution of previous films directed by the director to festivals or nominations as award finalist for direction or best film	1	10
A3	Number of films directed by the director with box-office revenues >800,000€ in the last 10 years	2	10
A4	Awards won for best acting by main actors of the cast selected by the director	1	20
A5	Nominations for best acting by main actors of the cast selected by the applying director	1	10
B	*Screenwriter*		20
B1	Awards won by the screenwriter for screenplay	1	15
B2	Screenwriter's nominations as finalist in awards for screenplay	1	5
C	*Screenplay*		10
C1	Screenplay drawn from a work of literature	Yes	5
C2	Original screenplays	Yes	5

Source: Ministerial Decree dated 27th September 2004, Table A

[a]The “Threshold value” refers to the minimum number of awards, nominations or other criteria previously received by the artistic talent associated with the qualifying films

[b]Relative weights given by law

interest', and its capital endowment consisted of contributions allocated by the State to the industry. The sum of money not spent by the Guarantee Fund was added—through 6-month adjustments—to the Participation Fund, thus serving as a reserve for future financial needs. Through this system, the State guaranteed 70% of any finance granted, which producers were not required to pay back. An aspect of this loan guarantee scheme catered for those films of 'national cultural interest', which were the first or second works of Italian directors.

By contrast, "national film productions" were not submitted for assessment to the Advisory Committee for Cinema. Rather, such films were able to benefit from low interest credit facilities up to a value of 3.2€ million (subsequently raised in 2004 up to a maximum of 5€ million). However, unlike films of national cultural interest, national productions could not take shelter under the umbrella of the Guarantee Fund, meaning that the State did not underwrite the loan and the producer was required to repay any loan in full.

For the purposes of this chapter, 'subsidy' is understood to be those loans granted to films of 'national cultural interest', including the 'first and second works' of directors, which did not require repaying, while 'national productions', although able to access low interest credit facilities, are categorised as non-subsidised films, since whatever State support granted had to be repaid. Short films are not included. Since 'national cultural interest' is a much more subjective requirement than 'national production', quarrel is originated on the potential biases behind the valuation carried out by the Advisory Committee for Cinema.

An overview of annual public aid to the Italian film industry in the period 1995–2003 is presented in Table 2. Aggregating the data for the 9 years, 680.1€ million were assigned to 445 films that took advantage of the Guarantee Fund (columns (A) + (C)), comprising 357 films of 'national cultural interest', which were supported by 607.1€ million in loans, and 88 'first and second works', supported by 73€ million loans. The 131 'national film productions', deemed not eligible for the Guarantee Fund, obtained loans totalling 136.2€ million. Thus, in the 9 years examined, 83.3% of public resources were given to productions that were not bound to make repayments to the State (680.1€ million out of 816.3€ million): 74.4% to films of 'national cultural interest' and 8.9% to 'first and second works'. Only 16.7% of these loan facilities went to films that did not have their finances to some extent guaranteed by the State.

4 Italy: Data and Approach

During the 9 years 1995–2003, 914 Italian films were released into the Italian theatrical market. Of these films, reliable records of production cost and box-office revenue is available for 566 films, 135 of which were films of 'national cultural interest'—films that received loans guaranteed by the Guarantee Fund. The data were provided by the *Osservatorio di Cinecittà* (operating branch of the Ministry of Cultural Heritage), which serves as the centre for the collection, analysis and diffusion of economic, qualitative and personnel information on the Italian film

Table 2 State financing of the Italian Film Industry, 1995–2003

Year	Films of National Cultural Interest (A)		National Films (B)		First and second works (C)	
	Expenditure (€)	Films	Expenditure (€)	Films	Expenditure (€)	Films
1995	47,754,704	40	20,674,286	24	0	0
1996	41,006,667	40	29,128,169	27	0	0
1997	55,260,888	41	21,830,633	18	8,396,039	14
1998	80,163,923	44	16,991,431	16	7,139,500	11
1999	75,402,707	45	9,761,035	11	6,186,637	10
2000	40,025,409	25	22,362,583	19	11,516,988	13
2001	47,227,401	24	6,736,147	6	14,238,407	15
2002	110,844,380	52	403,869	1	11,337,096	11
2003	109,442,473	46	8,324,063	9	14,178,156	14
1995–2003	607,128,552	357	136,212, 216	131	72,992,823	88

Source: FUS reports from 1995 to 2003 to the House of Parliament (*Relazione al Parlamento*), *Direzione Generale per il Cinema*. Ministry of Cultural Heritage

industry. *Cinecittà* obtained the data about box office revenues and production cost from the *Banca Nazionale del Lavoro*.

A measure of profitability is derived by deducting production costs from box-office revenues, and the rate of return is obtained by expressing this as a percentage of production costs. Thus, these measures of performance do not contain distribution and promotion costs and hence overestimate profitability. Nor do they reflect further downstream revenue flows from DVD rental and sales and television sales.[3] However, given that the focus of this chapter is on the relative performance of subsidised films with the purpose of establishing how effective the State subsidy has been, these limitations are not critical.[4]

5 Results: Subsidies—No Positive Returns

Tables 3 and 4 set out the main results. From Table 3, it is clear that although the public subsidy attenuates the financial exposure taken by producers, the collective failure of the subsidised films at the box office means that the subsidy fell far short of assuring them positive returns on their investments. Across the 9-year period, the Italian State contributed over 40% of the production costs of the 135 films of

[3]See Sedgwick and Pokorny (2010) for a methodology for estimating profits using estimates of distribution costs and non-theatrical revenue streams.

[4]The euro has been in force in countries belonging to the Economic and Monetary Union since 1st January 2002. Accordingly, a large part of the costs and revenues of films included in the initial raw data are expressed in the pre-euro Italian currency unit, the lira. Therefore, all the monetary values of such films have been converted into Euros, at the fixed exchange rate of 1€ = 1936.27 Italian lire and expressed in 1994 prices.

Table 3 Profitability analysis of films of 'National Cultural Interest' (subsidized films) in Euros, using 1994 prices

Year	Subsidised films	Total box-office revenues	Mean revenues	Total production cost	Public subsidy	Proportion of costs subsidised	Net production cost	Mean rate of return, excluding subsidy	Mean rate of return, including subsidy
1995	13	5,744,793	441,907	29,854,799	10,711,066	0.36	19,143,733	−0.81	−0.70
1996	18	6,198,865	344,381	29,682,059	14,352,994	0.48	15,329,065	−0.79	−0.60
1997	13	5,565,301	428,100	21,085,495	8,934,311	0.42	12,151,184	−0.74	−0.54
1998	11	9,899,387	899,944	33,628,855	16,071,228	0.48	17,557,627	−0.71	−0.44
1999	17	3,686,625	216,860	35,939,660	14,905,518	0.41	21,034,142	−0.90	−0.82
2000	10	5,227,105	522,711	18,522,111	10,859,926	0.59	7,662,185	−0.72	−0.32
2001	21	9,877,491	470,357	54,797,227	19,668,615	0.36	35,128,612	−0.82	−0.72
2002	13	1,616,991	124,384	19,647,866	8,996,861	0.46	10,651,005	−0.92	−0.85
2003	19	10,090,803	531,095	50,379,694	22,549,458	0.45	27,830,236	−0.80	−0.64
Total	135	57,907,361		293,537,766	127,049,977		166,487,789		

Source: FUS reports from 1995 to 2003 to the House of Parliament (*Relazione al Parlamento*), *Direzione Generale per il Cinema*. Ministry of Cultural Heritage
Note: Rates of return calculations are exclusive of distribution and promotion costs

Table 4 Profitability analysis of the non-subsidised films (in Euros, using 1994 prices)

Year	Non-subsidised films	Total box-office revenues	Mean revenues	Total production cost	Mean rate of return
1995	41	76,655,785	1,869,653	79,093,699	−0.03
1996	38	101,632,814	2,674,548	99,797,168	0.02
1997	53	147,409,949	2,781,320	110,955,908	0.33
1998	48	98,137,329	2,044,528	118,009,493	−0.17
1999	58	66,535,406	1,147,162	168,448,585	−0.61
2000	40	59,374,934	1,484,373	79,982,476	−0.26
2001	51	84,087,760	1,648,780	125,259,164	−0.33
2002	55	101,339,175	1,842,530	206,938,975	−0.51
2003	47	74,568,721	1,586,569	141,187,601	−0.47
Total	431	809,741,873		1,129,673,069	−0.28

Source: Osservatorio di Cinecittà: FUS reports from 1995 to 2003 to the House of Parliament (*Relazione al Parlamento*), *Direzione Generale per il Cinema*. Ministry of Cultural Heritage
Note: Rates of return calculations are exclusive of distribution and promotion costs

'national cultural interest'. On the other side of the ledger, the subsidy amounted to twice the revenue generated by these films at the box office. Indeed, as mentioned earlier, of the 135 films in the sample, only three covered their production costs without the subsidy, while another 14 did so as a result of the subsidy.[5]

The relationship between revenues and subsidy is further examined by simple bivariate OLS regression of revenues on subsidies. The outcome is a statistically significant positive coefficient value for the dependent variable. But with an R^2 that is <0.1, on top of a highly positively skewed residual plot in which a disproportionate number of films earn revenues less than that predicted by the model, counterbalanced by a relatively small number of films that earn substantially more, no discernible relationship can be detected between box office and the subsidy. In contrast, a better fitting model is obtained by simply regressing production costs on subsidy, with a highly significant coefficient value for the dependent variable, as well as an $R^2 > 0.3$, and a better behaved distribution of the residual error. Not surprisingly, the size of the subsidy is related to the size of the production budget, although other factors clearly play a part.

6 Conclusion and Discussion: Government Failure

In the light of the results shown in Tables 3 and 4, it would appear that the State subsidy given to the Italian film industry between 1995 and 2003 was neither an efficient nor effective instrument for generating consumer well-being, supporting the view that either public resources used to support film production could have

[5]The three films were: *I Cento Passi* (2000), *Tano Da Morire* (1997), *Le Affinità Elettive* (1996).

been better utilised elsewhere, or the instrument could have been better designed and targeted. Indeed, had the films of 'national cultural interest' not been subsidised, very few of them would have been made, meaning they only take a marketable form because they are subsidised. Bagella and Becchetti (1999) claim that subsidy can be justified 'provided that we refer to those movies that can be considered a form of art' (p. 238)—see also Dimitri and Paolini in this book. Clearly, these authors propose a 'market failure' type of argument: that is, if left to itself the market will undersupply films that are of cultural merit. However, the evidence presented in Table 3 indicates that so few paying customers went to see films of 'national cultural interest'—particularly between 1999 and 2002—as to render virtually empty any argument inferring that they contributed to the general diffusion of cultural welfare. Of the five reasons supporting the subsidy advanced by Bagella and Becchetti (1999), only the fourth—that of generating positive externalities for film production—is not critically weakened by the chronic lack of consumer interest shown in the films being subsidised. However, of course, this argument has a severe moral hazard dimension to it, in that producers/directors in proposing that their film should be supported by the State will know that films of 'national cultural interest' rarely became films that are of popular interest.

The results can be readily rationalised in the context of simple public policy thinking. The evidence furnished in this Italian arts context suggests that subsidy allocation process seems better to serve the needs of the production and bureaucratic bodies involved, rather than the altruistic aims for which the subsidy awarding panels were commissioned. Over the period under study, the influence of the then Prime Minister Silvio Berlusconi, in the political, business and public media domains, was strong and pervasive. However, this should be set against the role played in Italian cinema and culture by left-wing artists (Gundle, 2000). Accordingly, many opponents to the present system argue that left-wing governments sustained the film industry because it was ideologically sympathetic to the left. Furthermore, it has also been suggested that left-leaning parties would typically highlight cuts made to film industry budgets when right-leaning governments were in office, campaigning on the diminution of "national cultural interest" that such policies entailed. Some have even gone as far as to argue, "[. . .] left-wing welfare has sunk the film industry" (Kolker, 2009; Mecucci, 2007).

Even though the subsidy allocation procedure is based on objective criteria, there is considerable scope for various lobbies to influence the award of prizes and subsidies and thus skew outcomes. This process of influencing budget allocation is similarly observed within other sectors (such as health and education) and also in other geographical contexts (Mitra, 1999; Marshall, 2012). Some commentators (e.g. Gundle & Parker, 1996) do, however, acknowledge the unavoidability of market failure arguments. In large part, this has been linked to the domination of Italian media and cultural industries maintained by Berlusconi and his commercial interests (Downey & Koenig, 2006; Quaglia & Radaelli, 2007). Such fears were exacerbated by his potential to influence these sectors even more profoundly after his entrance into the political arena in 1994 (Hasted, 2008). That a Prime Minister who had extensive personal media interests was ultimately responsible for national media policy made the conflict of interest issue particularly acute (Hanretty, 2007). Inevitably, the complex political context is likely to have impacted on policy, causing the film subsidy to be less effective than it otherwise might have been in securing broader national cultural and industrial objectives.

With respect to the Italian film industry, the legislation designed to promote a cinema of cultural integrity through subsidy resulted in an institutional apparatus that was self-serving, producing films that formed small niche markets that were largely ignored by the cinema-going public at large. For the same period, Jansen (2005) has produced a similar argument with respect to the subsidisation of films in Germany. Much of the blame for this lay in the actual design of the policy. The film business is generally considered to be highly risky in that audiences are attracted by novelty and need to discover whether or not they like a particular film. Producer risk is thus born out of consumer risk (Sedgwick & Pokorny, 1998). Popular cinema works on the basis that producers attempt to generate novel products that audiences pay to see. While audiences are not infrequently disappointed, producers commonly fail to attract sufficient audiences to cover the costs associated with finance, production and distribution. Thus, both producers and consumers incur risk. That the producers of 'films of national cultural' were not required to take much in the way of risk, meant that they had less incentive to produce films that audiences in sufficient numbers wanted to see. It would appear that the bilateral monopoly that emerged between bureaucrats and politicians oversaw a system in which the size of the audience was of secondary importance to getting the film made. Inevitably, if consumer well-being is removed from the equation, the market becomes distorted in that the cultural establishment, including filmmakers, civil servants, politicians and cultural commentators and not audiences at the box office, drives the imperative.

Historically, "cinema" and "audiences" have been conjoint concepts—without audiences there would be no cinema. However, in the case of Italian cinema, the state subsidy between 1995 and 2003 served to separate the two, leading to the production of too many films that too few filmgoers paid to see. Thus, while it might be claimed by some that subsidy was essential to the very existence of the film industry, the results presented herein suggest that the subsidy regime could not assure the future development of the industry since, even before distribution costs were factored into the profit equation, production losses exceeded the subsidy. The subsidy regime during this episode of recent Italian cultural history was ineffective and wasteful. An approach in which markets impose a measure of discipline on the support given to the film industry would surely be preferable—i.e.: product markets in which exhibitors screen films that audiences actually want to see and finance markets in which investors (including the state) are attracted to products that have a good prospect of generating positive rates of returns. Specific institutional and contextual elements characterising the Italian system have got in the way of achieving such an outcome. To some limited extent, by creating a system in which both the State and producers share the revenue stream generated by subsidised films on the basis of their respective contributions to costs, recent reforms of the subsidy regime have begun to address the issues raised in this study. In doing this, the regime now requires the case for subsidies to be much more rigorous from a film production business viewpoint, but the existential rationale for the provision of such 'riskless' subsidies seems to remain politically unquestioned, at least up until the time being.

As for the current situation, in January 2016, the current Minister of Culture, Dario Franceschini, presented a draft for a new cinema law (*Disegno di legge* no. 2287 "*Disciplina del cinema dell'audiovisivo e dello spettacolo*"). The aim of this new law is to give the Italian Film Industry a more functional and less wasteful regulatory framework. Under the draft proposal, a new fund "*Fondo per lo sviluppo degli investimenti nel cinema e nell'audiovisivo*" with an annual endowment of 400€ million is proposed, designed to stabilise financial resources available to the audiovisual industry. The fund takes inspiration from the French model and will be financed from taxes derived from the audiovisual industry. It will support the indigenous production in four ways: through: (1) *tax credits*, (2) *automatic subsidies*, (3) *selective subsidies* (4) and *co-funding arrangements* with selected cultural institutions—*La Biennale di Venezia; Centro Sperimentale di Cinematografia; Istituto Luce-Cinecittà*.

With reference to *automatic subsidies* (*contributi automatici*), the new draft proposes the abolition of the existing infrastructure built around promoting films of 'national cultural interest', the essential aspects of which can be found in Sect. 2, and replacing it with one in which indigenous production companies seeking support will be evaluated by a mixture of artistic and economic criteria, entailing an assessment of their previous domestic and international box office performance, prizes won, financial robustness, profitability and average production costs. To be managed by a new commission (*Gruppo di Esperti*), under the proposal, only 15% of the Fund will be dedicated to *selective subsidies* (*Contributi Selettivi*), with the focus on supporting artistic and cultural movies, the first or second works of directors, young talent, start-ups and small cinema halls.

Appendix

Law and regulation developments concerning public subsidies to film production in Italy

Law no. 1213, 4 November 1965	Italian State confirmed its support and commitment to the film industry—one that can be dated back to 1927
Decree no.26, 14 January 1994, amended in 2004/5	A distinction between films of 'national cultural interest' and 'nationally produced' films is established, each governed by separate administrative procedures
Law no. 153, 1 March 1994, Article 8	The categories of 'first works' and 'second works' related to films of 'national cultural interest' are introduced
Law no. 137, 1, 6 July 2002	New procedures to improve subsidy allocation, and control
D. Lgs. No. 28, 22 January 2004	Establishes a new set of guidelines for the regulation of the public subsidy to film industry
Ministerial Decree, 27 September 2004	Stricter prescriptions on subsidies to film production are introduced
Ministerial Decree, 13, August, 2015	Criteria published defining 'cultural interest', including technical criteria necessary for films to be considered eligible for public funding

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Evaluating the Effects of Protectionism on the Film Industry: A Case Study Analysis of Korea

Jimmyn Parc

1 Bumpy Start of the Korean Film Industry

With the growing popularity of South Korean (hereafter Korea) contemporary culture known as *Hallyu* or the Korean wave over the last two decades, the Korean film industry would have naturally been expected to have enjoyed uninterrupted success as well. However, the film industry has experienced many periods of difficulties. Interestingly though, these hardships have helped it to form its own competitive advantage within the global film market. The history of Korea's industry offers a fascinating history of how to develop a successful film industry.

During the period of Japanese occupation (1910–1945), strict censorship was imposed which hindered the growth of the Korean film industry. For example, Korean-speaking films were banned completely in 1942 (Kim, 2007), and all film producers were forcibly merged into a single production house to make Japanese propaganda films.

When Korea was liberated in 1945, under the US Army Military Government (1945–1948), many Hollywood films were distributed to Korean theaters while only a handful of Korean movies were produced annually. Meanwhile, the prevalence of Hollywood films in Korea meant that the domestic audience became more

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familiar with Hollywood-style films. This contributed to the growing sophistication among the Korean audience after decades of exposure to Japanese films (Shin, 2008, p. 43).

During the Korean War (1950–1953), Korea's entire industrial infrastructure was destroyed, and many Korean film directors worked for or under the US Army which later provided them with modern film technology and equipment (Paquet, 2007; Song, 2012). The transfer of advanced US filmmaking equipment and technology to Korean filmmakers and production companies allowed Korea to become one of the most dynamic movie industries in Asia (Kim, 1998, pp. 130–135). However, this so-called golden age lasted only until the 1960s. In order to promote the film industry further, the Korean government introduced several protectionist measures. Yet, despite these efforts, the Korean film industry faced unexpectedly serious stagnancy throughout the 1970s and 1980s.

In the early 1990s, the Korean film industry began to recover. Since then, it has performed strongly in the domestic market with 54% of the market share on average over the last decade and annual record peaks of between 60 and 65%. Underlining this success, many Korean films have also been recognized internationally: *Thirst* (Jury Prize at 2009 Cannes Festival), *Poetry* (Best Screenplay Award at 2010 Cannes Festival), *Night Fishing* (Golden Bear for Best Short Film at 2011 Berlin Festival), *Pietà* (*Golden Lion* at 2012 *Venice Festival*), *Inside Men* (Best Actor at 2016 *Asian Film Award*).

In short, the Korean film industry achieved its competitiveness within a relatively short period of time and has become one more additional dimension of *Hallyu* and a step toward developing a new hip identity, that of Korea as one of "Asia's cultural powerhouse" (Chua & Iwabuchi, 2008; Parc & Moon, 2013; Time, 2012).

In this respect, the successful renaissance of the Korean film industry raises the following key questions: What is the impact of various government policies on the Korean film industry? What kind of lessons can countries, especially those with declining film industries, learn from Korea's experience with its film policies? The impact of such policies and other possible factors to account for Korea's success are analyzed in this chapter.

I shall focus on providing a fact-based assessment of the results produced by the aforementioned policies and its practices in the case of the Korean film industry. In addition, this assessment has been put into perspective since it can be argued that these policies have had either immediate or lagging effects. The main conclusion of this chapter is that most of the successive Korean film policies have not been effective, rather it was business strategies that emerged as the critical factor to help boost the industry.

This chapter is composed of four sections corresponding to three periods. Section 2 focuses on the "import quota" regime which dominated Korea's film policy from the early 1960s–1986. Section 3 looks at the "screen quota" system which has been the most visible element of Korea's film policy since 1987, but has begun to lose its predominance after July 2006. Section 4 examines the subsidy policy, the most frequently discussed issue in Korea nowadays, which emerged in the late 1990s when the Korean government recognized the importance of the film industry as an economic driver and was able to fund such an instrument. Section 5 will provide a policy-relevant conclusion to this chapter.

2 The Import Quota Regime (1959–1986)

The import quota regime is a way for governments to limit the number of foreign films imported into the domestic market and has prevailed in many countries in order to protect their film industry. However, this protectionist measure brought about unexpected results that are different from the original intention. The case of Korea is no exception. The import quotas were the first significant protectionist measure utilized by the Korean government in 1958. Initially, it was based on a reward scheme: only companies who successfully produced or exported Korean films would receive a license to import foreign films. The rationale of this approach was to create a self-sustaining virtuous system; exporting films would require high-quality Korean movies, and the foreign currency earned by exporting these good Korean films could be then reinvested to produce new domestic films.

In fact, this "reward" system in Korea worked during the late 1950s. However, the initial "high-quality" approach to the reward system was quickly abandoned because of endless disputes on how to define "quality." The key change took place in 1966 when the "quality-based" reward system was replaced by a rigid "quantity-based" rule: for one film imported, there shall be three Korean films screened. What counted thus was merely the number of exported and screened films. Later, this import quota regime was amended no less than 4 times until its abolition in 1986.

2.1 Impact on Number of Films Imported and Admissions

Despite the argument that cultural goods and services must not be treated as mere commodities or consumer goods, protectionist measures for cultural goods and services are not much different from that for commodities or consumer goods in terms of the applied method for restriction, thus the number of imported goods. Quantity-based import quotas were enforced well in Korea: the annual share of foreign films in the total number of films screened was roughly 25%. However, the critical point to assess the effectiveness of the import quota regime is not the number of films imported or the number produced, but rather the size of the audience that they attracted.

Notwithstanding strongly enforced import quotas, the annual admission shares for foreign, mostly US, films in Korea was much higher than 25%, the share imposed by the import quota. It was 62.3% on average from 1965 to 1986 and has never dropped below 51.1% (1968), with a couple of annual peaks higher than

80% (1973 and 1975).[1] The reason for such a failure is that foreign films attracted a larger domestic audience than Korean films did. Merely limiting the number of foreign films did not protect or promote the Korean film industry as it did not enhance its competitiveness. In short, I wish to argue that the import quota system sought to protect the Korean film industry and it was well enforced, but it was unable to increase the number of admissions for Korean films.

2.2 Impact on the Quality of Korean Films and Audience's Perception

The import quota system also induced a largely unexpected and strongly negative effect on the Korean film industry. Far from the initial intention for the anticipated virtuous circle, the quantity-based reward system induced Korean filmmakers to produce low-quality movies and to screen and export them—nicknamed "quota quickies"—in order to have the rights to import more foreign movies. This fact, again, emphasizes why the number of admissions is the key criterion for assessing the success of any film policy.

Low quality Korean quota quickies could not be exported; foreign currency earnings were reduced, leading to less capital to produce Korean films, hence fewer imports of foreign films. This vicious circle became more visible when the Korean government devaluated significantly the Korean won several times after 1964. As a result, these low quality domestic films could not be exported. This meant that most profits had to be generated domestically through screening foreign films which created more incentives to screen and to import more blockbusters from overseas. As one might expect with such a situation, more quota quickies had to be produced; however, without much investment, it was impossible to produce many domestic films. Hence, the import quota measure rather put the whole industry into a negative situation. For example, from 1980 to 1986, the last years of the import quota regime, only 17 Korean films per year were exported, compared to almost 80 during the 1970s. This shows clearly how the whole system fell into an unintended vicious circle.

This negative impact of the import quota regime on the Korean film industry is accurately captured in Fig. 1. It shows a striking contrast between the two periods: the years under the import quota regime (marked with a thick solid line) and those after the abolition of the import quota (no line). When the import quota regime was imposed, the admission share per foreign movie was, on average, much higher than the admission share per Korean movie. For instance, one foreign film attracted, on average, 2.5 times more admissions than one Korean film in 1980 (the lowest record) and 13.2 times higher in 1975 (the highest record) (see Fig. 1).

Remarkably, when the import quota regime was abolished at the end of 1986, this anomaly vanished quickly. Even more surprising is that Fig. 1 shows a complete reverse in the ratio of admission shares between Korean and foreign

[1] Official data can be found only from 1965. The import quota system was abolished in 1986.

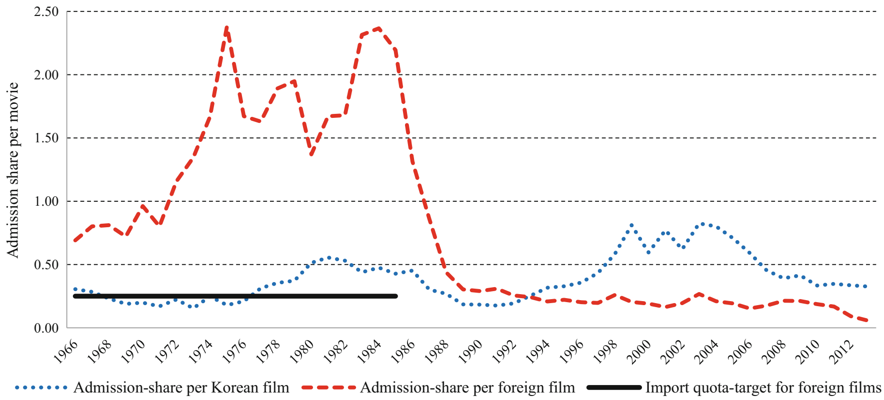

Fig. 1 The impact of import quotas in Korea (1966–1986). Notes: (1) Based on author's calculations. (2) The average admission share per (Korean and foreign) movie is the share of admission for Korean/foreign movies in total admissions divided by the number of Korean/foreign movies for given years. Data sources: Koreanfilm.org (for 1966–2002) and KFC (various issues) (for 1999–2013)

movies in the late 1990s. That is one Korean film attracted, on average, the same admissions number of 2.1 as foreign films. Some might simply argue this abnormality is due to the increased number of foreign films imported after the abolishment of the import quota, and such an outcome can then be easily expected. However, I think it is important to highlight one point which is critical toward understanding consumers' view.

In fact, the lifting of the import quota changed the perception consumers had on foreign films. During the period of the import quota system, foreign films were carefully chosen by Korean companies to meet local tastes. Since these selected films were released in Korea, the domestic audience perceived that all foreign films were of high quality. By contrast, after the abolition of the import quota, foreign companies began to distribute all kinds of films without any careful selection process in the belief that all films could be successful in Korea. The result was that Korean audiences realized that not all foreign films were good quality.

2.3 The "Industrial Policy" Made Things Worse

It is noteworthy that other industrial policies accompanied with the import quota put the Korean film industry into unexpected trouble. In order to produce quality films, the government pushed Korean film companies toward integration. This integration was done in two ways. One was between production companies in order to achieve economies of scale which can facilitate the making of quality films with a stronger financial capacity. The other was between film producers and importers in order to benefit from the reward systems of the import quota regime. Different from what might be expected with "integration," the Korean film industry evolved into an oligopolistic situation because few consolidated companies had little incentive to compete in such conditions (Jwa & Lee, 2006, pp. 99–100).

In short, these inconsistent regulatory changes could not prevent the collapse of the Korean film industry. Korean movies could only attract small audiences; thus, the revenue became very modest. Profits from screening foreign films were not reinvested in the domestic film industry. As a result, the decreasing number of Korean films forced a decrease in the number of foreign films imported. Simply, the Korean public largely deserted the theaters.

3 The Screen Quota Regime (1966-Present)

The screen quota regime imposes a mandatory number of days for screening domestic films at movie theaters. This policy approach seeks to guarantee market access for domestic films as movie theaters often prefer to show foreign films due to the potential for better returns. This screen quota system is often mentioned as a factor to help explain the surprising success of the Korean film industry. However, this assumption does not have any concrete basis when examined carefully.

The screen quota regime was introduced in 1966 with the second amendment of the Motion Picture Law in Korea. The screen quota regime became then the only key protectionist measure of Korea's film policy as the import quota regime was abolished in 1986, as required by signing of the first Korea-US Film Agreement. It imposed a mandatory 146 days to screen only Korean films from 1986 to 2006. This number was reduced to 73 days following the Korea-US Free Trade Agreement (FTA) negotiations in 2006. The 2006 screen quota cut generated huge debate on whether this decision would endanger the future of the film industry.

Here, I would like to stress that Korea underwent a very important tectonic shift with its cultural industries during this period since 1987 with globalization through "open door" approach, including in cultural matters (Gills & Gills, 1999; Hsiung, 2001). This new environment meant that Korean companies had to compete against foreign companies in order to survive, which in fact emerged as an effective way to boost cultural industries, notably the Korean film industry.

3.1 The Real Function of the Screen Quotas

Contrary to what is often believed, the screen quota regime does not protect domestic films. It merely sets the number of days to screen domestic films, thus "potential market access," or limits the number of days for foreign films. This means that it does not ensure increased admissions to domestic films. It is similar to a case in international trade where greater access to a market is granted by a trade agreement, but it does not guarantee that exports to this newly open market will grow.

In addition to its limited protectionist power, the screen quota system is confronted by systemic contradiction: (1) a restriction on the number of days for showing foreign films induces the importer to select only those foreign movies with the highest potential for success in the domestic market. Indeed, this option creates tougher competition for domestic film producers, since (2) the owners of domestic theaters screened only the best among imported films in order to maximize their profits within a limited number of days. To sum up, the tighter the screen quota system, the stronger the incentives are for importing and screening higher-quality foreign films, which makes it harder for domestic film producers to compete and match this standard.

While these contradictions created unfavorable conditions for domestic films, this screen quota system was also taken advantage of by movie theaters. Because this system is based on the number of days, not the number of screenings, movie theaters began to only show a Korean film once a day whereas foreign films were screened multiple times in a day. Therefore, although the number of days for screening was controlled and well enforced, the number of screenings was manipulated. Unfriendly government policies and their loopholes can often be abused by business entities for profit maximization.

3.2 Impact on the Number of Admissions

Contrary to the case of import quotas, it is hard to provide evidence of how well the screen quota system had been enforced since there is no data on the daily use of the screens. Thus, I utilized the number of films released and admission numbers, for both Korean and foreign films, vis-à-vis the screen quota ratio. In Fig. 2, the number of admissions shows clearly that the screen quota regime has had no positive impact on the domestic film industry. The total admissions for Korean and foreign films exhibit a "U-shaped" curve, which can be divided into three distinct periods: (1) decline in the 1970s–1980s; (2) stagnant in the 1980s–1990s; and (3) growth since the 1990s.

First, I have already analyzed the decline from the 1970s to the early 1980s in the previous section: it was due to the low quality of the quota quickies generated by the import quota regime and amplified by distorted industrial policies. Second, during the stagnant period which was from the mid-1980s to the 1990s, the screen quota system became the only protectionist measure for the Korean film industry. However, as shown in Fig. 2, the number of admissions for Korean films was decreasing. Moreover, it highlights that an increase in the number of foreign film admissions began before the elimination of the import quota system.

Lastly, by contrast, the very late 1990s shows a boom in terms of total admissions, but the rise can be traced back to 1992 with the success of *The Wedding Story*. This one is often considered to be the first "planned film" in Korea, which means the whole process was planned by the production company from manufacturing to distribution. This format came from the Hollywood system that Korean companies had learnt from when they invested there during the mid-1980s and the early 1990s.

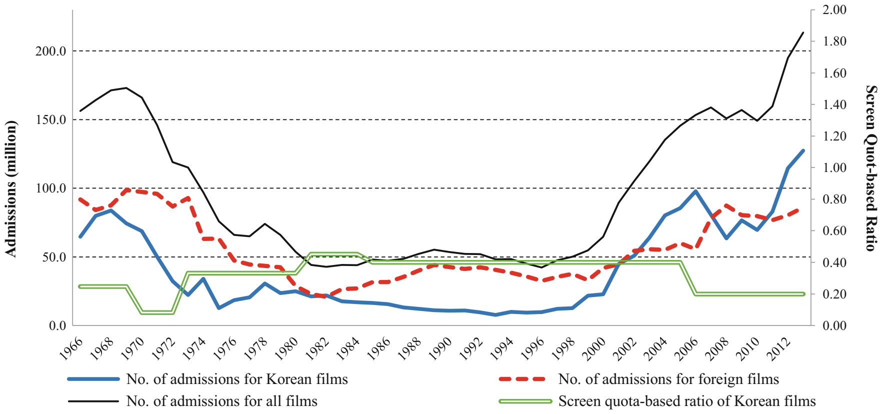

Fig. 2 The limitations of screen quotas (1980s–2013). Note: Based on author's calculations. Data sources: Koreanfilm.org (for 1966–2002) and KFC (various issues) (for 1999–2013)

Regarding the number of admissions to Korean movies, the first turning point occurred around the period 1998–2000 with a surprising rise in the admissions for Korean films in total, with a remarkable succession of huge, often unexpected, successes: *Shiri, JSA, Friend*, and others. Such films were known as "Korean blockbusters" owing to the heavy investment put into their production. The number of admissions for foreign films increased again after 2000. However, it is remarkable that this increase is much smaller than that for Korean movies, reflecting the fact that Hollywood movies began to face stronger competition from successful Korean films.

It is noteworthy to point out the fact that most of the turning points observed after the elimination of the import quota (1986) occurred while the screen quota system was maintained. This conclusion raises serious doubts about the impact of the screen quota regime on the attractiveness of Korean movies. Furthermore, what requires closer attention is the critical change before and after these last two periods, namely reforms in the business environment of the Korean film industry.

3.3 The Influential Factors for the Emergence: Pro-competitive Regulatory Reforms

The real impact of the screen quota system has depended critically on intense competition in the Korean film market. The import quota regime of the 1960s–1980s left a legacy of a very close relationship between Korean importers and producers—with a very limited role for the owners of movie theaters. After the abolition of the import quota regime, all these regulations were progressively relaxed and/or eliminated.

The internal constraints were first relaxed in 1984 with the liberation of the ties between producers and import companies. However, the decisive shift was made following the conclusion of two Korea-US Film Agreements in 1985 and 1988.

The 1985 Agreement allowed US film studios to distribute their movies directly to movie theaters in Korea (Shim, 2006). The 1988 Agreement further eliminated cumbersome Korean regulations on the method for conducting business when distributing US films. These provisions ensured that Hollywood movies, with the best chance for success, would be directly distributed by foreign studios to Korean movie theaters.

The abolition of the import quota system would have had little impact if Korean importers (or producers, depending on the period) were the only ones allowed to import films. Ultimately, keeping these provisions in a Korean film market subjected to the screen quota regime would have been enough to suffocate competition. By sharp contrast, these internal reforms allowed, unlike before, movie theaters and *chaebols* or the large Korean conglomerates to emerge as important players in the industry. By "freeing" competition forces in the Korean film market, internal regulatory reforms made the screen quota regime ineffective, although still an emotionally charged issue in public debate.

Finally, as Hollywood studios were allowed direct distribution of their films in Korea, movie theaters emerged as a new power player in the industry. As Korean production companies did not have any more mandatory importer–exporter ties, movie theaters were the only source that these companies could manage in order to minimize the effect from the direct distribution of films by Hollywood studios in the domestic market. *Chaebols* expecting high returns on their investments were more aggressive in expanding their power by acquiring individual theaters and forming "theater franchises."

3.4 The Critical Role of Business

These pro-competitive measures were clearly unleashing two major forces—one in distribution and the other in production—which had the potential to undermine greatly the screen quota's limited protectionist capacity. First, the direct distribution by foreign companies and the elimination of the "collective monopoly" on the importing of foreign films reduced the revenues that Korean film production companies earned from distributing foreign films in the domestic market. This new business environment changed the role of Korean producers and distributors because it induced them to partner with US companies in order to benefit from producing and distributing lucrative Hollywood movies.

Second, at the same time, the "disintegration" process of the old structure of the domestic film industry triggered the entry of new Korean participants. In the early 1990s, a number of *chaebols*, led by Samsung and SKC, entered the film industry through joint investments for Hollywood film projects (Russell, 2008). However, as most of these endeavors failed, the *chaebols* redirected their investment toward Korean film production.

Based upon their experiences with Hollywood studios, the *chaebols* learned how to develop a modern and vertically integrated system of production covering financing, producing, distributing, and exhibiting movies. They transformed the structure of the Korean film industry by introducing a system which is rather market-driven (Lee, 2005; Shim, 2006). Due to the direct distribution by Hollywood studios in Korea, the *chaebols* looked for other "cash cows" such as distribution channels and sales rights of Korean films for home video and cable TV markets. Many *chaebols* did not succeed and dropped out of the industry, particularly after the 1997 financial crisis. Only a few medium-sized companies which later became major conglomerates in the film industry, such as CJ and Lotte, persevered and continued to play a key role.

Here, it is important to emphasize that all these forces did not have an impact within the same time frame—this is why a historical analysis over a long period is crucial for an accurate assessment. The whole structure has been modified and renewed rapidly and deeply. By contrast, the emergence of new Korean production structures needed more time because it required an intensive and costly learning process from incoming firms.

3.5 The Consequences After Screen Quota Cut in 2006

In July 2006, the screen quota was cut by half, from 146 days to 73 days, and the number of admissions for Korean films plunged during the period of 2007–2009. The simultaneity of these two events generated a hot debate in Korea because several studies released before 2007 assessed that there had been a positive impact from the screen quota system on the success of the Korean film industry (Lee, 2005; Lee & Bae, 2004). However, these studies focused only on a few years and largely ignored the long-term effects of the pro-competition regulatory reforms, unlike what has been undertaken in this chapter.

Is there any evidence that the screen quota cut in 2006 had a detrimental impact on the Korean film industry? Figure 3 focuses on the years 2000–2013, which is long enough to contrast the impact from before and after the screen quota cut. It shows the indices of the numbers of films and admissions for Korean and foreign movies, with the values for the year 2000 being set at 100. Interestingly, Fig. 3 shows that only the admissions for Korean films had a dramatic change, thus a sharp decrease. This decrease in 2007–2009 is followed by a strong catch up. The other three curves follow broadly their pre-2006 trends. I suggest two arguments that prove that it does not reflect the impact of the screen quota cut.

First, the screen quota cut has had no noticeable impact on the number of Korean movies released. This curve fluctuates in a similar way before and after 2006. If the screen quota cut would have been perceived as a threat by Korean film producers, it should have triggered drastic changes in the post-2006 supply of Korean movies—either a slower growth, or a more volatile growth, or both. Rather, it reflects a "business as usual" pattern.

Second, the screen quota cut would have been clearly detrimental to the Korean film industry only if the decreased number of admissions for Korean films would have led to a similar (or stronger) increase in admissions for foreign films. Rather, these admissions for foreign films are almost flat from 2008 till the present, despite

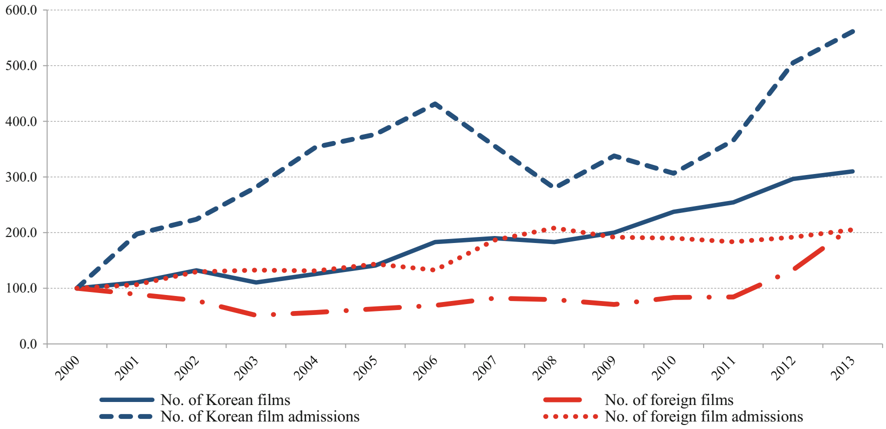

Fig. 3 The Korean film market before and after 2006. Note: Based on author's calculations. Data sources: Koreanfilm.org (for 1966–2002), KFC (various issues) (for 1999–2013)

the amazing increase in the number of foreign movies imported and screened. In short, there was no change in the supply of domestic movies and no rush of Koreans to watch foreign movies.

These two observations do not support the argument that the 2006 screen quota cut had a direct negative impact on the plunge of admissions for Korean movies, particularly from 2007 to 2009. The reasons behind the plunge is on factors related closely to the Korean film sector itself.

The first possible explanation is that there was simply a shortage of lucrative and attractive Korean blockbusters to please domestic tastes. Despite no considerable impact on the number of Korean films produced after 2006, there has been a noticeable stagnancy of investment beginning in 2003, after the considerable increase in investments from 2000 to 2003 (KFC, 2009). Furthermore, although more of bigger-budget blockbusters were planned, the amount of investment per film also shows the same trend (see Table 1). When the business environment is in the midst of radical changes, such as screen quotas and a new FTA, Korean investors in the film industry tended to reduce their investment in order to avoid any possible risk.

A second possible explanation is that the Korean film market is facing ongoing structural change, characterized by a desire for more variety in terms of themes, genres, and the film's country of origin. Between 2006 and 2013, the number of non-US films increased from 101 to 457 for almost the same number of admissions in total. This was only due to the increasing number of screens available in Korea multiplied by three (from 720 in 2000 to 2,184 in 2013). Much of this was due to the emergence of multiplexes. The supply of films could, thus, be much more diverse. This diversity reflects the wider range of foreign films, particularly as the number of foreign films increased modestly as shown in Fig. 3.

Table 1 Amount of investment in the Korean film industry (2000–2009, Unit: 100 million KRW)

Year	No. of films produced	Total investment	Investment per film
2000	59	1268.50	21.5
2001	65	1657.50	25.5
2002	78	2901.60	37.2
2003	80	3328.00	41.6
2004	82	3411.20	41.6
2005	87	3471.30	39.9
2006	110	4422.00	40.2
2007	124	4612.80	37.2
2008	113	3401.30	30.1
2009	138	3187.80	23.1

Data sources: KFC (2009)

4 State Subsidies to the Film Industry (Late 1990s-Present)

Government subsidies are a form of financial aid or support extended to an economic sector or entity to promote the sector or entity that is experiencing economic and social difficulties or are in need of funding for whatever reason. Despite the subsidy scheme adopted in 1963, Korea's film policy has relied almost exclusively on the import and screen quota system until the late 1990s, and it was only recently that the Korean government has seriously engaged in subsidy schemes. Before conducting an in-depth analysis of Korea's subsidy regime, several important preliminary points should be mentioned.

First, successive Korean governments have shown two fundamentally different approaches in cultural matters: as a strict regulator before 1993 and as an encouraging benefactor afterwards. The turning point occurred in 1993, when the film industry was reclassified from a "service" to a "manufacturing" sector. This change opened access to two new kinds of support for the film industry: (1) an increasingly affluent public budget opened up the potential for subsidies and (2) the recognition of the entertainment industry's economic value as a "commercial product" allowed filmmakers to tap bank loans for the first time as well as to benefit from tax exemptions as manufacturers (Forbes, 1994; Kim, 2000, 2007).

Second, there are two different ways of allocating/granting subsidies: directly and indirectly. For example, the French government grants most of its huge subsidies directly to filmmakers (Messerlin, 2014; Messerlin & Parc, 2014), whereas the Korean government has essentially subsidized infrastructure or distribution channels (Messerlin & Parc, 2014; Parc, 2014). This indirect subsidy helped to boost the success of the Korean film industry during its lagging years. Many scholars have identified the negative effects of direct subsidies, while indirect subsidies may enhance the competitiveness of a film industry, as in the case of Korea (Messerlin & Parc, 2014; Pager, 2011; Parc, 2014).

Third, the notion of subsidies should be well defined. For instance, MSCT (2010a, b), KOFICE (2012) and Kwon and Kim (2014) believe that the government's financial support to concerts and festivals featuring well-known idol groups, musicians, actors, and actresses is a form of subsidies. However, this kind of financial support is far from promoting or protecting "weak" cultural industries—the alleged objectives of subsidy schemes in these sectors. Indeed, a question can be raised: who is promoting whom? Do Korean governments promote successful musicians, directors, and actors? Or is it the well-established musicians, directors, and actors who promote the Korean government? Choi and Kim (2014) and Oh and Lee (2014) have insisted that the Korean government is the one that has taken advantage of Korean stars for promoting the "national brand."

Last but not least, subsidies in cultural industries, such as films, broadcasting, music, computer games, animation, press, and publishing, have been very modest until the late 1990s (Kim, 2013). After this point, indirect subsidies increased substantially in the mid-2000s. However, it is important to stress that this substantial increase of indirect subsidies was actually induced by the sudden success of certain Korean cultural contents, such as the Korean blockbusters *Shiri* and *JSA* as well as the famous drama, *Winter Sonata* (Parc & Moon, 2013). In other words, the emergence of these Korean cultural contents preceded the increase of subsidies.

Moreover, it is only the film, music, and game sectors that have achieved prominent success, not the other sectors even though they too received significant subsidies. In explaining this, Lee (2012) and Kwon and Kim (2014) have argued that the backwardness in certain sectors should also be associated with the government's cultural promotion policy. This fact means that subsidies per se is not the only core element of the success of a specific industry, and thus this argument should be further analyzed.

4.1 The Appearance of Subsidies and Its Magnitude

Many Korean scholars have argued that the huge amount of subsidies invested into the Korean film industry was crucial for its success. Therefore, I focus on the magnitude of Korean subsidies and its likely impact on the success of the Korean film industry up until the present in this section. Kim (2012) provides a detailed account of the whole Korean subsidy scheme based on the public budget from 1974 to 2011, but excludes the "seat tax," which is 3% based on a ticket and utilized as subsidy. This tax is not charged on theaters that dedicate 60% of their annual screenings for animation, short films, and artistic films recognized by the Korean Film Council. For this chapter, I cover seat tax-based subsidies as reported by MCST (2012), in addition to the subsidies examined by Kim (2012). This approach is critical because after 2007 the seat tax-based subsidies constituted the bulk of all the current subsidies, roughly two-thirds.

Regarding the relationship between subsidy magnitude and the success of the film industry, it can be very interesting to compare Korea with France, a country that has poured tremendous number of subsidies in order to promote its film

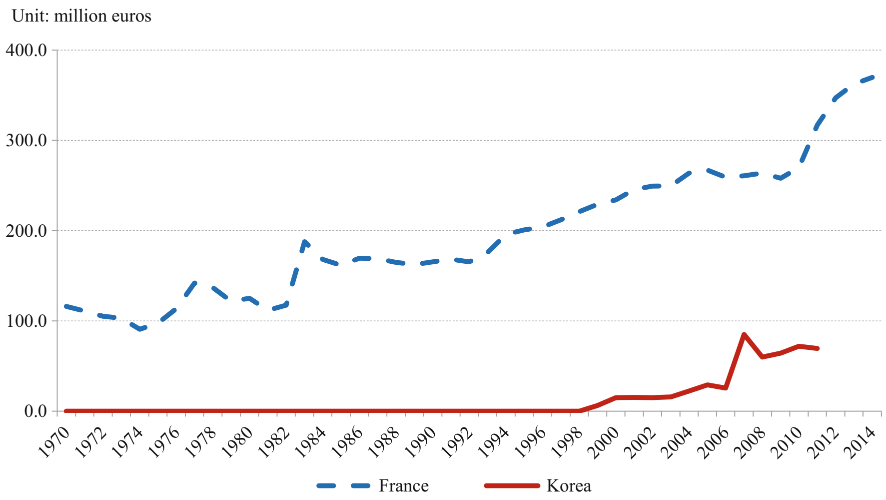

Fig. 4 The growth of subsidies in France and Korea (1970–2014). Data sources: CNC (various issues) for France; Kim (2012, 2013) and Parc (2017) for Korea

industry (see Fig. 4). In fact, it is rather unrelated or loosely related. First, as subsidies substantially increased only after the late 1990s as mentioned before, it does not account for the huge growth of the Korean film industry that occurred before the late 1990s (Kim, 2013; Messerlin & Parc, 2014, 2017). Second, in 2011, the highest estimate of the subsidies granted to the Korean film industry amounted to roughly USD106 million (roughly EUR77 million at 2011 exchange rates), which is roughly a tenth of the subsidies (EUR676 million) received by the French film industry in the same year (Messerlin, 2014).

It could be argued that Korean subsidies are relatively small because the Korean film industry is not as big when compared to European examples. However, in 2011, the size of the Korean film industry was at roughly two-thirds of the French film industry. This is a remarkable achievement when one recalls the situation of the Korean film sector in the early 1950s or even as recently as the early 1990s. In addition, the level of subsidies was very low until the late 2000s.

As a result, depending on the estimate of the subsidies used, the “subsidy rate”—subsidies as a share of value added in the Korean film industry—ranges from insignificant (2–3%) to roughly 8% in 2011—compared to 30–65% in France during the same year (Messerlin, 2014). In short, there should be some other driver that enhanced the competitiveness of the Korean film industry given the fact that the subsidies provided has been very little in either absolute or relative senses. It is also noteworthy that Korea’s financial support is based on indirect subsidies, rather than direct ones as in the French case.

4.2 Another Way to Subsidize: Tax Deductions but Still Too Low

Finally, some have argued that the Korean government offers various tax exemption schemes for publishing, broadcasting, and film sectors. However, it is important to stress that these schemes are subjected to many conditions. First, only small- and medium-sized enterprises (SMEs) in these sectors are eligible. Second, these SMEs have to meet strict conditions of size: <1000 employees on average, an equity capital lower than KRW10 billion (USD9 million at 2011 exchange rates), total sales lower than KRW10 billion (USD9 million), and/or assets lower than KRW50 billion (USD45 million). Third, eligible SMEs have to comply with a crucial "independency" condition: more than 30% of securities issued should not be owned by the largest shareholder. Fourth, these SMEs should not be located in the Seoul Metropolitan area, a serious constraint for cultural content producers which often need a large market nearby (MCST, 2010a). Last but not least, once a company is qualified to be an SME, it is treated as such for only 4 years. After this period, there is a reevaluation procedure.

Once combined, all these conditions strongly suggest that there are not many SMEs which could benefit from the tax deduction system. In fact, MCST (2010a) reported that only 15.9% of SMEs benefited from this scheme. Given this figure, it seems reasonable to argue that the subsidy equivalent generated by the tax exemption regime is not significant. To sum up, the current tax deduction regime does not change substantially the subsidy rate calculated before. Indeed, many Korean organizations and scholars have advocated for an increase in the tax exemption regime for the film industry (Do, Park, & Kim, 2005; Kim, 2000; MCST, 2010b).

5 Key to Success: Business Function

The Korean film industry provides a remarkably dynamic success story. Uncovering the reasons for this is a very important task. So far, most studies have only highlighted the importance of government policies, particularly protectionist or supportive measures, such as quotas and subsidies. None of these approaches though have considered other crucial elements, for example pro-competitive reforms, business environment, and business activities over a long-term perspective.

By conducting an in-depth analysis of Korea's film policies based upon reliable data and a rigorous analysis incorporating a historical perspective, this chapter offers important implications for the film policies of other countries. First, Korea has implemented various protectionist and supporting policies, yet the success story of the Korean film industry cannot be attributed to efforts like import and screen quotas or supportive policies in the form of subsidies and tax rebates. In fact, the import quota system has been very detrimental to the industry, the screen quota regime has played no noticeable role, and subsidies, which began from the late 1990s, came too late to be credited for the precedent success initiated since the early

1990s. Overall, their impact on an already successful industry remains to be seen in the coming years.

Second, the Korean film industry was suffering from a long depression when there were tight protectionist policies which severely hampered the market function and business activities with various actors from the Korean film sector, such as producers, importers, and theaters. The domestic reforms which removed these constraints have been as critical for the take-off of the Korean film industry as the opening of the domestic market to foreign competition.

Finally, from the results of this chapter, I strongly advocate the importance in the role of business, notably large enterprises such as *chaebols*, which is particularly critical since their activities affect the final result of policies regardless of the initial aims. These large companies brought huge investment into the Korean film industry and have been able to successfully challenge Hollywood blockbusters, despite the screen quota cut and other changes in the business environment. Their proactive responses to maximize benefits in a context of domestic and international changes have tended to deliver competitive cultural products in the end. The critical role of business can be also found in the Korean music industry which achieved unexpected international emergence (Parc, Messerlin, & Moon, 2016).

Motion pictures are very different from other goods or services. Yet the film industry also faces supply and demand challenges like any other industry. Indeed, this chapter has underlined the various industrial and commercial factors. Pro-competition provisions and market-oriented policies have been more crucial for the Korean film industry's success rather than protectionist cultural policies. Real cultural diversity can be achieved and enriched when there are many competitive cultures, rather than many protected uncompetitive cultures in the world. It can be said with confidence that cultural excellence is more important than cultural exception.

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Diversifying Public Film Funding Policies in Latin America

Tamara L. Falicov

1 State Funding in Latin America

State funding is arguably the most essential component in fostering a regional film industry in Latin America. In an age characterized by a shift from the study of national cinemas to that of transnational and global formations, we might recall British film scholar John Hill's words when he argues that the concept of national cinema is of vital importance when analyzing state policy, particularly as a means of promoting cultural diversity and attending to national specificity (Hill, 1996, as quoted in Higson, 2000, p. 105). Ultimately, the present-day justification for funding state film institutes, state film legislation and other forms of government support (e.g. annual contributions to Ibero-American finance pools such as *Programa Ibermedia*) is to promote and sustain film industries in the face of the specific challenge posed by the prevailing hegemony of US Hollywood studios within the global film market.

This chapter examines various institutions and initiatives, operating both regionally—the Ibero-American fund *Programa Ibermedia*—and on a national scale, including film institutes and government agencies created to assist in the branding, marketing and circulation of national cinema abroad.[1]

Filmmakers in Latin America often depend on state institutions and initiatives to help fund, exhibit and distribute films. Clearly, the state's role as a bulwark for the maintenance and support of small and medium-sized film industries is crucial when compared to its dominant Hollywood film industry counterpart that generates $60 billion dollars worldwide annually (Quartesan, Romis, & Lanzafame, 2007, p. 15).

[1]This essay is a modified version of a forthcoming book chapter in Tamara L. Falicov, *Latin American Film Industries*, London: BFI Publishing/Palgrave Macmillan.

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According to researchers from the *Inter-American Development Bank* (IADB), all of the Latin American film industries put together generate a mere 3% of worldwide film production, a figure that is disproportionate to the number of Spanish and Portuguese speakers worldwide, roughly 400 million Spanish speakers and 260 million Portuguese speakers worldwide (Quartesan, Romis & Lanzafame, 2007, p. 15).

Despite the current tendency to examine film industries in transnational terms, this framing can fail to account for the specificity of the Latin American context in which region-wide sources of funding function alongside of state-run organizations. It is therefore vital to avoid generalizing the impact of neoliberalism by assuming that the state's participation has weakened across the board. Therefore, a comparative approach to study the countries within the region could be illuminating. Indeed, in the case of most Latin American film industries, the state remains the main purveyor of funding and support for filmmakers in their respective countries to produce cinema and circulate it nationally and globally. While some countries are increasingly finding ways to involve the private sector in funding initiatives (primarily in Brazil and Mexico), the majority of countries offer limited resources for granting funding and other kinds of support to filmmakers. The state thus becomes *de facto* the most important mechanism by which a film industry can thrive and be financially healthy in the realms of pre-production, production and post-production of film.

The countries with the political will to support film legislation that carves out a space for films to be funded, or provides other forms of support, are the ones that have historically had the strongest and most stable film industries (Argentina, Brazil, Chile, Colombia, Mexico and socialist countries such as Venezuela and Cuba, to name a few). On the contrary, those countries lacking a film law or legislation to assist filmmakers in obtaining low-cost loans or other forms of financial support (Paraguay, most countries in Central America) have historically had the most difficulty in creating any significant annual film production output. Getino has noted that countries that typically do not have state or governmental policies that incentivize and protect national production are at a major disadvantage (Getino, 2006, p. 60). Instead, these nations must rely on a few prodigious filmmakers who have been successful in obtaining international or private sector funding.

The development of Latin American film industries can be traced, as is shown below, by examining the role of film institutes in supporting national film industries and their role in fostering a sense of stewardship over the industry. Each film institute offers benefits to filmmakers even if these fluctuate over time and is subject to changes in government and budgetary constraints.

Other initiatives discussed later in the chapter include the case study of *CinemaChile*, taken here as an example of the marketing and branding of national cinema as a symbol of quality. Melissa Aronczyk's work (2013) on nation branding is useful in extrapolating how film branding might serve the state internationally as a cultural ambassador.

This chapter is organized as follows: First, a historical overview of the rise of national film institutes will be examined, with the largest industries, that of Argentina, Brazil and Mexico profiled. Secondly, the newer functions of the state promoting a regional involvement and in creating a globally recognizable identity will be discussed. The largest and most successful Ibero-American film finance fund, Programa Ibermedia, will be the subject of focus, and finally the state's investment in branding their national cinema as a gesture towards elevating the nation brand will be discussed in the context of differentiating oneself in the global marketplace.

2 Describing State-Run Institutions of Film Funding

Generally speaking, in the 1930s–1940s, existing film industries such as those of Argentina, Brazil and Mexico relied primarily on the private sector to produce films within the framework of an industrialized studio system, which in many ways was modelled on the classical Hollywood one. By the 1950s, however, many film industries were facing competition from television and the increased concentration of Hollywood product in the region resulting in part from the collapse of European film markets during World War II. In response to this, state officials began considering the creation of national film institutes to help support, fund and promote national cinema. While all film institutes serve a central function in each country, some are fairly new, and some essentially represent the film industry. For example, in Cuba, ICAIC, *Instituto Cubano del Arte e Industria Cinematográficos* (alias the *Cuban Institute of Cinematographic Art and Industry*), was the central institution for making films in Cuba. It is only in recent years that newer directors produce films outside of the system, though ICAIC distributes their work. Some countries currently have no film institute at all. This is the case of Nicaragua, who hasn't had a film institute since the closure of INCINE, which operated during the Sandinista government in the 1980s. Currently, the *Nicaraguan Film Association* (ANCI) has been the support system for directors who have been responsible for organizing a Central American Film and Video Showcase since 2004 (Durón, 2010, p. 56). Costa Rica's film institute, the *Centro de Cine* (i.e. "Film Centre"), sponsors a newly revamped film festival, *Costa Rica Festival Internacional de Cine* (i.e. the *Costa Rica International Film Festival*—CRFIC), and assists with archival restorations, along with service support for international production companies who film in Costa Rica. A new law enacted in 2015 stipulated the creation of a new fund that was to offer grants later that year, but it was delayed to 2016, when the "Fawn Fund" (*Fondo para el Fomento Audiovisual y Cinematográfico el Fauno*), a general competition for production funding, was announced (Centro de cine, 2016). Since the history of film institutes constitutes a long, varied and often discontinuous trajectory, a brief overview of three film institutes, Argentina, Brazil and Mexico, will illustrate their central role in the development, protection and promotion of Latin American film industries.

2.1 Argentina

Two years following President Juan Perón's ouster by a military junta (1957), concerned film lobbyists convened with Congress and demanded that a national film institute be created to administer and regulate cinematic activity in a systematic fashion. In 1959, the *National Film Institute* (INC) (*Instituto Nacional de Cinematografía*) was established on the basis of the New Cinema Law. The INC was erected to oversee:

(1) The development of Argentine cinema as an industry, business, art and medium of communication and education
(2) The guarantee of freedom of expression for the cinema, similar to that of the press
(3) The creation of an organization dependent on the Minister of Education and Justice which would be transferred to the Director General of Entertainment
(4) The categorizing of films for exhibition in terms of quality, according to two categories: "A", which meant that the films received mandatory exhibition, and "B", the films were not obligated to be shown
(5) An approval system of rating the movie theatres and a determination of the exhibition cycles and the percentage of payment that exhibitors would receive per national film
(6) A rating system for films to protect underage children
(7) A film development fund which received revenues from a 10% tax on box office admissions as well as a tax on film imports
(8) The authorization of economic benefits for the industry (bank credits, tax credits, special loans for film projects, film equipment, etc.)
(9) The distribution of "A" category films to the exterior Calistro, 1992

The creation of other laws helped strengthen the national film industry, but it did not solidify the political instabilities that plagued the INC management from 1957 to 1967. In this volatile 10-year period, no less than 10 directors of the INC were hired and fired. This created scepticism of the leadership within the film production sector as well as a general societal mistrust in state institutions which would continue throughout the history of the National Film Institute.

In 1994, the "the New Cinema Law" (*La nueva ley del cine*) was passed. Built on an existing 1969 law, which stipulated that 10% of every movie ticket purchased at theatres would be earmarked for national film production, it was modified to reflect the changes in exhibition practices within the society at the time, namely, the prevalence of television, cable and home video. Famed film director Luis Puenzo stated "Television has become the new space for viewing films, rather than movie theatres. So, this 10% law is no longer feasible. We want to rectify this situation and compensate for this displacement of exhibition revenue" (quoted in Anonymous, 1993, p. 20). Thus, as part of the new law, additional revenue-producing mechanisms were developed to expand the funding base for national film production. In addition, the "electronic media" subsidy was created. This gave financial compensation to film producers who were able to secure exhibition deals with television, cable and home video companies to exhibit their films.

Finally, the National Film Institute's administrative organization was to decentralize and establish linkages with other audiovisual sectors, such as cable television, home video sectors and "free" television. To account for the Institute's integration with other audiovisual media, a new name was adopted. The *National Film Institute* (*Instituto Nacional de Cinematografía*) (INC) was now dubbed the National Institute for Film and Audiovisual Arts (*Instituto Nacional de Cine y Artes Audiovisuales*) (INCAA).

In 1996, after fielding complaints by film producers about the monopolization of the national theatre circuits by the majors, the INCAA moved a policy forward to purchase a movie theatre dedicated to Argentine cinema. On December 28, 1995, the *Complejo Tita Merello* (*Tita Merello Complex*), a movie triplex, was inaugurated with state-of-the-art Dolby sound and a refurbished interior. In 2016 the INCAA now owns and operates multiple movie theatres throughout many cities in Argentina, many of whom are lacking theatres, or else their cinemas mainly screen Hollywood fare.

Another important policy pushed forth by the INCAA is the passage of the most recent iteration of the screen quota in 2006 (strengthening its 2004 law) mandating that at least one national film screen every quarter based on each of their complex's screen counts. For example, a 10 plex must show 10 national films per quarter (Newbery, 2006). This would give national films a fighting chance to be screened at multiplex theatres, where exhibitors generally prefer less risky fare, such as bigger budget Hollywood films.

2.2 Brazil

Legislation was enacted as early as 1932 to protect the Brazilian film industry. Measures included a required screening of a Brazilian short film (*cortometragem*) before every feature, and a screen quota, mandating that a varying percentage of national films had to be screened monthly in national movie theatres (Almeida, as quoted in Harvey, 2005, p. 45). Getulio Vargas' populist Estado Novo government made a more formal push to institutionalize the *Instituto Nacional do Cinema Educativo* which looked at cinema as a form of educational mass communication and oversaw the production of documentaries. In 1939, the screen quota was revived and laws mandated that each movie theatre in the country was obligated to screen one national film for 7 days over the course of the year (or 2% of film programming per year per cinema) (Harvey, 2005, p. 46). An interesting trend throughout the iterations of film institutes in Brazil is that there were always measures specifying the varying degrees of the screen quota (*quota de tela*) despite the fact that it was not an easily enforceable law. Between 1980 and 1990, the number of obligatory days for theatres to exhibit national films increased to 38% of all films per year (140 days) (p. 47). In 1966, the *National Film Institute* (INC) was established to perform essential functions such as film production financing and implement regulatory measures to ensure that exhibitors reported accurate box office revenues (as underreporting was hurting producers). Most significantly, according to Schnitman, the INC administered a subsidy in which Brazilian films were given funding based on their success at the box office. (Schnitman, 1984, p. 68).

In 1969, in the midst of a military dictatorship, *Embrafilme* (i.e. *Brazilian Film Enterprise*), the Institute's arm for promotion and distribution, was created. In 1972, under the new head of the organization, Roberto Farias, notable *Cinema Novo* director, created a more open environment, thus shifting military policy. This prompted Brazilian *Cinema Novo* directors to return from exile (most had left after 1964) who began cooperating given that with the current, more open atmosphere, financial support was given without a censorship board examining the script. By funding films that could subsequently be censored by a different branch of the state apparatus, the Brazilian military government had a paradoxical system given that government funded cinema could potentially be censored (Schnitman, 1984, p. 70). Brazilian critic Jean-Claude Bernardet argues that one of the strategies of the Brazilian government was to co-opt intellectuals as a form of weakening the opposition (Dennison & Shaw, 2004, p. 171). This was also a period during which many light sexual comedies, or *pornochanchadas*, were produced as a way of promoting the commercial or industrial side of the industry without posing any ideological threat to the government. Even exhibitors produced this genre to make up any revenue lost on screening foreign art house cinema or to the inroads that television made in Brazilian households (p. 74). In his exhaustive study of the Brazilian industry, Randal Johnson outlines the debates that went on during the creation of *Embrafilme* in terms of whether the state should be supporting a cinema that had "cultural importance" regardless of its capacity to attract a large audience or whether the state should assume a more commercial model. This debate and, more broadly, Embrafilme's attempts to be "all things to all people" ultimately made it unsuccessful in its aim to consolidate Brazilian cinema as a self-sustaining industry (Johnson, 1995, p. 373). Nevertheless, the 1970s were a watershed for Brazilian cinema: hits such as *Dona Flor and Her Two Husbands* (*Dona Flor e Seus Dois Maridos*), directed by Bruno Barreto (1976), and others amassed millions of spectators at the domestic box office, thus doubling the number of spectators to Brazilian screens between 1975 and 1980 (Dennison & Shaw, 2004, p. 171). Dennison and Shaw accordingly argue that Embrafilme was a more successful experiment than previous scholarship had asserted.

Embrafilme was disbanded in 1990 under President Collor de Melo who practically dismantled the film industry. It wasn't until 2001, under the auspices of President Henrique Cardoso, that a new institute, *Ancine* (National Film Agency), was created. Working under the tenets established under the 1993 Audiovisual Law and building on the provisions of the Rouanet Law, Ancine created the conditions for the process called "*retomada*" or "relaunching" of Brazilian cinema to levels similar to those of its most prolific periods in the 1930s and 1970s. Scholar Natalia Pinazza argues that Ancine has played a key role in the development of a contemporary film industry in Brazil, by incorporating private investors into funding schemes and sponsoring competitions for screenwriters and debut filmmakers (Pinazza, 2013, p. 33).

2.3 Mexico

In Mexico, the first instance of state intervention in the cinema begins in 1913 when then-President Huerta ordered the regulation of how movie theatre owners conduct their film business (Salcedo, as quoted in Bordat, 2010, p. 7). The second decree occurred under the Carranza administration (1917–1920) and established rules for government censorship of films, in reaction to US oil companies' use of films to wage a defamatory campaign against the Mexican government. Although this law was not adhered to, it served as a catalyst for the Mexican government to begin producing their own films (Bordat, 2010).

Under the Lopez Portillo administration (1976–1982), the Radio, Television and Film Department was created to dismantle the National Film Bank, or *El Banco Nacional Cinematografico*. (During this period, film production was high, at 70 films per year, but the type of cinema produced was more commercial in scope, rather than cinema of "quality.") As a result, in 1982, the film institute IMCINE (*Instituto Mexicano de la Cinematografía*) was created (and exists to this day) to assist the Mexican film industry achieve a balance between industrial, commercial films and "quality" cinema that could circulate at film festivals and other countries abroad. In the early 1980s, there was a partnership between the private sector and the state: the private sector funded 80% of the films, which were more commercial in scope, while 20% of the budget was dedicated to the production of "quality films" that IMCINE funded with the hope of exporting them to international film festivals (Bordat, 2010, p. 12).

Mexican film industry scholar Misha MacLaird notes that in 1997 a new fund called FIDICINE was created to "focus on primarily commercial and potentially profitable films", while the existing fund as part of IMCINE called FOPROCINE (*Fund for Quality Film Production*) would support films considered as an investment of higher risk but with artistic, cultural and educational value (MacLaird, 2013, p. 29). The existence of these two funds is indicative of the tensions which many film institutes contend with; this has to do with how film industries might be conceptualized in a given country; are they commercial industries with a capacity to be self-sustaining and even profitable? Are they products, which reflect the national patrimony and thus need to be protected on cultural, rather than economic grounds? These are the internal debates that most film industries (save the most commercial) contend with throughout the world.

In 2013, a new law was put into place called the *Income Tax Law* (*Ley de Impuesto Sobre la Renta*) known as EFICINE. This law gives companies a 10% return on taxes if they invest up to 650 million pesos (31 million euros) annually in film production or post-production. Researcher Lucila Hinojosa Córdova argues that this incentive helped produce a large surge in production whereby annual film output averages well over 100 films a year (Hinojosa Córdova, 2014). In 2014, 20%

of the films produced were produced solely with private funds (IMCINE, 2014), a very high percentage in the Latin American context. However, that same year, of the 130 films made, only 68 were released, due to the lack of distributors and exhibitors willing to risk screening them. The next section will profile Argentina, Brazil and Chile in their quest to get name (and nation) recognition for their brand of filmmaking abroad in order to better export film outside of the domestic market.

3 Selling Latin American Films Abroad: Diversifying Public Policies

To focus on the state's role in supporting national industries should not prevent us from acknowledging—and potentially problematizing—the Ibero-American linkage between infrastructure linking Latin American states. Specifically, the Spanish state plays a substantial role (and in the case of Brazil, the Portuguese state, though to a much lesser degree) in fostering Ibero-American cinematic production, circulation and distribution at home and abroad. For example, the Spanish film institute, ICAA (Film and Audiovisual Arts Institute) (Instituto de la Cinematografía y de las Artes Audiovisuales), facilitates co-production agreements between Spain and other Latin American countries; it is the host and founding member of CACI (*Conference of Ibero-American Cinematographic Authorities*), which governs *Programa Ibermedia*, the most important film finance pool in Ibero-America, based in Madrid. Moreover, Spain's public television channel, *Television Española*, is mandated by law to allot 6% of their revenue from public television towards the support and broadcast distribution of Latin American films and Spanish-Latin American co-productions.

This Ibero-American partnership has made a substantial contribution to film production in the region. A 2006 study demonstrated that, between 1986 and 1992, Spanish television had contributed on its own more than 18 million euros for Latin American co-productions. This was a higher figure than the contribution of governments from the region who received those funds during that period (Getino, 2006, p. 77). Though Spain's involvement in Latin American film industries can be seen as a windfall to many, some see the country as a historic, fraught symbol of colonial relationships and speculate that Spain is trying to compensate for the over 500-year legacy of colonization that remains a constant reminder of historical oppression and subjugation. It is therefore not surprising that the biggest supporter of state funding, outside of national film institutes, is the *Agencia Española de Cooperación Internacional para el Desarrollo* [*Spanish Agency for International Development Cooperation* (AECID)] (Díaz López, 2014, p. 17) which supports Latin American productions through the Spanish embassies, consulates and other cultural spaces. The funds from this agency are given to organizations such as *Programa Ibermedia*, and they support the exhibition of Spanish-Latin American co-productions, such as screenings at the *Instituto Cervantes* cultural centres, located across the globe and aiming to increase the influence of the Spanish language internationally. Before the economic crisis to befall Spain in 2008 and again in 2010, funding for *Programa Ibermedia* was a greater sum than Latin American state contributions all together.

In Portugal, the Instituto do Cinema e do Audiovisual [the Film and Audiovisual Institute (ICA)] is primarily responsible for supporting production, distribution, exhibition and promotion of Portuguese cinema and audiovisual products, within the country and abroad. The Institute annually sets aside funding to support co-productions with other Lusophone countries, including Brazil.

Beginning in the 1960s to the present, it has been increasingly difficult for Latin American countries to provide state funding to filmmakers. While director-producers may receive some form of domestic funding (as it was in Cuba, e.g. until the “Special Period” began in the early 1990s), reduced budgets, devalued currencies and soaring production costs made co-production and other collaborative financing the only way to ensure that films get made (Stock, 2009, p. 154).

For this reason, co-production agreements, forged as early as the 1960s, have afforded trade ties between typically Latin American countries and wealthier ones such as Spain, Canada and the United States. In 1989, an Ibero-Latin American co-production treaty was signed, along with separate treaties around regional trade blocs such as *Mercosur* (Meleiro, 2013, p. 197). Co-production agreements signed between film institutes have provided important linkages between producers of more than one country to have access to additional markets and state institute funds. Film industries scholar Alessandra Meleiro lists the reasons why co-productions can be beneficial for producers (Meleiro, 2013, pp. 185–186):

(1) Pooling financial resources
(2) Access to a foreign government’s incentives and subsidies
(3) Access to a partner’s market
(4) Access to a third party market
(5) Learning from the partner(s)

The oldest and most established Ibero-American film finance pool is *Programa Ibermedia*.

3.1 Programa Ibermedia: The Ibero-American Co-production Fund

Programa Ibermedia (hereafter called *Ibermedia*) is a co-production film fund sponsored by Spain, Portugal and 19 member countries in Latin America. While it is arguably the most effective and long-lasting fund of its kind, critical scholarship has debated its ideological aims (Falicov, 2007a, 2013; Moreno Domínguez, 2008; Villanzana, 2009). Funded primarily by and housed in Spain, this film funding pool receives funds from each member country to comprise an Ibero-American audiovisual fund. As of 2016 the 19 Ibermedia member countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, Portugal, Puerto Rico, Spain, Uruguay and

Venezuela. Each country makes an annual commitment (minimum $89,600 euros) to the collective fund. The countries then compete via production companies for backing in various programmes, such as a script development fund, a co-production fund, a training grant, funds for exhibition and distribution and an international sales loan introduced in 2006 known as "delivery" which was later discontinued.

All member countries are eligible to compete for the large sums of money that are awarded to film projects in various stages of completion. Ibermedia prides itself on the fact that all member countries have a chance of reaping large benefits (Fermin, 2003). Development grants are awarded most typically to first-time filmmakers, as they provide workshop training funds to help the director improve upon and polish the script. The co-production fund is not as likely to be awarded to first-time projects, as only up to 50% of the funding may be awarded by *Ibermedia*; the rest must come from additional financing sources. The eligibility requirements for the co-production fund include that films must be in Spanish or Portuguese; the competition is a loan, not a grant; and the director, actors and technical crew must be from an Ibero-American country.

Although co-productions and thus the sharing of costs and markets are an essential mode by which films get made in Latin America, there can be some problems associated with too many nationalities trying to contribute to a narrative that will theoretically transcend borders and be inclusive of the countries participating in the co-production. Like the European concept of "Europudding", there have been attempts made at understanding the narrative constraints that co-productions can have on a film's script (Falicov, 2007a).

3.2 Film Branding

While marketing, next to distribution, might be said to be one of the weakest impediments to circulating Latin American film, some national film industries, and their respective institutes, have jumped on the "branding" bandwagon to help boost the circulation of their national cinemas. On behalf of state film institutes in Argentina, Brazil and Chile, these national film industries have taken cues from private companies in order to brand their national cinema via discernable logos screened before each national film.

Film branding is a subset of the practice of nation branding, a process that many countries' governments have undertaken with the help of nation branding experts most intensely during the twenty-first century. As processes of globalization and neoliberal economic trends have become prevalent, many countries, especially emerging economies in Eastern Europe, Africa and some countries in Latin America, notably Chile, Colombia, Argentina, Brazil, Ecuador and others, have worked to gain visibility within the global marketplace. Lisa Duggan points out that the primary strategy of turn-of-the millennium neoliberalism is *privatization*, the term that describes the transfer of wealth and decision-making from public, more-or-less accountable decision-making bodies to individual or corporate, unaccountable hands (Duggan, 2003, p. 12).[2] By creating national branding campaigns they have sought to improve their image abroad; a complex process of survey research is undertaken and given that aggregated data, there is a launch national logo campaigns to capture the attention of a global audience.

Melissa Aronczyk, author of *Branding the Nation* (2013), discusses the circulation of these branding experts hired by nations seeking to be competitive in the global marketplace. They typically engage in a national survey known as the "Nation Brand Index" (NBI) to help gauge how countries can improve their image abroad. Cinema, of course, plays an important role in this process, though little has been written on the subject. Nonetheless, given that the state supports the dissemination of film throughout global film festival circuit via stands at marketplaces such as Berlin and Cannes. In some cases, they have invested in a specific film logo which calls attention to their "cinema brand"—currently there is an evident push by the state to make their film repertoire into a recognizable and distinctive brand of quality which would translate into widespread recognition.

3.3 Argentina

In 2008, the INCAA, or Argentine film institute, adopted the film logo "CA" or Argentine Cinema (*Cine Argentino*) roughly a decade after the start of the period known as the "New Argentine Cinema movement" (see Falicov, 2007b). This move to brand Argentine cinema was preceded by the creation of the Argentina brand logo, created in 2006 as part of a visual identity contest. This exercise in nation branding was part of a larger movement during this period to help shine an international spotlight on the country. Part of the branding campaign was the support on the municipal level for a new, edgy, youthful independent film festival, the *Buenos Aires International Independent Film festival* (BAFICI) founded by the city of Buenos Aires in 1999.

Fernanda Zullo-Ruiz examined the Argentine Film Institute's campaign to create a film brand and found that it articulated their objective in the following manner: "The INCAA declared the main objectives of their branding campaign: first, to 'instill the idea that *Cine Argentino* has a variety of genres', second, 'communicate that cine argentino is seen all around the world and awarded internationally'; and third, 'transmit that cine argentino moves, entertains, and is catchy. That it has excellent scripts, actors, music, photography and directors. That it is really 'cool', and is worth watching'" (Anonymous, *Raíces: Cine Argentino* "En busca del público merecido", p. 17). Zullo-Ruiz observes that in other words, the INCAA hopes to invest in reworking the previous *brand association* by countering

[2]Arguably, neoliberalism, or the shift from a state-funded system to a privately owned market economy, is not solely an economic policy but also a cultural one. Neoliberalist policy pervaded government policies in Brazil, Argentina, Chile, Peru and others beginning in the 1990s and adversely affected institutions such as state-supported film institutes.

it with three talking points regarding qualities or characteristics that Cine Argentino offers and helps distinguish it from the other "brands" of cinema in the marketplace (Zullo-Ruiz, *The Cine Argentino Brand*, 2009). One might speculate that their aim is to make their products more "recognizable" using the logo and to ensure a certain seal of quality which helps them export more product abroad.

3.4 Brazil

Brazil has made a commitment to get its brand into international film festivals and other global venues. This initiative was launched by the Minister of Culture, the government trade agency APEX Brazil and the film union of the State of São Paulo (SICESP) to form *Cinema do Brasil*, a "programme designed to globalize the Brazilian film industry and to increase its visibility in the international film community" (Woo, 2006). Through their efforts, glossy magazines and brochures detailing the latest Brazilian films are advertized at European film festivals such as Cannes and Rotterdam, in efforts to selling more films abroad, branding national films, bolstering international co-productions and creating more jobs within the industry. In 2009, in order to meet the challenge that is the high costs of P&A (prints and advertising), *Cinema do Brasil* assisted ten independent film producers to the tune of $15,000 each to help cover the costs of releasing national films in foreign territories (Hopewell, 2009).

3.5 Chile

In Chile, film industry support stems in part from the cultural sector and then another part from the business sector. In 2005, the *National Council for Culture and Arts* was subdivided to include the *Consejo del Arte y La Industria Audiovisual* (CALA) which continues to serve as an umbrella organization for all of the various government-sponsored organizations that support the film sector. Another agency, CORFO, or the *National Small Business Development Corporation* (*Corporacion de Fomento*), was founded in 1939 to support national small business development and in 1999 expanded its offerings to include a filmmaker grant programme. So there is another way in which film is seen as both an art and an industry.

Historiographically, Chilean film scholars characterize the contemporary juncture from the 1990s to the present (2016) as the rebirth of the "newest" (*novisimo*) Chilean cinema (Cavallo & Maza, 2010). In 2005, these films debuted at the *Valdivia International Film Festival* in Chile. A factor contributing to this new group of filmmakers' critical success was the creation of various government initiatives to make national cinema more outer-directed and to some degree positing film as a high-quality export commodity such as its successful wine and fruit export programme. Chilean cinema became a national government priority to encourage filmmakers and film sector representatives to have a presence at international film festivals, facilitated through the government agency *CinemaChile* (created as a subagency within *ProChile* in 2009), in partnership with the *Association of Television and Film Producers* (APCT). It is not coincidental that beginning in 2007, Chile was entertaining talks with the members of the OECD and by 2010 was the first South American country to be admitted as a member. *CinemaChile*, in its words, "looks to position the national audiovisual sector abroad, and as a new and talented new industry with much capacity for work and the creation of original and refreshing scripts" (*CinemaChile* website). *CinemaChile*, whose function is to "represent Chilean documentary, dramatic feature, short film, animation and television productions in the world's major film markets and festivals" (ibid.), has had a presence at film festivals and markets (such as *Ventana Sur in Buenos Aires*, to name the largest in Latin America) replete with glossy marketing materials and has carefully worked to cultivate Chile's improved visibility abroad through displaying the posters of the new directors and their awards but also crisp images of the geographical diversity that the country has to offer in an effort to entice producers to shoot their future (co-)production there. Today, Chile has excelled in the realm of film branding and marketing, coinciding with the transition to a neoliberal economic policy.

4 Conclusion: State Aid as Necessity

Historically the state has either greatly assisted or fallen short of supporting various Latin American film industries in differing economic periods of feast or famine and political calm or instability. This chapter examined the histories of various film institutes throughout Latin America to understand how the institute, as a wing of the state, has taken on various roles to help sustain national film industries. The chapter demonstrated that the state is instrumental in creating and enforcing laws to help foster national film industry growth through film institute programmes, support to the private sector via legislation, film school support, assistance in marketing and branding national cinema and forming linkages with other Ibero-American countries through co-productions and programmes such as *Programa Ibermedia*.

Other findings include that each Latin American country has their own priority and approach to promoting and supporting their national cinema. In some cases, the private sector is instrumental in buoying up the production world, such as Brazil and Mexico. In other cases, the state is more beneficent in its authorization of credits. Regardless, the state in Latin America is key in the survival of film industries as the underlying "80 pound gorilla" in the room is the Hollywood film industry, which has predominated the Latin American landscape since the 1920s. Nonetheless, the state remains a robust player in many Latin American film-producing countries; those nations with the most sophisticated legislation have fared better than those who haven't had legislative bodies with the political will to improve the industrial and cultural production capacity. Where the state is unable to fully commit to funding national film production, as in the case of those countries where state funding is non-existent or those countries where funding is in decline during economic downturns, there are newer strategies using social media platforms to raise funds called crowdfunding or crowd sourcing. Though this opportunity developed initially in the USA with platforms such as Indiegogo and Kickstarter, there are now many crowdfunding platforms to choose from throughout *Latin America. Argentina's Ideame.com*, *Catarse.com* (*Brazil*) and (now defunct) Fondeadora.mx (Mexico) are platforms which promote and facilitate grassroots initiatives in fundraising for films and other causes for a small fee. These platforms are also extremely valuable in terms of building up a social media network of future moviegoers for current and future film projects. As Latin American filmmakers have worked over the years to compete for state funding, they have sought funding through Ibero-American cooperative initiatives such as Programa Ibermedia, they have worked with state entities to create film branding campaigns and, in some cases, they have created innovative ways to amass funds independently, such as crowdfunding. The health of the Latin American film industry is no doubt a testament to the will of the majority of players who continue to produce informative, creative and entertaining cultural products despite Hollywood's dominance at the movie theatres.

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Feature Film Funding Between National and International Priorities: How Does New Zealand Bridge the Gap?

Natàlia Ferrer-Roca

1 New Zealand: Do Film Subsidies Increase Public Wealth?

Due to economic growth agendas, attracting international feature film productions has become a priority for many governments, as the *Global Guide to Soft Money* report suggests (Screen International, 2011). Film subsidies have not only expanded in almost all American states (Balio, 2013) but also elsewhere around the world. As producer Gavin Polone[1] explained, when an independent producer contacts a studio about a movie in development, "the first thing discussed won't be which location has the perfect look or the right calibre of local crew; rather, it will be about which state or province will pay [them] the most to bring [their] production to their territory" (Polone, 2011, para. 1). This situation creates an unsustainable "epidemic" subsidy race worldwide (Giardina, 2014; Hughes, 2013, p. 14; Karaganis, 2012). Other countries such as the United Kingdom, Canada, the Netherlands, Belgium, Ireland and Australia, among others, have each offered substantial subsidies to attract foreign productions, as well as to enhance their own visual effects industries (Cohen, 2014; Grogg, 2004). In this global marathon, New Zealand (NZ) has been no exception.

The aim of this chapter is twofold: First, it analyses the public film funding schemes available for both domestic and international feature films in New Zealand (NZ). Second, it evaluates the economic argumentation used by the NZ government and some ministries to support public funding schemes for international productions, a reasoning based on the increase of foreign capital investment, economic development, employment and skill development opportunities, tourism

[1]Gavin Polone is an American film and television producer known for *Gilmore Girls* (2000), *Zombieland* (2009) and *Curb Your Enthusiasm* (2000).

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and the potential to market brand "New Zealand" internationally through film. The chapter demonstrates that such productions may also carry some negative consequences for the host country and argues that more research is needed to thoughtfully examine the extent to which such film funding schemes are beneficial for the New Zealand public as a whole.

In this context, domestic productions include bottom- and middle-tier feature films, while international features comprise middle- and top-tier productions. The categorisation of feature films according to a three-tier structure was first outlined in 1984 by Jim Booth, the then *New Zealand Film Commission* (NZFC) executive director (Ferrer-Roca, 2017, forthcoming). Booth proposed that three different tiers of feature films could be produced in New Zealand, three tiers that in the twenty-first century have "become regular categories for New Zealand-produced features" (Dunleavy & Joyce, 2011, pp. 84–85). Bottom-tier features are small-budget films with a stronger proportion of NZ content, for which the NZFC is the main investor (Ferrer-Roca, 2015b). Middle-tier productions consist of medium-budget films, including foreign co-productions. Finally, top-tier films comprise large-scale productions financed in Hollywood, with crucial managerial and creative decisions tending to be made overseas.[2]

By taking an institutional political economy perspective (Babe, 1995; Chang, 2001; Cunningham & Flew, 2015; Melody, 1987; Wasko, Graham, & Sousa, 2011; Winseck, 2011), this chapter explains the priorities, rationales and motives of relevant ministries and agencies in New Zealand to support certain public funding schemes for feature film-making and illustrates how public spending shapes the financial fitness of the New Zealand feature film industry. As Chang (2001, p. 14) observed, "institutionalist" does not mean in this context "to be of the *New Institutional Economics* (NIE) kind, but in the development of the tradition found in the classic works of authors such as Karl Marx, Thorstein Veblen, and Joseph Schumpeter", among others (see Block, 1999; Chang & Evans, 2000; Evans, 1995; Hodgson, 1988, 1993, 2000; Lazonick, 1991). As Chang stressed, this tradition "differs from the NIE in a number of important respects... but most importantly in seeing institutions not simply as constraints on the behaviour of the pre-formed and unchanging individual as in the NIE, but in seeing them also as shaping the individuals themselves" (Chang, 2001, p. 14). In the New Zealand case, this means that film funding institutions, such as the NZFC and NZ ministries, are not unchanged monolithic structures, but they modify and adapt their priorities and interests according to the sociocultural, political and economic environment of each time. This book chapter provides several examples of the institutional political economy perspective as a paradigm within the political economy tradition. It has undertaken policy analysis by studying the case study of New Zealand. The findings offered in this chapter are the result of a combination of archival research and semi-structured interviews with key personnel in New Zealand state agencies.

[2]For more information on definitions and characteristics of bottom-, middle- and top-tier feature film productions, see Ferrer-Roca (2015a, pp. 141–232).

This chapter is organised as follows: The first part presents the institutional ecology of New Zealand's film funding institutions. Particularly, it describes how the current government of New Zealand, through its ministries, departments and agencies, is playing a key role in supporting, funding and sustaining the New Zealand film industry. Essentially, the most important institutional feature of this governance is the regulation of the main public funder, the *New Zealand Film Commission* (NZFC). While the second part will focus on the public funding schemes funded by the NZFC to assist domestic productions along the value chain steps of development, production, post-production and distribution,[3] the third part will look into the ministerial funding schemes—merely administered by the NZFC—to assist both domestic and international productions. Finally, the chapter will discuss on how New Zealand's film industry and affiliated institutions are affected by the particular priorities of changing governments. It will illustrate the kinds of benefits and unfavourable consequences that international productions may bring for a small host country like New Zealand.

2 Institutional Ecology of NZ Film Funding

The New Zealand government, through its ministries, departments and agencies, plays a key role in supporting, funding and sustaining the New Zealand film industry. First and foremost, it regulates the main public funder, the New Zealand Film Commission (NZFC) through the NZFC Act 1978. The NZFC works closely with three NZ *government ministries*: the *Ministry of Business, Innovation and Employment* (MBIE), the *Ministry for Culture and Heritage* (*MCH*) and the *Ministry of Foreign Affairs and Trade* (MFAT).

The *Ministry of Business, Innovation and Employment*'s main objective for the film industry is to encourage "the continuing success of New Zealand as a destination for film making" through a number of initiatives (MBIE, n.d., para. 1). In other words, its main aim is to promote economic development by attracting top-tier productions in New Zealand. From 2003 to 2014, the *Large Budget Screen Production Grant* (LBSPG)[4] was administered by the NZFC on behalf of the MBIE and since 2007 also included the *Post, Digital and Visual Effects* (PDV) grant scheme (NZFC, 2015i). The LBSPG operated as a financial incentive "to encourage studios to produce large-budget films and television shows in New Zealand" (MBIE, 2014, para. 1). Various internationally successful top-tier NZ-produced feature films received at least one of these two grants, such as *King Kong* (2005), *The Chronicles*

[3]See Muñoz Larroa and Ferrer-Roca (2017, forthcoming) for an overview of the distribution of feature films in New Zealand.

[4]The grant provided a 15% rebate for productions that incur NZ$15 million of *Qualifying New Zealand Production Expenditure* (QNZPE) or NZ$3 million for the *Post, Digital and Visual Effects* (PDV) grant (NZFC, 2015i).

of Narnia: The Lion, the Witch and the Wardrobe (2005), *Avatar* (2009), *The Adventures of Tintin* (2011) and *The Hobbit* trilogy (2012–2014).

Funded by the MBIE and founded in 1994, *Film New Zealand* (Film NZ) is a business agency and locations office, which also markets and promotes New Zealand as a screen production location. It provides "information about filming locations, facilities, crews, permits, immigration, taxation, transport and accommodation" and functions as the "interface between overseas production companies and the New Zealand screen production industry" (MBIE, 2011, para. 4–5). Film NZ is governed by a board of trustees composed of both industry and government representatives (Film NZ, 2013). Its strategic partners are the NZFC and *New Zealand Trade and Enterprise* (NZTE), the government's economic development agency charged with the task to improve the international competitiveness of New Zealand economy. Because the creative industries are considered important to their broader objective of economic development, they are a priority for NZTE.

Another key player within the New Zealand government is the *Ministry for Culture and Heritage* (MCH). This statutory body manages the NZFC's relationship with the UK crown, administers government funding for NZFC's cultural objectives and appoints all seven members to the NZFC board (MCH, 2013). The *Screen Production Incentive Fund* (SPIF), established to complement the LBSPG by providing new investment for medium- to large-scale productions with significant New Zealand cultural content, was administered by the NZFC on behalf of the MCH from 2008 until 2014. Successful NZ bottom- and middle-tier feature films, such as *Boy* (2010), *Love Birds* (2011) and *Sione's 2: Unfinished Business* (2012), owe their existence to the financial assistance received from this grant.

Finally, the *Ministry of Foreign Affairs and Trade* (MFAT) supports the New Zealand film industry regarding identification of international opportunities, negotiations of co-production treaties and organisation of screenings of New Zealand films. One example is the celebration of the 2012 Treaty of Friendship between New Zealand and Samoa, during which the MFAT provided 28 h of NZ's best films and television programmes—at no cost—to be screened on Samoan TV (MFAT, 2012). Figure 1 illustrates the institutional network between these three ministries (MBIE: http://www.mbie.govt.nz/; MCH: http://www.mch.govt.nz/; and MFA: https://www.mfat.govt.nz/), the New Zealand government (https://www.govt.nz/) and the New Zealand Film Commission (http://www.nzfilm.co.nz/).

As Fig. 1 above illustrates, the NZFC is influenced by inter-ministry tensions that result from different policy priorities. Whereas public schemes developed and funded by the *Ministry of Business, Innovation and Employment* (MBIE) aim at promoting economic development by attracting top-tier productions to New Zealand, public schemes supported by the *Ministry for Culture and Heritage* (MCH) encourage productions with "significant New Zealand content" (NZFC Act, 1978, section 18). The NZFC, therefore, has to manage simultaneously two different funding schemes in order to achieve two different objectives and priorities, namely, both economic *and* cultural. Finally, the NZFC is also responsible for

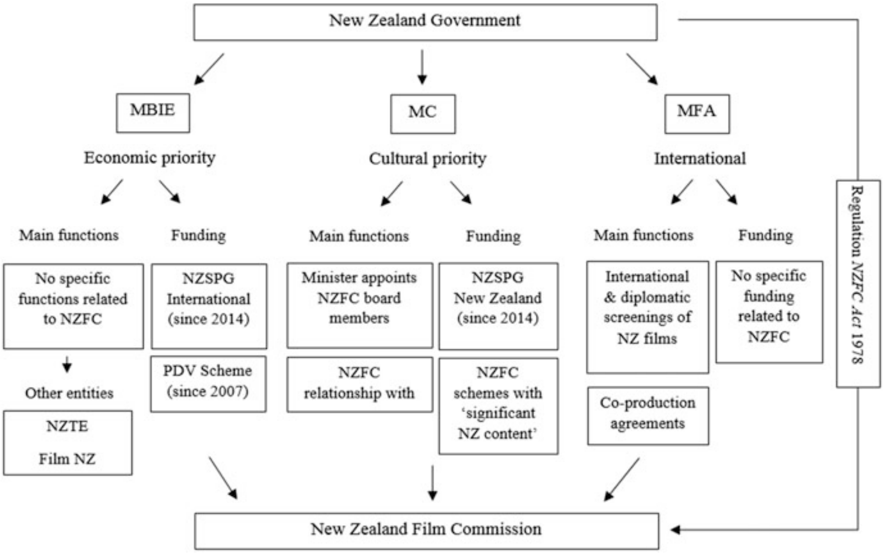

Fig. 1 The institutional network of NZ public film funding. Source: The author, with data from NZFC's, MBIE's, MCH's and MFA's websites

managing and implementing co-production treaties, which are developed by the *Ministry of Foreign Affairs and Trade*.

Apart from the NZ government as key player within the institutional ecology of NZ film production, the NZFC stands out as the foremost public funder for films made in New Zealand (Ferrer-Roca, 2014). Arguably, it was established in 1978 as a response to several factors: on the one hand, film industry lobbying (Horrocks, 1999) and a growing sense of film as a prestigious medium, not least triggered by the national and international success of the Australian Film Commission (Babington, 2007), and on the other hand, the emergence of film-making talent in New Zealand with the release in 1977 of three local features.[5] Another contributing factor was the realisation by many politicians that national cinema could be considered "cultural capital",[6] a notion that "fiction film, as much as if not more than documentary, might have propaganda uses advertising New Zealand in the widest sense" (*ibid*., pp. 6–7).

The NZFC was established as a publicly financed agency, whose central remit was to "encourage, participate and assist in the making, promotion, distribution and exhibition of films" made in New Zealand by New Zealanders on New Zealand

[5]*Wildman* directed by Geoff Murphy, *Off The Edge* directed by Michael Firth and *Sleeping Dogs* directed by Roger Donaldson. *Sleeping Dogs* became the first New Zealand film to be accepted by a large audience and proved that New Zealand could make great entertaining films (Conrich & Murray, 2008; Shelton, 2005).

[6]However, films were not actually described as "cultural capital" until the 1990s, a term coined by French sociologist Pierre Bourdieu.

subjects (NZFC, 1978, section 17). Given that this central remit included mentoring NZ's then fledgling film industry, the NZFC was to provide "loans and equity to New Zealand film-makers to assist in the development and production of feature films and short films" being made in New Zealand while also being active in the sales and marketing of these films (NZFC, 2015j, para. 3). Between 1978 and 2013, the NZFC has funded more than 300 feature films and certified 60 co-productions.[7] Its current aim is to invest in at least four feature films per year, in addition to offering opportunities for talent development, administering grants for big-budget feature films and managing NZ film certification and co-productions (NZFC, 2015j).

In the financial year 2012–2013, 28% of its budget came from the NZ government, 68% from the NZ Lottery Grants Board[8] and the remaining 4% from returns on film investments and interest (Ferrer-Roca, 2014, p. 22). NZFC's seven-member board is a statutory body providing governance and policy direction and is responsible for making final funding decisions after considering staff recommendations. As Dunleavy and Joyce pointed out (2011, p. 259), the NZFC's main challenge has been to sustain the growth of the NZ film industry in a country that is characterised "not only by its limited population size but also by its geographical distance from the large markets which continue to dominate international feature film production".

3 The Funding Scheme of the New Zealand Film Commission

The NZFC is committed to telling New Zealand stories through film. In order to achieve this, the NZFC offers several funding mechanisms to assist domestic productions in each value chain step. This value chain rationale includes development funding, production funding, post-production funding and distribution grants. Only New Zealand citizens or permanent residents are eligible to apply, and all feature films must have "significant New Zealand content" (NZFC Act, 1978, section 18), which is determined through elements such as the subject matter of the film, the locations used, the nationalities and places of residence of personnel, the sources of the film's financing, the ownership of equipment and technical facilities and a provision to take account of "any other matters" that the NZFC considers relevant (NZFC, 2015a). Although those considerations themselves highlight what

[7]24 with Canada, 19 with the United Kingdom, 11 with Australia, 5 with France, 5 with Germany and 1 with Singapore. New Zealand also maintains co-production agreements with South Korea, Spain, Italy, Ireland, China and India (NZFC, 2012).

[8]The *New Zealand Lottery Grants Board*'s purpose is to benefit the New Zealand community by distributing the profits from state lotteries run by the *New Zealand Lotteries Commission*. More information: http://www.communitymatters.govt.nz/Funding-and-grants---Lottery-grants---Lottery-Grants-Board

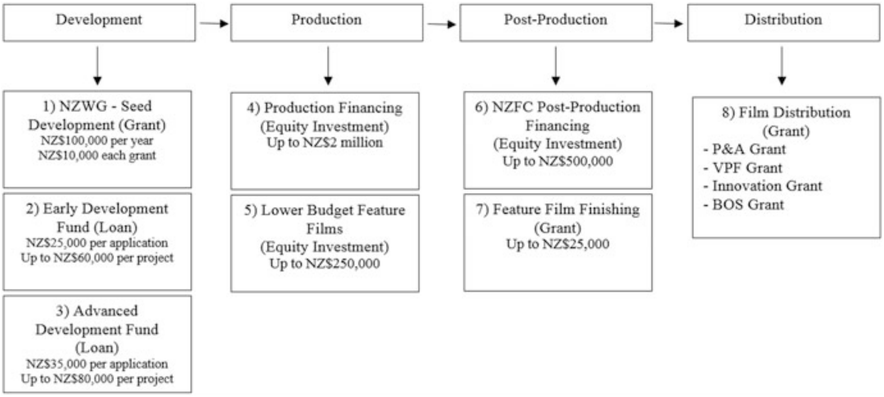

Fig. 2 NZFC funding schemes for domestic productions. Source: The author, with data from NZFC's website

is understood to constitute "significant New Zealand content" (NZFC Act, 1978, section 18), it is precisely because the NZFC involves a sliding scale of possibilities rather than creating a threshold level for determining this that the NZFC has always retained the flexibility to decide, on a case-by-case basis, whether or not a given film proposal deserves public funding support (Dunleavy & Joyce, 2011, p. 255). Figure 2 illustrates the amount and type of funds that the NZFC offers to domestic productions.

Development is the first step of a film's value chain (Bloore, 2009). It consists of creating or acquiring the story source (or main idea for a film), which can be an original screenplay, literary source or, more rarely, an earlier screen production (Caves, 2000; Squire, 2004). Because the NZFC wants to support films that are "culturally significant (and . . .) that will attract audiences here and overseas" (NZFC, 2015b, p. 2), it provides three kinds of development funds to support scripts and film projects to get them to the production stage. First, the *New Zealand Writers Guild (NZWG) Seed Development Grant* (Fund 1 in Fig. 2) offers ten grants each year of NZ$10,000 each "to help projects progress to the stage where they may apply to the NZFC's Early and Advanced Development funds or continue to be developed independently" (NZFC, 2015m). With three deadlines per year, this grant is run by the NZWG with funding from the NZFC and includes a minimum of NZ$2500 to put towards script consultation per feature film. According to the NZWG, the intent of NZWG Seed Grants is to "create an opportunity for writers to experiment with new ideas and to develop a strong draft of a feature film screenplay before parting with any Rights or presenting the work to producers or production companies" (NZWG, 2014, p. 3).

The second type of development financing is the *Early Development Fund* (EDF; Fund 2 in Fig. 2), which "provides loans for the development of narrative feature film scripts" (NZFC, 2015b, p. 2). Projects can apply more than once for up to NZ$25,000 per application and up to a total amount of NZ$60,000 per project.

The EDF is provided as a loan, which means that it is repayable—from the total film budget—once the project goes into production, but only in the event that the feature is produced (*ibid*., p. 3). Producer and writer teams can apply if they are able to provide "a draft script, or a treatment and screenwriting" of the project (NZFC, 2015b, 2015n). Finally, the third type of development financing is the *Advance Development Fund* (ADF; Fund 3 in Fig. 2), which constitutes the final stage before applying for production finance. It aims "to assist projects to achieve the market attachments that will make them eligible for production financing, such as early packaging[9] and pre-production costs" (NZFC, 2015b, p. 2). Projects can apply for up to NZ$35,000 per application, "so long as the accumulated total loan doesn't go beyond NZ$80,000 per project", including any other NZFC development loan (*ibid*.). The ADF, which is available to producers with a proven track record and who have already a director committed to the project, is also provided as a loan (NZFC, 2015b, 2015o). All in all, it is not surprising that the NZFC has three different development schemes, since financing is one of the most, if not *the* most, complex stage during feature film development (Bloore, 2009; Squire, 2004).

After the development phase, successful feature film projects enter production. The main fund offered by the NZFC to support the production of domestic features is the *NZFC Production Financing* (Fund 4 in Fig. 2) amounting to NZ$12 million per year and aimed at supporting about 12 films annually (NZFC, 2015c). Therefore, projects will need other sources of finance to achieve the full budget of their production, because typically the NZFC does not invest more than NZ$2 million per project, an amount which is "the exception rather than the norm" (*ibid*., p. 2). The NZFC Production Financing is provided not as a loan as the development funds previously discussed, but as equity investment, which means that the NZFC has "a stake in the film and a recoupment and profit position for [their] investment" (*ibid*., p. 2). Consequently, the NZFC becomes an investor that may attach conditions to the production and expects to be involved in certain decisions. The fund is for projects with a budget between NZ$500,000 and NZ$2.5 million. If the budget of a feature film is lower—between NZ$250,000 and NZ$500,000—the NZFC offers a second type of production financing for lower-budget feature films (Fund 5 in Fig. 2). This equity fund offers up to NZ$250,000 (if matched by an international market partner) to "both experienced and emerging film-makers" in order to encourage "innovation, entrepreneurship and building relationships for film-makers" (NZFC, 2015p).

The NZFC offers two different funds to support the post-production phase of domestic feature films. On the one hand, the *NZFC Post-Production Financing* (Fund 6 in Fig. 2) offers up to NZ$500,000 for post-production which, like previous production schemes, is provided as equity investment (NZFC, 2015d, p. 2). This fund is for those features that require substantial post-production work, such as

[9]The process of acquiring the rights, recruiting the principal creative participants and securing financing for the entire film is called "packaging the project" (Bloore, 2009, p. 9).

"further shooting, editing, sound editing, visual effects or music composition" (NZFC, 2015e, p. 4). On the other hand, the *Feature Film Finishing Grant* (Fund 7 in Fig. 2) helps independent film-makers, those that have made a feature without NZFC funding, "through the final stages of post-production" (*ibid*., p. 2). With an annual budget of about NZ$150,000, it offers grants of up to NZ$25,000 per project to get independently made New Zealand feature films (*ibid*.).

Finally, the NZFC also provides four types of *Film Distribution Grants* (Fund 8 in Fig. 2) to help with the distribution of New Zealand films in New Zealand. The first is the *Publicity and Advertising* (P&A) Grant, which covers up to NZ$50,000 (or 25%) of "publicity and/or advertising spend for a theatrical release" (NZFC, 2015f, p. 2). The second one is the *Virtual Print Fees* (VPF) Grant, which helps to cover virtual print fees[10] payable to cinemas at NZ$500 per screen (*ibid*.). The *Innovation Grant* is the third type of film distribution grant available through the NZFC, which "aims to access new or non-traditional theatrical audiences through innovative and fresh approaches to releasing or promoting a film" (*ibid*., p. 2). Here the NZFC is able to cover up to 90% of the final cost, up to a maximum of NZ$25,000, and for larger-scale film releases this can be in addition to a P&A Grant (*ibid*.). Lastly, if a project has received a P&A and/or an Innovation Grant for theatrical distribution, a *Box Office Sales* (BOS) Grant is also available "of up to NZ$1000 (. . .) to cover the costs of reporting box office sales via a third party organisation" (*ibid*., p. 3). In this case, the film project must share with the NZFC the reports of box office sales. Table 1 provides information on the amounts spent by the NZFC on feature films during the years 2013–2014 and 2014–2015. As illustrated, development and production are the two steps of the value chain with the highest amounts.

To sum up, because the foremost benefit of all domestic productions is their potential for strong contribution to the expression of New Zealand cultural identity, which is the central remit of the NZFC, the public film funding schemes available are to support each step of the value chain of feature film-making, from development, production and post-production to distribution (Ferrer-Roca, 2015a). Consequently, due to economic and contextual circumstances, the NZFC plays a pivotal role in the survival of domestic films, not least because it is the only NZ public agency that significantly supports these projects. As a consequence of their dependence upon NZFC finance, most productions have to contend with and overcome the problem of a dearth of development and production funding (Ferrer-Roca, 2015b, p. 227).

[10]The *Virtual Print Fee* (VPF) model finances the conversion of the industry to digital cinema (MACCS, 2011). Since distributors save money by manufacturing and shipping prints digitally (rather than having to circulate physical 35 mm film prints), funds could be diverted towards the cost of digital equipment for exhibitors. However, because managing the collection, disbursement and reporting of the VPF are itself complicated, distributors do not pay it directly to the exhibitors. Rather, the task is delegated to a third party who is "independent of exhibitors, studios and distributors" (ICAA, 2014, para. 11).

Table 1 NZFC investment in feature films

Feature film schemes	Amounts in NZ$ year 2014–2015	Number of projects 2014–2015	Amounts in NZ$ year 2013–2014	Number of projects 2013–2014
(1) NZWG Seed Development Grant	NZ$100,000	10	NZ$100,000	10
(2) Early Development Fund	NZ$966,274	49	NZ$884,650	53
(3) Advance Development Fund	NZ$100,000	4	NZ$312,000	9
(4) Production Financing, (5) Lower-Budget Feature Films and (6) NZFC Post-Production Financing	NZ$12,662,013	22 (4 conditional projects)[a]	NZ$9,300,088	17 (4 conditional projects)[a]
(7) Feature Film Finishing Grant	NZ$125,457	8	NZ$154,335	8
(8) Film Distribution Grants	NZ$308,462	11	NZ$228,829	9

Source: Own elaboration with data from NZFC Annual Reports 2013/2014 and 2014/2015. Year ends 30 June. All reports available at: http://www.nzfilm.co.nz/about-us/publications
[a]Number of projects with no amount available

4 The Funding Scheme of the NZ Ministries

Apart from financing films made in New Zealand by New Zealanders on New Zealand subjects, the NZFC also administers NZ government's incentive programme called the *New Zealand Screen Production Grant* scheme. This scheme has two sets of selection criteria for eligibility: one for New Zealand productions and the other for international productions. As already illustrated in Fig. 1 above, the former is the *New Zealand Screen Production Grant* (NZSPG) *for New Zealand productions*, which aims at incentivising medium to larger productions with "significant New Zealand content" (NZFC Act, 1978, section 18; NZFC, 2015k), including co-productions. With a clear cultural priority, this scheme is funded by the *Ministry for Culture and Heritage* and administered by the NZFC. This grant has recently replaced the *Screen Production Incentive Fund* (SPIF), which was active from 2008 until 2014. The purpose of this grant is twofold: (1) to build the "critical mass of the domestic industry, and support the development of New Zealand creatives" and (2) "To provide cultural benefits to New Zealand by supporting the creation of New Zealand content and stories" (NZFC, 2015g, p. 4). Therefore, the NZFC expects that only experienced film-makers will apply for a New Zealand grant, with a maximum total of NZ$20 million per production. Apart from this, a production is also able to receive production funding from a NZ government agency, such as the NZFC, the NZ government broadcast funding agency, known as NZ on Air, or the Māori broadcast funding agency, called Te Māngai Pāho (*ibid.*, p. 8).

The second set of criteria is the *New Zealand Screen Production Grant* (NZSPG) *for International Productions*, which aims to encourage large-budget productions to film in New Zealand. With a clear economic priority, this scheme is funded by the Ministry of Business, Innovation and Employment and administered by the NZFC (2015l; see Fig. 1 above). It replaces the *Large Budget Screen Production Grant* (LBSPG), which was active from 2007 until 2014 and includes the *Post, Digital and Visual Effects* (PDV) grant. By establishing the NZSPG for international productions, the NZ government recognises that "large budget screen productions and PDV Activity contribute to New Zealand's economic development by providing valuable economic, employment and skill development opportunities for the New Zealand screen production industry" (NZFC, 2015h, p. 5). It further argues that "the International Grant will ensure that New Zealand remains competitive in attracting large budget screen productions and PDV Activity from offshore" (*ibid.*). The NZSPG for international productions offers a grant equivalent to 20% of *Qualifying New Zealand Production Expenditure* (QNZPE). Certain productions may be entitled to an additional 5% if they can demonstrate significant economic benefits to New Zealand, namely, those productions that are "well placed to market, promote and showcase New Zealand" to "raise New Zealand's profile internationally, attract high value tourists, and profile [their] innovative and creative people and technologies" (NZFC, 2015h, p. 26).

5 Conclusion and Discussion

This chapter has shown that different public funding schemes exist for domestic and international productions in New Zealand. As the most important public funder for feature films is responsible for providing and managing these financing funds, the NZFC is exposed to two types of pressures. First, the NZFC receives pressure from both the industry and the NZ government, which puts it in a "vulnerable" position (Dunleavy & Joyce, 2011, p. 259).

While industry would like to see more flexibility and expertise from NZFC staff and board, a higher budget and more empathy towards film professionals, NZ government requires both economic and cultural outcomes (Ferrer-Roca, 2015a). These latter diverging interests are precisely the second type of tension within the NZ government itself. On the one hand, the MBIE, NZTE and Film NZ (see Fig. 1 above) aim to support the New Zealand economy by attracting foreign-funded middle- to top-tier productions through the NZSPG and PDV schemes. On the other hand, the MCH seeks to increase the availability of New Zealand (bottom- to middle-tier) features by supporting NZ films with "significant New Zealand content" (NZFC Act, 1978, section 18).[11]

[11]In a tight financial climate, MCH is also mindful of the economic situation (T. Thorpe, personal communication, August 1, 2013).

New Zealand screen industries and institutions are particularly affected by the priorities of different governments, whose influence, as Dunleavy and Joyce explained, is "exerted not only through the level of public funding that is allocated to supporting this production but also through the priorities for screen policy that are determined at cabinet level and enacted by politically-appointed officials" (2011, p. 19). Although this situation is hardly unique, the specificities of the New Zealand case can be *partly* attributed to the absence of a specialist independent public regulator, which could exert influence on policy directions and regulatory regimes (*ibid*., p. 20). Examples of such regulatory bodies are the *American Federal Communications Commission* or the *British Office of Communications*. In the NZ case, the NZFC's strategic direction follows the priorities set by the current government in NZ. As underlined in the NZFC *Statement of Intent* 2013–2016, the NZFC describes its role as being "consistent with the Government's priorities to build a more competitive and productive economy and deliver better public services to New Zealanders within tighter budgets" (NZFC, 2013, p. 4).

The NZ government argues that the screen sector activity, especially international productions, "generates important spill-over benefits to other parts of the economy", for example, the "transfer of skills and technology to other sectors" and progressing "international connections for trade and diplomacy" (NZFC, 2013, p. 4).[12] Indeed, international productions have the potential to attract very sizeable foreign capital investment, the cash flows of which contribute to overall national economic development in a range of areas (Mason, 2012; MED, 2013). However, determining the exact amount of net profits to the NZ economy (incentives subtracted from profits) is challenging.[13] In other words, there are questions about how far such government-approved incentives, which are effectively taxpayer-funded, are "worthwhile for New Zealand overall" (Weir, 2014, para. 23).[14] While productions with "significant New Zealand content" (NZFC Act, 1978, section 18) have a clear cultural *raison d'être*, the economic argumentation to support other types of feature films can be more controversial.

Even if international productions do generate significant employment and skill development opportunities, it is important to query the extent to which the New Zealand public is benefiting from these opportunities, both tangibly and intangibly. In terms of employment, the research for this project has not yielded

[12]How these economic contributions are calculated depends on the models and metrics used. For instance, the economic study of the NZ film industry prepared by the *Ministry of Economic Development* in 2012 provides different results than the *PricewaterhouseCoopers* (PWC) report on the economic contribution of the NZ Film and Television Industry (MED, 2012; PWC, 2012).

[13]According to MBIE, international films received NZ$267 million in subsidies between 2004 and 2011, while they contributed more than NZ$1.9 billion in NZ, including "spending on staff, catering, flights and hotel accommodation" (Hubbard, 2013).

[14]It is worth pointing out that the *Lord of The Rings* trilogy "was subsidised in part by tax breaks provided by the NZ government (an estimated US$10–12 million per film)" and that the NZ army supported such productions by providing "soldiers for crowd scenes, buil[ding] roads and facilit [ating] communications" (Lealand, 2011, p. 271).

any data about the number of New Zealanders that have worked, for instance, on *The Hobbit* films in the visual effect company *Weta Digital*.[15] Although *Statistics NZ* publish an annual *Screen Industry Survey* (Statistics NZ, 2015.), its findings are limited by the particularly wide-ranging nature of film industry employment, in which a large proportion of work is also discontinuous and freelance (Jones, Barlow, Finlay, & Savage, 2003; Jones & Pringle, 2013). In terms of net profits, NZ Treasury estimated that the *Large Budget Screen Production Grant* (LBSPG) scheme, involving a total expenditure of NZ$472.48 million, "had delivered net economic benefits of just NZ$13.6 million over its first 7 years from 2004 to 2011, at an annual rate of return of <1%" (Hickey, 2013, para. 2).

Another measure to determine the financial benefits of the film industry is by taking into consideration the amount of taxes paid by companies that receive NZ government incentive schemes. As with any other business sector, companies working in the film industry must pay income tax and GST[16] to the government. The common company tax rate is 28% (NZ Immigration, 2012). In the financial year ending 31 March 2013, *The Hobbit* film production company *3 Foot 7 Limited*, a *Warner Bros*' subsidiary, paid "income tax of just NZ$71,000, despite declaring profits of NZ$44.6 million"[17] (Weir, 2014, para. 9; see also 3 Foot 7 Limited, 2013). This situation is understood to be caused by losses in previous years, which are legitimately "carried forward to offset against profits" (Weir, 2014, para. 12). However, some union voices, such as CTU[18] economist Bill Rosenberg, argue that 3 Foot 7 "has been deliberately structured to avoid making profits and therefore avoid paying tax in New Zealand on the large profits from the movies" (*ibid*., para. 16).

Although there is controversy regarding the exact amount of net profits to the NZ economy brought by international productions, there is no doubt that those feature films that are successful on a global scale have the capacity to boost tourism and a wide range of tourist-oriented industries (Dunleavy & Joyce, 2011; Goundry, 2013; Jones & Smith, 2005; Lawn & Beatty, 2006; Lealand, 2011). According to Tourism NZ, during the peak of tourist interest between 2000 and 2004 (the period during which the *Lord of The Rings* (LOTR) films were released), New Zealand's visitor numbers increased an average of 7% (Easton, 2013). Of this increase, 1%—which translates to approximately NZ$33 million in terms of total tourist spend—affirmed

[15] *Weta Digital* does not offer any kind of internship or work experience programme "due to the many projects [they] have on, and the strict confidentiality agreements [they] have in place with the funding studios and clients" (Weta, 2015.).

[16] Goods and services tax (GST)

[17] Since its inception on 5 December 2008, *3 Foot 7 Limited* has paid NZ$116,000 in income taxes [$0 in years ended March 2009 and 2010, NZ$14,000 (year ended March 2011), NZ$31,000 (year ended March 2012) and NZ$71000 (year ended March 2013)] (*3 Foot 7 Limited* 2010, 2011, 2012, 2013). In the same time period, *3 Foot 7 Limited* has received almost NZ$100 m from the LBSPG (Weir, 2014).

[18] The New Zealand *Council of Trade Unions* (CTU) is an organisation composed of 40 affiliated NZ unions.

that the *LOTR* trilogy was their main or only reason for visiting New Zealand (Tourism NZ, 2013).

From this perspective, top-tier productions like *The Hobbit* are considered to hold the potential to reach an unusually large international audience and in so doing generate an enduring stimulus to tourism. In view of *The Hobbit*'s particular capacity to strengthen an imaged association between New Zealand and the fictional "Middle-earth", this perspective considers that the experience of watching such a feature film production might stimulate the desire of some foreign viewers to visit New Zealand. Instead of investing financial resources in international marketing campaigns that are aimed at tourists and related industries, the government has evidently been convinced that successful top-tier productions can themselves provide a cost-effective way to market the brand "New Zealand" internationally more successfully.

However, international productions may also carry some negative consequences for the host country and its national film-making industry and community. For instance, and resulting from having massive budgets, international feature films have exponentially increased local labour costs[19] (J. Barnett, personal communication, March 6, 2013; Dave Gibson in Campbell, 2003; M. Emery, personal communication, February 4, 2013). One indication of this is the expectations of the number of production assistants available for domestic feature films (J. Barnett, personal communication, March 6, 2013; R. Fletcher, personal communication, March 20, 2013; T. Haysom, personal communication, February 5, 2013; G. Mason, personal communication, July 30, 2013). In other words, local personnel who gain employment on international productions not only gain higher wages than they would from working on domestic productions (Lealand, 2011, p. 281) but also become accustomed to having an assistant. This may generate unrealistic expectations that are difficult to extend to domestic films.

Moreover, in addition to their consuming considerable time and energy for NZ film agencies (M. Riddell & R. Riddell, personal communication, 8 March, 2013), international film productions have the potential to influence New Zealand law and government policy. One example is *The Hobbit* trilogy. The very significant economic opportunity that this trilogy of feature films represented for NZ invested it with the unusual ability to stimulate particular modification of the *Employment Relations Act* 2010. Even though this change received considerable criticism and created strong discomfort among many film professionals working both within the New Zealand film industry and beyond, the *Employment Relations Act* change stimulated by *The Hobbit* and passed by the national government (in October 2010) remains in place. This very significant policy change was directly stimulated by the economic allure of *The Hobbit* as multi-year, large-budget and thus unusually influential international production.

[19]Between 2002 and 2003, one category of crew experienced a 29.6% inflation increase (Dave Gibson in Campbell, 2003, p. 24).

Despite the challenges of a small domestic market and remote geographic location, New Zealand has been able to create and sustain a vibrant feature film production industry. On the one hand, the extent to which public funding schemes for domestic feature films are successful is a controversial topic, involving a complexity of issues and requirements necessary to preserve the benefits of film as important cultural good. On the other hand, international productions deliver benefits into the New Zealand film industry, but might as well bring some unfavourable consequences for the host country and a greater degree of tension between cultural and economic policy goals. The public schemes for feature films presented in this chapter are nevertheless limited in that it is specific to the institutional arrangements for the film sector in New Zealand, which might not apply to other national film markets. More research is needed to establish whether or not this model would be successful in other social, political and economic contexts.

This chapter has illustrated that whereas the economic argumentation to support public funding schemes is widespread within the NZ government and some ministries, more research is needed to fully sustain such claims. Importantly, government-approved incentives require a thoughtful examination as to what extent they are beneficial for the New Zealand public as a whole, both tangibly and intangibly, in cultural and economic terms. After all, they are taxpayer-funded, and its effectiveness and effects are part of the accountability of public policies in modern democratic societies.

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Regulating the Mandatory Participation of TV Networks in Financing the Movie Industry: The Case of Spain

Víctor Fernández-Blanco and Ricard Gil

1 Introduction: Public Policies in the Spanish Movie Industry

Given the numerous headlines in the tabloids about movie stars, one may wonder why any government would subsidize and protect such a glamorous industry at the expense of other social and welfare programs. Some say that governments subsidize their domestic movie production to promote its country's culture as well as to satisfy demand for a product that otherwise the market would fail to deliver. In this paper, rather than testing these hypotheses, we focus on evaluating the impact of a very specific type of indirect government intervention in Spain starting in 1999. In this particular case, the Spanish Government mandated by law that TV networks invest 3% of their revenues on the production of Spanish movies.

Although we focus on the case of Spain, many other countries (both developed and developing countries as well as those with solid movie industries) intervene in their domestic motion picture industries, both through grants and tax incentive programs.

Despite the fact that these programs are pervasive around the world and their cost comes to the expense of social and welfare programs, this topic has not received much attention from economists. This is mostly due to the lack of good data and the absence of natural experiments that may allow estimating the impact of government intervention on movie production. Nonetheless, this is an important understudied question, and therefore our paper's main contribution is to be among the first attempts (to the best of our knowledge) to evaluate a particular type of government intervention in the movie industry.

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Our paper uses the Spanish movie industry as empirical setting.[1] The Spanish *Ministry of Culture* uses a combination of regulatory and direct instruments to influence the domestic film industry. Examples of the latter are grants for production, distribution, and promotion for Spanish films, reductions in the interest rate for production and exhibition loans, and fiscal benefits for private investment in film projects. In 2008, the then Socialist Spanish Government spent 76.3 million euros on these programs.

In this chapter, we evaluate the impact of a change in regulation occurred in 1999 through which the Government obliged TV operators to invest 5% of their annual gross income on European audiovisual productions and 3% on productions of Spanish language. We do so by exploiting cross-sectional variation in movie box office revenues and TV network participation in Spanish movies between 2000 and 2008. Here we cannot answer the question of whether countries should support their domestic movie industries. Instead, this paper sheds light on whether this specific government program has improved the economic performance of the Spanish movie industry.

To do so, we use a data set that combines information from *Nielsen Edi* (which was sold to *Rentrak* in 2009) on box office revenues and attendance on 621 Spanish movies released in Spain between 2000 and 2008[2] with information on the movie's genre, release year, and distribution firm. We complemented these data with information for each movie on whether any of the TV networks formed part of its production or distribution team and whether a movie is an international co-production as well as the share of the production budget financed by Spanish capital. Finally, we obtained data on the movie's production budget by searching several internet webpages such as the Internet Movie Database (IMDb) website, the *Ministry of Culture* website, and press releases. We were only able to collect information on production budgets for 515 of all 621 movies. In the end, the average movie in our sample collects 1.1 million euros, sells 250,000 tickets, and loses money in the theatrical business according to our measure of gross profitability. The average production budget is almost 4 million euros of which 81% are financed with Spanish funds. Of the 621 movies, 72% count with TV network funding, 20% in production, and 65% through TV rights acquisition and distribution.

We do not have data before the law change, and there is no apparent break or exogenous change in regulation during our sample period. Therefore, we identify a cross-sectional relationship between our measures of movie performance (box office revenues, admissions, and gross theatrical profitability) and TV network participation. We use various fixed effects to control for unobservable factors that

[1]The present chapter version firmly relies on a prior publication on the same topic published on *ResearchGate* in 2012. An advanced version of this chapter may be found in Fernández-Blanco and Gil (2012).

[2]We only have information for a few movies for year 2000. For years between 2001 and 2008, movies in our data set account for between 86% and 96% of the box office of Spanish movies each year.

may drive movie performance and be correlated with TV network participation. Finally, we use a simultaneous equation model approach to address the problem of endogeneity that happens when an explanatory variable is correlated with the error term in an econometric model.

Our most robust finding is that there is a positive empirical relationship between box office revenues and TV network participation. Moreover, our findings show that it is the participation of a private TV network that raises the profile of a movie by increasing (in the cross section) box office revenues, admissions, and gross return on investment. The result is stronger when private TV network participation takes place through production, than sale of TV rights, in movies of higher production budgets.

This main result differs much from a secondary result that shows a negative correlation between movie performance and government-owned TV network participation. This is consistent with the idea that the two types of organizations are targeting very different types of movies. The former looks for movie projects that will have good market performance, whereas the latter supports movie projects that aim to promote artistic and cultural criteria. We also find a robust positive association between production budgets and movie performance.

Our estimation of "three stages least squares" (3SLS) in simultaneous equations models yields mixed results. If we assume that production budgets are set exogenously, we do not find a statistically significant impact of TV participation on movie performance. However, when taking production budgets as endogenous, our results show a statistically (and economically) significant impact of TV participation on movie performance. The validity of our econometric model leans on our exclusionary restrictions and the exogeneity of movie demand, movie genre, and percentage of participating foreign capital.[3]

Our inference of these results takes two different directions. First, it may be that TV network participation has no impact whatsoever on movie projects, and our results just show that private TV networks are better at selecting projects that are more attractive to movie audiences and that otherwise would have not been selected for final production. Second, private TV networks are able to tilt projects in directions that will be more attractive to audiences. Regardless, the conclusion is that private TV networks are either better at identifying projects worth pursuing or making existing projects more profitable. Therefore, the Spanish Government did well by reaching out to private initiative to maximize revenues obtained by movies produced domestically.

The policy implications derived from the empirical result found in the cross section of movies are various. First, movies produced by TV networks collect higher revenues, and therefore we are tempted to be positive about the impact of this policy on the Spanish movie industry. Second, having in mind our first implication, we argue that the fact that TV network participation is positively correlated with movie performance even after controlling for movie production

[3]Exogeneity means that all these explanatory variables are not correlated with error term.

budget suggests that policies targeting the augment of production budgets may be necessary but not sufficient. It is the participation of experts working in the private sector that increases movie performance beyond what production budgets alone may do.

Finally, let us be precise in what the contribution of this paper is. Here we can only provide a grasp of what the short-term gains of this specific policy may be. We cannot evaluate the magnitude of long-term gains such as the increase in highly skilled personnel in the domestic media industries. For the same reason, we cannot provide an estimate of the trade-off between short-term and long-term gains as well as money and resources spent on policies targeting higher domestic production budget movies versus other social programs. At best, our paper is limited to provide a sign on the gross effect of the policy on movie performance.

Nevertheless, the paper contributes to two separate parts of existing literature. The first part details the determinants of performance of movies as ours evaluates government intervention as a possible factor.[4] The second is the literature examining the optimality of government intervention since no private firm may be willing to produce domestic movies if these have externalities on others that qualify them as public goods (Casson, 2006; Frey, 1994) forcing governments intervene directly or indirectly into this industry.

The chapter is structured as follows. Section 2 documents the different ways in which governments intervene in their respective motion picture industries and describes the institutional framework in which our empirical setting takes place. In Sect. 3, we describe the data at hand. Section 4 details the empirical methodology, results, and a discussion of the results. Finally, Sect. 5 concludes.

2 Institutional Framework

Let us now provide an overview of the institutional framework before our empirical section. First, we provide a general description of government intervention in the movie industry in the world. We follow that introduction by focusing in a description of the regulatory framework in Spain.

Government Intervention in the Movie Industry

Government intervention in the movie industry can take different forms: direct or indirect intervention. Regulation would imply screen quotas and foreign film rationing among other policies. Direct intervention policies by the government influence directly the process of production through own production, subsidies to production, prizes, and film festivals.

Let us first take the United States as an example. As movies have become an increasingly risky investment, private investors and banks have reduced their investment and loans to this industry. For this reason, the federal government

[4]See Hadida (2010) for an extended review of that literature.

established in 2004 a federal tax incentive program that allows the deduction of production cost of certain qualified audiovisual works for income tax purposes with the aim of fostering movie production inside the United States.[5]

Turning now our attention to Europe, using public grants for funding the audiovisual industry is common policy in the *European Union* (EU hereafter) since 1991 when the MEDIA Programme was first introduced. A 5-year program in its three previous appointments, the EU has spanned the program to 7 years (2007–2013) and an endowment of 755 million euros to strengthen the competitiveness of the European audiovisual sector. It is important to emphasize that 65% of the budget focuses on distributing and promoting European films outside their originating country, across Europe and worldwide.[6] Additionally, the *Council of Europe* manages since 1989 its own *Eurimages* program supporting co-production (90% of the budget), distribution, and exhibition of European movies.

On top of these EU-wide programs, the European countries have their own programs. For instance, France has a very complex system of public financial support of its film industry, including public grants, tax credits, and tax incentives for private investors. In Germany, there are federal and regional public subsidies and a system of automatic reimbursement of a percentage of production costs for film production. In Italy, subsidies, based in box office revenues, are combined with interest-free or soft-term loans. And, finally, in the United Kingdom, those movies qualified as British films can apply for national funding and tax benefits.

This type of programs extends beyond the United States and the EU. In Argentina, we can highlight the presence of a funding system linked to box office performance facilitating the recovery of film production costs. In Brazil, besides funding programs targeting the development of movie projects, there are also tax reliefs for donations to audiovisual projects and investment in the movie industry. Finally, even India, one of the largest movie producer countries in the world, has recently begun public financing policies for the film industry by co-producing a certain number of films and offering tax benefits linked to some co-production treaties.

The Case at Hand: The Spanish Movie Industry

In Spain, the *Ministry of Culture* intervenes in the domestic movie industry through a combination of regulatory and direct policies. The most common example of the former is the presence of screen quotas: at least 25% of shows in domestic theaters

[5]This tax incentive program, which was initially supposed to last only until January 2010, has been extended to 2010 and thereafter, and it was compatible with any other incentive that could be available in each of the states. In that sense, many states have their own incentive programs. For instance, California offers tax exemptions and some advantages for films located in this state (see "Entertainment Legal Resources" at www.marklitwak.com). Christopherson and Rightor (2010) pointed out that the use of public money is inefficient or ineffective to build a sustainable movie industry outside New York or Los Angeles.

[6]MEDIA is now a subprogram of the *Creative Europe Program*. It is funded with 817.6 million euros for the period 2014–2020.

must be used for screening EU films each year. The system of direct interventions is more complex because it combines grants for production, distribution, and promotion for Spanish films, grants for protection of Spanish audiovisual heritage, reductions in the interest rate for production and exhibition loans, and fiscal benefits for private investment in film projects. In 2008, the Spanish Government expended 76.3 million euros in direct funding, and 73.4% of this amount (56 million euros) was direct grants paid to movie producers related to box office performance.[7]

The Spanish Government also intervenes in the movie industry through regulation. An example is the law that since 1999 obliges TV operators to invest 5% of their annual gross income on European audiovisual productions, excluding TV series. This new regulation did not change any previous law or substituted existing government programs. Let us next describe the timeline and nature of this regulatory change.

In 1994, the Law 25/1994 defined the new framework of the TV industry in Spain adapted to the European Union Directive 89/552/EEC "Television Without Frontiers" which aims to guarantee the free movement of EU television content within the internal market and to require TV channels to reserve more than half of their transmission time for European works. In 1989, the Spanish Law included these criteria when it defined the new legal environment for new and old operators as well as for the newer technologies. In 1999, an Addendum (Law 22/1999) renewed the previous Law and introduced the 5% of revenue requirement on investment on European production for all the TV operators that broadcast movies. This regulation did not replace any of the existing aid programs in Spain but added a new line of support to the Spanish movie industry.

In addition to this, in 2001, the Law 15/2001 added a refinement to the 5% requirement on investment on movie production. It specified that 60% of the 5% previously established, that is, 3% of the total revenues, had to be invested in national production as opposed to European non-Spanish production. Finally, in 2004, the Royal Decree 1652/2004 did not add any substance to this previous legislation but established a system of checks and balances that would monitor contributions from TV stations and make sure the existing regulation was followed diligently.

In 2007, a new *Cinema Law* (Law 55/2007) was written down, and it consolidates this 5% revenue requirement. Out of the period we have analyzed,

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[7] After satisfying some release conditions, a producer might obtain 15% of the first 12 months gross box office of his/her movie. There were also funding programs that promote the presence of Spanish movies in international film festivals and the development of screenplays and production projects. In 2015, the Conservative Spanish Government introduced important changes in the public policies applied to the Spanish movie industry (see Royal Decree 1084/2015). Under the Socialist Government, grants were linked to box office performance of each movie. Nowadays, the main part of the grants is paid in advance to movie projects. At the same time, there have been important cuts in public funding of cinema. For instance, in 2015, the Spanish Government spent 45.2 million euros on the Spanish movie industry. See *Boletín Informativo*, *Instituto de la Cinematografía y las Artes Audiovisuales*, Spanish Ministry of Culture (http://www.mcu.es/cine/MC/BIC/index.html).

the Law 7/2010 and the Royal Decree 988/2015 introduce some relevant novelties. There is a change in the percentages of investment: public TV networks have to invest 6% of their annual gross income on audiovisual products. For all the TV networks, it is now allowed to invest on TV series. Moreover, 60% of this investment (75% in the case of public TV networks) should be on movies. The requirement of 60% invested in national movies remains.[8]

3 Data Description

The Spanish Movie Industry from 1990 to 2008

Spain is a relevant market within the international movie industry due to its size and demand for movies. With 107.8 million admissions in 2008, Spain is the fifth European market in absolute terms, but in relative terms, its 2.37 average admissions per capita are above the EU (1.85), Germany (1.58), and Italy (1.88) and below the United Kingdom (2.69) and France (3.06).[9] Despite these encouraging numbers, admissions have fallen for the fourth consecutive year (7.8% on 2007), and in spite of rising average ticket prices, total revenues have decreased 3.8% on 2007.

Similarly to other Western economies, the American movie industry dominates the Spanish movie theater industry in terms of box office revenues generated. In 2008, the Spanish movie market share was 13.2% of the box office, while the share of US movies was 71.7%.[10] Moreover, see in Fig. 1 that this has been the norm in the Spanish movie theatrical market for the last 20 years. The market for movie distribution offers a very similar picture since six international distributors associated to Hollywood studios control three quarters of the box office revenues in Spain.

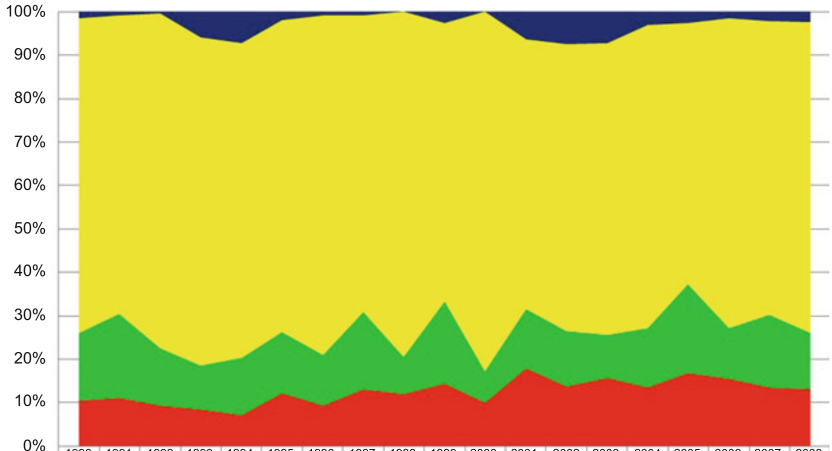
Let us now pay closer attention to the domestic movie production industry in Spain. Figure 2 provides time series of Spanish movie production between 1997 and 2008 by whether the movie was released in the theatrical market or not. See that there is a clear upward trend over the whole period. Nevertheless, the growth occurred between 1997 and 1999 was much slow than the observed growth after 1999. This is especially relevant to our paper because 1999 is the year that the 5% requirement of TV operator investment was first introduced by law.

Despite the revealing upward trend, this picture is telling us more than that. Martin (2009) in an article published in a major Spanish newspaper *El País Digital* claims that even though Spanish domestic movie production is at a record high, a

[8]During the period 2010–2015 and on average, the distribution of these TV network investments was as follows: Spanish movies, 37.9%; Spanish TV movies, 7.3%; European (non-Spanish) movies, 6.4%; European (non-Spanish) TV movies, 0.3%; Spanish TV series, 37.8%; and European (non-Spanish) TV series, 10.3% (see *Comisión Nacional de los Mercados y la Competencia* 2017).

[9]In the United States, the average admissions per capita in 2008 was 4.46 and in India 2.81.

[10]In the EU, the US market share in 2008 was 63.2%.



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Rest of the World	1.4	0.8	0.4	5.8	7.3	1.8	0.7	0.9	0	2.52	0.03	6.24	7.523	7.2	3.06	2.48	1.57	2.16	2.3
USA	72.5	68.7	77.1	75.7	72.3	71.9	78.3	68.2	79.52	64.22	82.7	62.21	66.017	67.24	69.75	60.14	71.22	67.61	71.71
EU	15.7	19.5	13.2	10	13.3	14.1	11.7	17.8	8.48	18.91	7.24	13.68	12.8	9.79	13.76	20.65	11.74	16.76	12.81
Spain	10.4	11	9.3	8.5	7.1	12.2	9.3	13.1	12	14.35	10.03	17.87	13.66	15.77	13.43	16.73	15.47	13.47	13.18

Fig. 1 Market shares in Spain 1990–2008. Source: Spanish Ministry of Culture

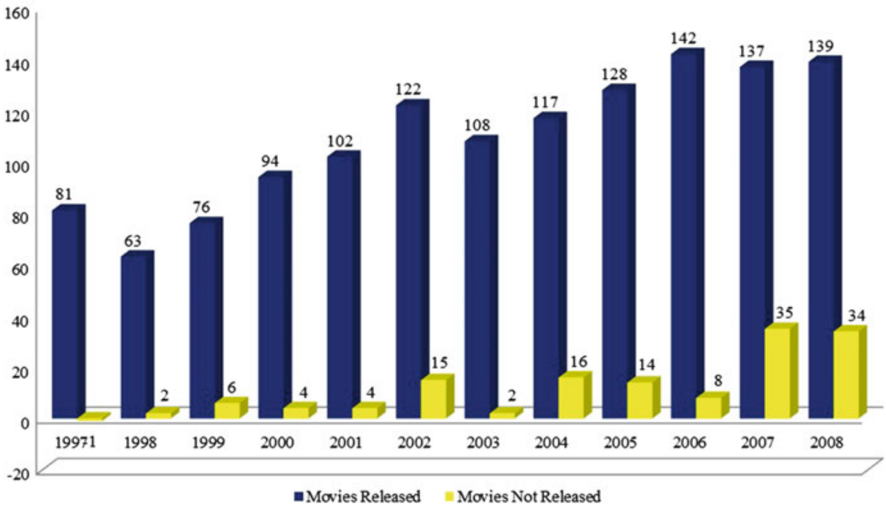


Fig. 2 Spanish movies released and not released 1997–2008. Source: Spanish Ministry of Culture

significant number of these films are not released in the theatrical market because they do not pass the market test. Following Martin's claim, we see that even though it is true that the number of movies produced and released has increased dramatically since 1997, it is also true that the number of movies produced and not released in the theatrical market has also increased significantly. See that between 1997 and

2001, the number of non-released movies barely ever went beyond 5, and how after 2001, this number averaged 15 non-released movies. This could be indicative that the Spanish Government has been spending too much money on projects that are not passing the market test and probably not helping much in the promotion of Spanish cinema.

Summary Statistics for the Spanish Movie Data Sample 2000–2008
In this paper, we use a data set that combines data acquired from *Rentrak* detailing the full list of Spanish movies released in the domestic theatrical market between 2000 and 2008. This contains information regarding the movie title, genre, distribution firm, total box office revenue, and admissions. We complemented this information with other data such as production budget, whether a TV network was involved in the production or distribution of each movie, percentage of foreign capital involved in production, as well as whether the movie had been mainly financed through the sale of TV distribution rights to a network. This information was not readily available from *Rentrak* or other centralized sources, and so we searched for information on individual movies through different websites such as IMDb.com, the movie archive website at ICAA within the Spanish Ministry of Culture webpage, and different press releases for specific movies (see summary statistics of these variables in Table 1).

Overall we have information for 621 movies. We have full information for all variables except for "percentage domestic production" (619) and "budget" (515). Using the information on production budgets, we compute a rough measure of

Table 1 Summary statistics for all variables

	No. Obs	Mean	Std. Dev.	Min	Max
Box office revenues (Euros)	621	1,159,033	2,796,461	691	27,100,000
Admissions	621	252,220.8	558,374.2	0	5,237,066
Gross return on investment	458	−0.91	0.16	−1.00	0.26
TV?	621	0.72	0.45	0	1
TV producer?	621	0.20	0.40	0	1
TV rights sold?	621	0.65	0.48	0	1
Public TV producer?	621	0.06	0.24	0	1
Private TV producer?	621	0.15	0.36	0	1
Private TV rights sold?	621	0.47	0.50	0	1
Public TV rights sold?	621	0.49	0.50	0	1
Budget (thousand euros)	515	3933.55	9290.91	60	130,000
Percentage domestic production?	619	0.81	0.29	0	1

Note: This table provides summary statistics for all variables used in our empirical analysis. The gross rate of return on investment by calculating 1/4 of box office revenue minus the budget and dividing the result by the budget itself. We dropped multinational co-productions for which Spanish contributions were less than 30% of the total budget when calculating the variable on the gross rate of return

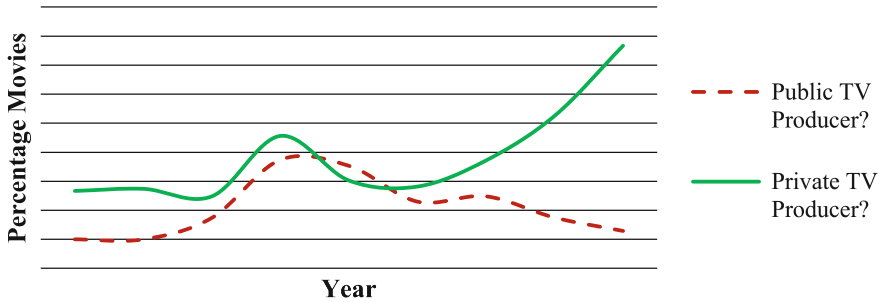


Fig. 3 Evolution of TV production by network type. Source: Spanish Ministry of Industry, Trade and Tourism, several years

profitability that we call "gross return on investment." This is the result of the formula RoI = (0.25*box office revenue−production budget)/production budget.[11] We also dispose those movies for which Spanish capital accounts for 30% or less of the total production budget.[12] In these cases, our measure of "gross return on investment" is largely misleading, and therefore we prefer to leave these observations out.

According to our data set, on average movies collect close to 1.12 million euros during their Spanish theatrical run. This translates into 252,000 admission tickets sold. Of the 621 movies available in the data set, 72% have some degree of TV network influence. We can separate this into 20% due to movie production and 65% due to financing through the sale of TV rights. It is important to highlight also that 15% of the movies are produced by private TV networks, whereas only 6% are produced by public networks. On average private and public TV networks show very similar participation rates through TV rights sales with 47% and 49%, respectively.

Let us also note that on average, 81% of the capital used to produce movies in our sample is domestic and that the average budget in our subsample of 515 movies is 3.9 million euros. The gross return on investment (after dropping those movies with less than 30% domestic capital) averages 91% and ranges from plus 26% to minus 100%.

Since we are primarily interested in disentangling time variation in movie demand across years from patterns in TV participation in our empirical analysis, we next plot averages of the evolution of TV network production and TV network acquisition of TV rights over time in Figs. 3 and 4.[13]

Figure 3 below plots averages of the evolution of TV network production by whether the network is private or government-owned. While private TV network

[11]This is a very rough measure and follows finding in Gil and Lafontaine 2012 who show that average sharing term between distributors and exhibitors in Spain is 50% approximately. Other anecdotal evidence shows that producers and distributors enter similar sharing agreements at 50% of the distributor revenues.

[12]An example is *Sahara* a Spanish-US co-production that only counted with 10% Spanish capital out of 130 million euros of the total budget.

[13]See Table 4 in the appendix for summary statistics per variable and year. Figures 3 and 4 plot directly results from Table 4.

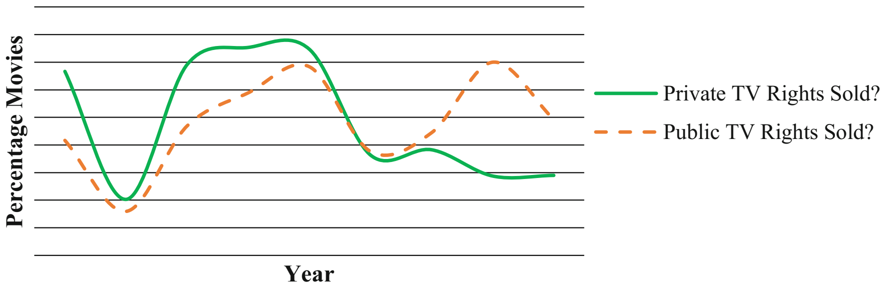


Fig. 4 Evolution of TV rights sales by network type. Source: Spanish Ministry of Industry, Trade and Tourism, several years

tripled their production of domestic movies, the production by public networks plummeted after a shy increase in 2003 to levels similar to 2001 and 2002.

Finally, Fig. 4 above shows the evolution of the percentage of movies financed through the sale of TV rights to private and government-owned networks. See that there is no difference in behavior during this period with the exception of the last 2 years when public networks bought significantly more TV rights than private networks. Combining evidence from both Figs. 3 and 4, it is tempting to conclude that private and public networks chose very different strategies regarding how to abide the Law of 1999. While private networks relatively focused on production, public networks mostly limited their involvement to distribution channels through the purchase of TV rights.

4 Empirical Methodology and Results

Empirical Methodology

We start our empirical exploration by using a rather simple methodology that aims to uncover the empirical relationship between different measures of movie performance Y and different measures of "TV participation." Uncovering this empirical association will inform us of whether the Spanish regulation forcing TV networks to participate in domestic movie production has any potential effect. We use as dependent variables the three different measures of movie performance: cumulative box office revenues, cumulative admissions, and gross return on investment. While the first two are highly correlated, the third measure may not be correlated since it depends on the production budget of each individual movie. To do so, we run ordinary least squares (OLS) on the following regression equation:

$$Y_{ijt} = \alpha + \beta_k{}^* [\text{TV Participation}_k]_{ijt}) + \theta^* [\text{Pctg Dom Prod?}]_{ijt} + \gamma^* [\text{Production Budget}]_{ijt} + \lambda_j + \delta_t + u_{ijt}$$

where Y_{ijt} is the particular performance measure for movie i in genre j and released in year t. The main variables in this specification are the various measures of "TV participation" (indexed by k in the expression), "percentage domestic production," and "production budget" that vary across movies. These are cross-sectional regressions because we only observe each movie once in our data set. This means that endogeneity and reverse causality may be present in every variable regression coefficient that we are estimating. In other words, private investors may self-select into higher budget projects because these may be also the projects that generate higher revenues. Similarly, higher revenue projects (in expectation) are also more likely to increase production budgets. For this reason, we are not planning to make any causal statements regarding the regression coefficients in these specifications. If anything, we will talk about the sign of the empirical correlation in our results and evaluate their implications for policies looking to strengthen a country's domestic movie industry such as that of 1999 in Spain and other EU countries that mandated a bigger investment from TV networks on the production and distribution of domestic movies.

Regardless of whether we cannot interpret these coefficients causally, we still want to estimate the empirical relationship as clean as possible of spurious correlation effects. For that reason, in our specifications, we control for different variables that may influence movie performance such as "percentage domestic production" and "production budget." We also acknowledge that there will be a lot of unobservable variation that may bias our estimated coefficients. We control for these by including genre and year of release fixed effects (λ_j and δ_t). An unobservable driver could be the fact that most movies are also taken abroad (Spanish movies are likely to play in other Spanish-speaking countries) or released in DVDs. This may systematically vary by genre or year, and therefore these fixed effects may be able to partially solve the existence of these unobservables. We also assume that u_{ijt} is zero-mean error term and run OLS regressions hoping the bias in our estimation is not strong enough to reverse the sign of the coefficient. Given the cross-sectional nature of the data, our empirical specification below corrects for the possible presence of heteroskedasticity across observations.

Finally, since we are aware of the endogeneity problem of the analysis above, we use a simultaneous equation approach (even if empirical associations are meaningful in this setting because TV stations select the movie projects that they invest on). For this reason, we estimate two systems of simultaneous equations with different number of equations. The first system of equations that we estimate consists of two equations such that

$$\begin{aligned} Y_{ijt} &= \alpha + \beta^* [\text{TV Participation}]_{ijt} + \theta^* [\text{Pctg Dom Prod?}]_{ijt} + \delta_t \\ &+ u_{ijt} [\text{TV Participation}]_{ijt} = \alpha' + \gamma^* [\text{Production Budget}]_{ijt} + \lambda_j + e_{ijt} \end{aligned}$$

This system of equations assumes that movie projects are predetermined when the project idea is conceived, and therefore TV participation is driven by movie genre and production budget. Once this is set, box office revenues are influenced by TV participation, domestic and international presence in the production team, and yearly demand seasonality (mainly year fixed effects). The error terms e_{ijt} and u_{ijt} are normally distributed and may be correlated with each other.

The second system of equations that we estimate consists of three equations such that

$$\begin{aligned} Y_{ijt} \quad & = \alpha + \beta^{*}[\text{TV Participation}]_{ijt} + \gamma^{*}[\text{Production Budget}]_{ijt} \\ & +\delta_t + e_{ijt}[\text{Production Budget}]_{ijt} = \alpha' + \beta'^{*}[\text{TV Participation}]_{ijt} \\ & +\theta^{*}[\text{Pctg Dom Prod?}]_{ijt} + u_{ijt}[\text{TV Participation}]_{ijt} \\ & = \lambda_j + z_{ijt} \end{aligned}$$

The innovation here is that production budgets are now also endogenously determined as we assume that they are driven by TV participation and the presence of domestic and foreign producers, while TV participation is only determined by movie genre (TV stations are more likely to produce movies in some genres than others). Finally, box office revenues are affected by TV participation, production budget, and year fixed effects. Similarly to the first equation system, the error terms z_{ij}, e_{ijt}, and u_{ijt} are normally distributed and may be correlated with each other. We estimate both systems of equations through 3SLS. The following section describes our results.

Results

In this section, we begin showing results of estimating the OLS regression equation above for our three movie performance measures and for our different measures of TV network participation.

Table 2 shows results of regressing box office revenues, admissions, and gross return on investment on four dummy variables that take value 1 depending on whether TV participation took place through production or the acquisition of TV rights sales and whether the participating network was a private or public network. In particular, we include a variable that takes value 1 if a private network participated through production and 0 otherwise, a dummy that takes value 1 if a private network participated through TV acquisition rights and 0 otherwise, a dummy for whether a public network participated through production, and a dummy for whether a public network participated through TV acquisition rights. We also include interaction variables of public and private participation through the production and the acquisition of TV rights sales and an interaction between production budget and the dummy for whether a private TV network participates directly through production.[14]

[14]In the appendix, we provide Tables 5 and 6. The former replicates the analysis in Table 2 with only a dummy variable for whether TV participation took place, while the latter substitutes the "TV Participation" dummy variable by two different dummy variables, one that takes value 1 if TV participation took place in production and 0 otherwise, and another dummy variable that takes value 1 if TV participation took place through the sale of TV rights and 0 otherwise. Table 6 also includes an interaction term between these two dummies. Results in both Tables 5 and 6 are consistent with those in Table 2.

Table 2 OLS regressions of box office, admissions, and return on investment on whether movie produced or distributed by public or private TV network

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Dep Var	Box office revenues					Admissions					Gross return on investment				
Public TV producer?	−159,888 (222,192)	−248,566 (243,339)	−267,996 (252,074)	−255,143 (255,674)	−54,545 (287,759)	−16,064 (61,092)	−37,882 (64,300)	−18,816 (64,750)	−34,860 (63,474)	−54,831 (85,909)	−0.0276 (0.0123)**	−0.0285 (0.0128)**	−0.0289 (0.0132)**	−0.0315 (0.0139)**	−0.0148 (0.0163)
Private TV producer?	1,990,930 (564,650)***	1,895,090 (566,170)***	231,389 (926,149)	244,870 (903,204)	275,005 (735,391)	216,072 (84,721.7)**	192,791 (87,712.4)**	77,286 (132,459)	86,223 (133,507)	139,164 (119,092)	0.0857 (0.0305)***	0.0841 (0.0310)***	0.0769 (0.0405)*	0.0827 (0.0397)**	0.0960 (0.0493)*
Public and private TV producer?	−297,659 (2,163,210)	−208,605 (2,188,570)	423,501 (2,084,730)	317,096 (2,112,220)	517,192 (2,120,860)	−411,504 (116,023)***	−389,203 (114,987)***	−375,026 (121,459)***	−404,683 (119,533)***	−331,605 (145,036)**	0.0327 (0.1268)	0.0340 (0.1274)	0.0358 (0.1285)	0.0222 (0.1279)	0.0297 (0.1346)
Private TV rights sold?	1,234,880 (475,181)***	1,321,280 (500,680)***	1,208,930 (501,977)**	1,333,120 (504,096)***	656,784 (504,898)	141,475 (80,312.6)*	161,218 (84,274.9)*	150,576 (67,674.8)**	124,694 (72,533.4)*	33,410 (82,275)	0.0614 (0.0351)*	0.0638 (0.0357)*	0.0635 (0.0369)*	0.0496 (0.0366)	0.0079 (0.0309)
Public TV rights sold?	−422,389 (180,406)**	−477,419 (181,644)***	−279,943 (181,791)	−10,418 (165,637)	96,709 (214,344)	−74,029 (45,987)	−87,748 (468,405)*	−30,239 (50,189)	4462 (55,154)	18,534 (62,665)	−0.0162 (0.0170)	0.0166 (0.0170)	−0.0170 (0.0169)	−0.0059 (0.0159)	−0.0094 (0.0163)
Public and private TV rights sold?	−610,487 (518,533)	−666,444 (533,143)	−703,571 (551,108)	−1,047,620 (559,246)*	−451,016 (556,256)	7601 (98,400)	−4631 (100,355)	−8885 (93,725)	−34,601 (100,606)	13,684 (103,723)	−0.0305 (0.0396)	−0.0326 (0.0400)	−0.0317 (0.0410)	−0.0376 (0.0415)	0.0075 (0.0346)
Percentage domestic production?		572,448 (361,225)	1,437,430 (414,225)***	1,464,860 (414,813)***	1,106,230 (360,676)***		141,845 (73,269.6)*	178,076 (78,909.6)**	174,450 (78,641.6)**	181,978 (778,273)**		0.0139 (0.0396)	0.0141 (0.0394)	0.0118 (0.0420)	−0.0179 (0.0452)
Budget			70.92 (18.60)***	73.18 (19.30)***	56.01 (29.06)*			3.07 (1.84)*	2.91 (2.29)	3.39 (5.52)			−0.000001 (0.000003)	0.000001 (0.000003)	0.000003 (0.000003)
Budget* Priv_TV_Prod?			348.89 (219.20)	378.67 (218.13)*	360.89 (171.11)**			32.11 (24.46)	37.16 (25.47)	22.70 (15.13)			0.000002 (0.000006)	0.000002 (0.000005)	−0.000001 (0.000007)
Constant	690,984 (149,465)***	254,655 (330,279)	−719,595 (332,561)**	−862,536 (353,735)**	1,812,570 (2,053,360)	190,956 (34,491)***	82,873 (59,060)	8454 (69,033)	11,320 (70,770)	435,711 (419,224)	−0.9287 (0.0107)***	−0.9407 (0.0367)***	−0.9381 (0.0374)***	−0.9416 (0.0408)***	−0.6013 (0.1878)***
Year FE	No	No	No	Yes	Yes	No	No	No	Yes	Yes	No	No	No	Yes	Yes
Genre FE	No	No	No	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes
Observations	621	619	513	513	513	621	619	513	513	513	458	456	456	456	456
R^2	0.11	0.11	0.27	0.29	0.44	0.04	0.04	0.08	0.10	0.21	0.08	0.08	0.08	0.11	0.30

Robust standard errors in parentheses
*significant at 10%; **significant at 5%; ***significant at 1%

Specifications from column (1) to (5) show a strong positive relationship between revenues and private TV network participation through production and TV rights sales. The introduction of the interaction term between production budget and the dummy for private TV networks participating in the film as producers seems to be responsible for this correlation as the impact of private TV producers is larger for movies of higher production budgets. If anything, public TV networks seem to participate in movies associated with lower revenue profiles than private networks do. This result is robust to the inclusion of genre and year fixed effects. Results in column (6) to (15) are similar to these in that private TV network participation is positively associated with admissions and higher levels of gross return on investment. We also find in Table 2 a strong positive relationship between production budget and revenues, as well as a strong positive relationship between percentage of domestic production and revenues and admissions.

Our last set of results provides evidence of using a simultaneous equation approach to shed some light on the problem of endogeneity readily admitted up to this point. Up to now, most right-hand side variables in specifications of Table 2 were endogenously and simultaneously determined. This circumstance may limit the value of our findings even if one may think that empirical associations are meaningful given that TV stations select the movie projects that they invest on. For this reason, we apply a simultaneous equation method with different number of equations and show results in Table 3.

The estimation of the two-equation system (taking production budgets as exogenous) shows that lower production budgets (not statistically significant) and certain movie genres (54 different movie genre combination dummies not shown here) increase TV participation, while TV participation does not seem to increase box office revenues (statistically speaking). When taking into account the (more than likely) endogeneity of production budgets in the three-equation system, TV participation and percentage of domestic participation are associated with lower production budgets, while TV participation seems to increase box office revenues according to the third and final equation. These results lean on the fact that we are assuming differences in movie demand for domestic movies to change exogenously as well as movie genres and foreign participation to be determined orthogonally to TV participation, production budgets, and domestic box office revenues. These assumptions seem plausible since ideas for movie projects are predetermined to participation of movie producers, overall demand for domestic movies varies with macroeconomic factors orthogonal to the movie industry, and foreign participation may be driven by foreign demand of certain type of domestic movies. In the next section, we discuss the results detailed here.

Discussion of Results

In the previous section, we have presented a number of results that deserve discussion. In particular, we focus here on the positive relationship between private TV network participation, production budget, and percentage of domestic production with movie performance measures. Let us start with the percentage of domestic

Table 3 Simultaneous equation regressions of box office revenues, TV participation, and production budgets

	System of two simultaneous equation		System of three simultaneous equation		
	(1)	(2)	(3)	(4)	(5)
Dep Var	TV participation?	Box office revenues	TV participation?	Production budget	Box office revenues
TV participation?	–	1,441,329.00 (968,421.70)	–	−9368.30 (1802.50)***	2,973,821.00 (944,069.7)***
Production budget (€m)	−0.10 (3.05)	–	–	–	119.05 (17.53)***
Percentage domestic producer?	–	359,539.60 (463,201.00)	–	−7662.88 (1407.93)***	–
Constant	0.99 (0.41)**	815,321.80 (630,866.70)	0.92 (0.39)**	17,274.70 (1689.50)***	641,702.90 (2,153,067)
Year FE	No	Yes	No	No	Yes
Genre FE	Yes	No	Yes	No	No
Observations	513	513	513	513	513
RMSE	0.41	2,852,083	0.42	9646.69	2,849,536
"R^2"	0.10	0.02	0.06	-0.07	0.02

Note: Columns (1) and (2) are the first system of simultaneous equation which takes production budget as exogenous. Columns (3), (4), and (5) are the second system of simultaneous equations that takes production budgets as endogenous. Both systems of equations take percentage domestic production, movie genre, and year fixed effects as exogenous variables to the end endogenous variables. We estimate these systems using the STATA command reg3 that uses 3SLS
**significant at 5%; ***significant at 1%

production, then comment on production budget, and finally conclude with private TV network participation.

We find a strong positive empirical relationship between the percentage of domestic production and revenues, admissions, and in some instances gross profitability. This suggests that international co-productions are less likely to achieve success than fully national movies. An easy interpretation of this result is that local production companies are more likely to understand domestic tastes and identify local trends in movie demand. Note that this is consistent with reasons to protect domestic movie industries that we postulated at the beginning of this paper. Domestic firms are able to produce a product that is closer to local taste and identity and therefore generate products that domestic demand value more at similar budget levels and within the same genre.[15]

The second result that we should highlight is the robust positive correlation between production budget and revenues and admissions. This result may explain why public policies target movie production budgets. Clearly our regression results should not be interpreted as causal such that an increase of X in the production budget should deliver $\gamma * X$ extra revenue. Instead, our result indicates that higher production budgets are associated with higher revenues and attendance levels. Therefore, policies targeting increases in production budgets of domestic movies are being effective in raising the revenue profile of domestic movies. We cannot tell whether they are doing so efficiently, and therefore we cannot fully evaluate this policy.

Our main result in the paper is that movies with private TV network participation through production are also associated with higher levels of revenue, admissions, and gross profitability. A side result to this is the fact that private TV network participation through TV rights sales also seems to be associated with higher levels of revenue, admissions, and gross profitability. Nevertheless, the correlation coefficients seem to be more robust and of larger magnitude when the private TV acts as a producer. Therefore, participating as a producer appears to be a stronger commitment to contribute to better movie performance. In addition to this, we also find that public TV network participation through production seems to be negatively associated with revenue, admissions, and gross profitability. These results are robust to the inclusion of controls such as genre and year fixed effects as well as controlling for production budget amount.

Finally, when we deal with endogeneity concerns with the estimation of a system of simultaneous equation model through 3SLS, we confirm our initial result since we find evidence that TV network participation increases box office revenues when taking production budgets as endogenous and making some exclusionary restriction assumptions. If anything, when taking production budgets as exogenous, we find that the effect of TV participation is positive but statistically insignificant, and therefore we can assert that TV participation does not decrease box office revenues.

[15]See Chung and Song (2008) for a similar result in the Korean movie industry.

Our empirical strategy does not reveal whether private networks are better at picking which movie projects they should participate in or whether they better make random projects, but we offer separate pieces of evidence such that both effects may be at work. Nevertheless, we can definitely argue that if the private sector is able to attract more skilled people through more attractive wages and compensation packages, it is not surprising to find that once we compare movie projects with private TV network participation to projects with public TV network participation, we find that the former outperform the latter. Not only that, results in Table 2 show that public network participation through production is associated with lower levels of gross profitability. This does not necessarily mean that those movies are worst with public network participation. This just means that private networks are better at identifying projects with good market prospects, while public networks could be investing in projects of more artsy and cultural characteristics and yet worse market performance.

5 Conclusion: Regulation Can Improve Economic Performance in Spanish Movie Industry

In this paper, we empirically establish the correlation between movie market performance (box office revenues, admissions, and gross return on investment) and TV participation in the movie production for a sample of 621 movies produced and released in Spain between the years 2000 and 2008. The interest behind this empirical exercise lies on the evaluation of regulation through which the Spanish Government forced TV networks to invest 5% of their revenues on domestic movie production while keeping in place other common policies (tax credits, subsidies, screen quotas, etc.) to stimulate its domestic motion picture industry.

Our main result indicates that movies with private TV network participation through production are more likely to be successful in the theatrical market than movies with no TV participation or public TV participation. By forcing private TV networks to invest on movies, the Spanish Government may have redirected the use of highly skilled personnel employed in the media industry towards the selection of profitable projects and perhaps a more efficient use of resources and production budgets. Regardless of whether the finding is interpreted as causal or a mere selection effect, we conclude that the use of better, more highly skilled employees seems to be a way to go towards the protection and promotion of the domestic motion picture industry.

Additionally, we infer from our results that private and public TV networks follow very different behaviors in our sample: private networks select projects that are more likely to be successful in the local exhibition market, while public networks select projects that are more idiosyncratic and therefore less likely to be successful in front of large audiences in the Spanish market. This means that this type of regulation is operative both to encourage industry development through market-oriented products and products satisfying other artsy and cultural criteria.

Nevertheless, the results in this paper cannot offer any insights on whether this particular regulation will have any long-term effects. If anything, the increase in the number of movies produced (even if not released) may have long-term effects in that more personnel is being trained currently that may achieve higher levels of human capital in the future and this may increase the number and caliber of future domestic films.

Appendix

Table 4 Summary statistics by year

	2000		2001		2002		2003		2004		2005		2006		2007		2008	
Variable	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean	Obs	Mean	Obs	M
Box office revenues (Euros)	12	1,566,206 (1,903,953)	69	1,520,511 (4,320,168)	81	912,576.6 (1,896,483)	73	1,289,031 (3,129,859)	79	1,044,469 (2,516,370)	77	1,326,456 (2,759,565)	81	1,162,850 (2,556,901)	80	946,168.9 (2,914,025)	69	1,065,181 (1,937,854)
Admissions	12	365,758 (449,504)	69	316,228.7 (761,412)	81	242,143 (517,242)	73	355,850.5 (735,554)	79	212,344.4 (514,913)	77	315,597.5 (531,842)	81	217,944.3 (479,189)	80	168,413.4 (510,974)	69	182,997.1 (331,559)
Gross return on investment	2	−0.59 (0.38)	33	−0.90 (0.12)	46	−0.89 (0.21)	63	−0.87 (0.22)	64	−0.91 (0.15)	67	−0.90 (0.14)	66	−0.93 (0.09)	75	−0.91 (0.19)	42	−0.95 (0.06)
TV?	12	0.67 (0.49)	69	0.29 (0.46)	81	0.74 (0.44)	73	0.95 (0.23)	79	0.90 (0.30)	77	0.56 (0.50)	81	0.69 (0.46)	80	0.84 (0.37)	69	0.78 (0.42)
TV producer?	12	0.08 (0.29)	69	0.09 (0.28)	81	0.10 (0.30)	73	0.29 (0.46)	79	0.22 (0.41)	77	0.16 (0.37)	81	0.21 (0.41)	80	0.25 (0.44)	69	0.35 (0.48)
TV rights sold?	12	0.67 (0.49)	69	0.20 (0.41)	81	0.74 (0.44)	73	0.89 (0.31)	79	0.87 (0.33)	77	0.47 (0.50)	81	0.59 (0.49)	80	0.73 (0.45)	69	0.68 (0.47)
Public TV producer?	12	0	69	0	81	0.04 (0.19)	73	0.14 (0.35)	79	0.13 (0.33)	77	0.06 (0.25)	81	0.07 (0.26)	80	0.04 (0.19)	69	0.01 (0.12)
Private TV producer?	12	0.08 (0.29)	69	0.09 (0.28)	81	0.07 (0.26)	73	0.18 (0.39)	79	0.10 (0.30)	77	0.09 (0.29)	81	0.14 (0.34)	80	0.21 (0.41)	69	0.33 (0.47)
Private TV rights sold?	12	0.67 (0.49)	69	0.20 (0.41)	81	0.69 (0.46)	73	0.75 (0.43)	79	0.75 (0.44)	77	0.36 (0.48)	81	0.38 (0.49)	80	0.29 (0.46)	69	0.29 (0.46)
Public TV rights sold?	12	0.42 (0.51)	69	0.16 (0.37)	81	0.47 (0.50)	73	0.59 (0.50)	79	0.68 (0.47)	77	0.38 (0.49)	81	0.44 (0.50)	80	0.70 (0.46)	69	0.49 (0.50)
Budget (Thousand Euros)	2	1653 (1062.07)	37	3722.57 (3562.78)	52	3565.62 (3830.30)	71	2487.75 (1713.51)	78	2838.60 (1851.45)	75	6576.00 (21072.49)	76	3492.80 (4081.04)	78	2712.49 (1817.52)	46	7196.87 (12,404.62)
Pctg domestic production?	12	0.81 (0.36)	69	0.83 (0.29)	81	0.79 (0.30)	73	0.82 (0.29)	79	0.78 (0.32)	77	0.77 (0.31)	79	0.80 (0.30)	80	0.84 (0.24)	69	0.84 (0.27)

This table provides summary statistics by year from 2000 to 2008 for all variables in Table 1. The number of observations per variable and year is also available

Table 5 OLS regressions of box office, admissions, and return on investment on whether movie was produced and/or distributed by TV network

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Dep Var	Box office revenues					Admissions					Gross return on investment				
TV?	637,432 (190,006)***	606,823 (182,528)***	697,430 (201,136)***	899,526 (288,568)**	773,469 (310,848)**	61,268.6 (45,750.2)	52,724.7 (46,049.9)	93,242.2 (46,260.5)**	97,763.1 (48,107.3)**	62,986.7 (55,408.8)	0.0309 (0.0139)**	0.0304 (0.0136)**	0.0288 (0.0137)**	0.0276 (0.0140)	0.0234 (0.0160)
Percentage domestic production?		453,915 (304,479)	1,251,720 (367,880)***	1,210,030 (360,013)***	981,409 (332,579)***		121,751 (61,643.7)**	166,560 (70,336.1)**	166,898 (71,134.8)**	195,680 (788,123)**		0.0196 (0.0378)	0.0251 (0.0382)	0.0241 (0.0405)	−0.0095 (0.0444)
Budget			99.16 (28.85)***	100.09 (29.51)***	84.59 (39.38)**			5.83 (3.19)*	5.68 (3.51)	5.54 (6.34)			0.00001 (0.000003)**	0.00001 (0.000003)***	0.00001 (0.000003)**
Constant	699,179 (119,349)***	356,902 (290,614)	−704,360 (370,430)*	−826,406 (421,431)*	1,730,460 (2,192,610)	208,021 (36,429)***	116,350 (52,977.4)**	24,459 (68,234)	21,371 (69,331)	412,211 (407,705)	−0.9299 (0.0102)***	−0.9470 (0.0365)***	−0.9662 (0.0382)***	−0.9708 (0.0406)***	−0.6277 (0.1859)***
Year FE	No	No	No	Yes	Yes	No	No	No	Yes	Yes	No	No	NO	Yes	Yes
Genre FE	No	No	No	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes
Observations	621	619	513	513	513	621	619	513	513	513	458	456	456	456	456
R^2	0.01	0.01	0.11	0.12	0.35	0	0.01	0.02	0.04	0.18	0.01	0.01	0.01	0.06	0.27

Robust standard errors in parentheses
*significant at 10%; **significant at 5%; ***significant at 1%

Table 6 OLS regressions of box office, admissions, and return on investment on whether movie was produced or distributed by TV network

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Dep Var	Box office revenues					Admissions					Gross return on investment				
TV producer?	1,099,440 (659,387)*	1,063,310 (657,649)	1,052,690 (670,076)	1,196,130 (718,937)*	1,366,370 (647,209)**	38,577.8 (65,298)	19,041.5 (68,903)	47,865.9 (69,543.0)	67,795.3 (70,857.8)	65,269.9 (911,80.6)	0.0429 (0.0293)	0.0417 (0.0291)	0.0405 (0.0291)	0.0449 (0.0286)	0.0592 (0.0354)*
TV rights sold?	229,730 (169,298)	223,223 (166,656)	283,189 (166,790)*	516,600 (244,518)**	426,222 (282,986)	19,273.7 (47,213)	15,780.2 (47,302)	48,577 (46,527.8)	58,942.9 (49,546.9)	31,278.2 (57,172.1)	0.0124 (0.0141)	0.0124 (0.0139)	0.0125 (0.0140)	0.0121 (0.0153)	0.0065 (0.0164)
TV producer and TV rights sold?	650,594 (853,151)	665,816 (852,791)	754,214 (900,214)	680,422 (943,111)	157,222 (794,061)	178,092 (113,125)	186,544 (113,648)	189,564 (120,618)	175,645 (1261.50)	121,111 (129,549)	0.0302 (0.0415)	0.0309 (0.0411)	0.0270 (0.0405)	0.0228 (0.0414)	0.0026 (0.0451)
Percentage domestic production?		172,230 (295,640)	902,889 (330,534)***	857,815 (330,398)***	658,824 (322,998)**		97,980.5 (64,770.6)	133,206 (72,260.2)*	129,774 (72,469.1)*	164,273 (81,104.7)**		0.0118 (0.0381)	0.0158 (0.0387)	0.0139 (0.0411)	−0.0224 (0.0449)
Budget			93.41 (27.19)***	94.29 (27.89)***	81.14 (36.37)**			5.17 (2.96)*	4.97 (3.27)	5.28 (6.07)			0.000003 (0.000002)	0.000005 (0.000002)**	0.000004 (0.000003)*
Constant	699,179 (119,542)***	571,687 (285,057)**	−403,173 (330,439)	−549,082 (379,132)	2,273,710 (2,102,590)	208,021 (36,488.0)***	134,475 (54,935.3)***	53,835.1 (68,591.7)	48,031.3 (70,018.6)	460,782 (401,521)	−0.9299 (0.0102)***	−0.9402 (0.0368)***	−0.9529 (0.0387)***	−0.9576 (0.0415)***	−0.6007 (0.1844)***
Year FE	No	No	No	Yes	Yes	No	No	No	Yes	Yes	No	No	No	Yes	Yes
Genre FE	No	No	No	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes
Observations	621	619	513	513	513	621	619	513	513	513	458	456	456	456	456
R^2	0.05	0.05	0.15	0.16	0.38	0.02	0.02	0.04	0.06	0.19	0.03	0.03	0.03	0.08	0.28

Robust standard errors in parentheses
*significant at 10%; **significant at 5%; ***significant at 1%

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Public Film Policy and the Rise of Economic Principles: The Case of Switzerland

Marco Cucco and Gloria Dagnino

1 Switzerland: National Film Policy in Transition

Films are probably the most powerful cultural products when it comes to defining European history and identity. European cinema has traditionally been a byword for "arthouse movies" and high-quality productions. When we think of European cinema, some countries stand out more often than others, namely France, Italy and Germany. However, smaller, less populated countries also have prestigious and globally renowned cinema traditions: Miloš Forman's Czech Republic, Ingmar Bergman's Sweden and Michael Haneke's Austria, to name only some.

Cinema studies have generally neglected Switzerland, and this is particularly true when it comes to public film policy. We believe that a closer analysis of the Swiss system of financial support for the national industry is now particularly timely. There are two major reasons for this: (1) Switzerland's recent exclusion from the EU's MEDIA programme, following the 2014 vote "against mass immigration",[1] an event which has stopped the supply of important European funds to Swiss film companies; and (2) the creation, in July 2016, of a new Federal fund devoted to national and international companies that shoot films within Swiss territory.

We believe that the exclusion event acted as a sort of "exogenous shock", eventually leading to the introduction of the new Federal fund, constituting an unprecedented act of reform within Swiss film policy history. Indeed, in Switzerland, the film funding system has traditionally been grounded on exclusively cultural premises. Non-repayable funds, or typically "soft" money (i.e. grants, soft loans,

[1]The referendum was proposed by the national conservative Swiss People's Party with the aim to limit immigration through quotas, as it was prior to the bilateral treaties between Switzerland and the European Union. This initiative was accepted by a majority of the electorate and of the cantons on February 9th, 2014.

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etc.), have always been granted under the general purpose of protecting Swiss cultural identity. Such cultural concern is all the more important given Switzerland's very specific character, which is the result of three features discussed more extensively in Sect. 2:

(a) The country's small size
(b) Linguistic fragmentation
(c) Bordering with three large countries

The exclusion from MEDIA, also addressed in Sect. 2, has pushed Swiss policymakers to integrate culture-based funds with new ones that foster local and regional economic growth, by means of encouraging national and international companies to select Switzerland as shooting location. This appears to be Switzerland's first, cautious step towards a "neo-liberal" transition that has already been affecting film policies in other European countries (European Audiovisual Observatory, 2015, 2016b).

In this chapter, we posit that Switzerland's current public policy drive for film is ambivalent: While the country's current film ecosystem withstands the negative effects of being excluded from European funds through MEDIA, we believe that the country's internal specificities have helped developing its own very specific national policy agenda based on support to both cultural development and economic growth. Lately, however, Switzerland is shifting more decisively from a public funding policy scheme which was firmly rooted on cultural premises towards one that values film production as a means for local and regional economic growth. The question remains open as to whether this move constitutes a transition to a "neo-liberal" style of film policy, embodied by the recent creation of a new public film funding scheme, and whether this policy will be imposed more widely on Swiss film policy matters at large.

2 Switzerland: Small and Diversified

2.1 Small Size of the Country

Switzerland is a small and landlocked country in the heart of Europe. Neighbours of Switzerland are Germany, Austria, Liechtenstein, Italy and France. Switzerland has a strategic location at the crossroads of central Europe and covers 41,290 km^2 for 7702 m inhabitants. This makes it small in size in comparison to other European countries. In this context, we use "smallness" as operative framework by means of its geographical size and its population. The geographical area of Switzerland covers 41,285 km^2, making it smaller than the majority of European countries. On top, countries are further defined as small when their population size does not exceed 18 million inhabitants (starting from a 100,000 people; Puppis, 2009). This definition allows us to identify three distinct groups: large countries, with more than 18 million inhabitants (France, Germany, Italy, Holland, Poland, Romania, Spain, the UK), micro-States, with fewer than 100,000 inhabitants (Andorra, Liechtenstein, Monaco, San Marino, and the Vatican City), and the "small" countries in between—the largest in number of the three groups. The latter includes Switzerland, which has a population size of 8.2 million inhabitants, equally divided between men (49.5%) and women (50.5%). Foreigners account for some 22% of the population.

Usually, small countries have small media markets (Hjort & Petrie, 2007; Jones, 2014). Small countries have fewer financial resources to invest in media products (through lower volumes of advertising) and a smaller number of potential moviegoers, TV viewers, readers, etc. who pay for cultural consumption. Manuel Puppis writes that "while the production costs are roughly the same in small and big markets, audience markets in small states are too small to realize economies of scale" (Puppis, 2009, p. 10). In fact, the potential limitations of a small country relate not only to economic resources and audiences but also to professional know-how and creative talent. Arguably, these three factors make it harder for small countries than the larger ones to develop their own media industries and to create attractive products. This also means, as Siegert and von Rimscha (2013) observe, that "[. . .] small states struggle at times to protect their cultural heritage when confronted with the dominance of international content and content from larger neighboring states" (p. 129).

When it comes to film, the problem of a small market size is particularly relevant, since the cost of a film is generally greater than that of other products in the media industry (books, magazines, newspapers, CDs, TV programmes). A small domestic market does not only reduce the chances of box-office takings, and therefore the possibility to refund future projects with the profits from past films, but also denies the opportunity to make bigger-budget movies (that have greater probabilities of success). In the case of expensive films, a good economic performance on the domestic market is not necessarily sufficient for covering production costs. Furthermore, given that national productions are not intended to be distributed beyond the home market (or are released without a significant success), the producer does not reach foreign audiences in order to recover production costs.

2.2 Linguistic Fragmentation

Switzerland has four national languages, German, French, Italian and Romansh (a Romance language spoken predominantly in the south-eastern Swiss canton of Grison), and generally the country is divided into three linguistic regions (the Romansh region not being relevant in quantitative terms). German is the main language, accounting for 63.3% of the total population, French for 22.7%, Italian for by 8.1% and Romansh for 0.5% (Bundesamt für Statistik, 2016). While German is spoken by the largest constituency of the population, the country has no single common language, which therefore has important implications for the media. For example, Switzerland has no newspapers that straddle the three linguistic regions, and the TV and radio public service broadcasts different channels in each region (Künzler, 2013; Meier, 2004, 2009).

With regard to cinema, such linguistic fragmentation means that films are not necessarily distributed across the entire national market, but only in the respective linguistic region of their production. The costs of dubbing, subtitles and the translation or adaptation of promotional material increase potential costs in relation to possible revenue. For this reason, only a few films produced in the French or German-speaking regions are distributed in the Italian-speaking region, the latter being the smallest in terms of population. At best, distributors might opt to circulate original-language versions only, therefore reducing the film's success potential even more.

2.3 Large Neighbouring Countries

As seen above, Switzerland borders five countries, three of which are large [Germany, France, Italy; according to Puppis (2009)]. Importantly, these three countries are also large in cinematographic terms. France, Germany and Italy are three of the principal film producers in Europe, each with a substantial domestic market. Moreover, all of them have a long and important filmmaking tradition. Second, each of these countries has a linguistic (but also cultural) link with one of the three Swiss regions. This means that films produced in France, Germany and Italy are easily exported to Switzerland, where they have a good chance of success. While in some cases, the language of a small country can ultimately protect it from stronger foreign influence (as, e.g. in Portugal); in Switzerland (but also in Austria, Belgium, Ireland and Luxembourg), the spoken languages actually facilitate the penetration of foreign cultural products. Only some films made in France, Germany and Italy are released in Switzerland, and therefore, the three linguistic regions cannot be considered merely an extension of those countries' domestic markets (Cucco, 2010).

Another reason for the high consumption of European films is based on the fact that for many decades, Switzerland has been an important destination for waves of migration. Beyond the immigrants from Germany, France and Italy, in Switzerland a further 20.9% of the population speak English, Portuguese, Albanian, Serbo-Croatian or Spanish as their main language (Bundesamt für Statistik, 2016). These people are interested in the films of their homelands and, therefore, contribute to the increased market quota of films from abroad.

2.4 Exclusion from the MEDIA Programme

Switzerland is not a member State of the European Union, but it can access some of its programmes. In 2006, it became member of the MEDIA programme, alongside Norway, Iceland, Albania, Bosnia and Herzegovina and Montenegro. However, the country's participation in the programme was recently interrupted for political reasons. On the 9th of February 2014, the Swiss people voted in favour of a referendum "against mass immigration", which called on the Federal Government to introduce quotas, upper limits and nationality preferences of immigrants. The referendum result puts into question the country's participation in the Schengen agreement, which has been guaranteeing the free movement of people between Switzerland and the EU since 2002. Following the vote, whilst waiting for a renegotiated version of the agreement, the EU decided to suspend Swiss participation in *Erasmus Plus*, *Horizon 2020* and, most relevantly here, MEDIA programme.

The principle objective of MEDIA is to support the distribution of films beyond domestic markets. Hence, an exclusion from the programme has two negative implications for Switzerland. Firstly, foreign distributors are less interested in acquiring the rights of Swiss films, since they will not receive any subsidies from Europe to support their circulation in theatres. And indeed, in previous years, the international distribution of Swiss films directed by, for example, Ursula Meier, Markus Imhoof and Jean-Stéphane Bron were made possible thanks to a MEDIA subsidy.

Secondly, Swiss distributors are less interested in releasing European films in Switzerland, since they will not receive any public assistance by Europe. In this case, the risk is a possible reduction of diversity in the films distributed in Switzerland. Apart from these two problems, it is worth mentioning that the MEDIA programme also used to support the Winterthur, Baden, Nyon and Locarno film festivals.

Despite such indisputable disadvantages in the country's media geography, media scholars have also reckoned the possibility for small nations to have some kind of competitive advantage over their bigger neighbours. According to Newbigin (2014), in particular, this is a consequence of "forcedly creative" policymaking, which compensates the lack of market resources with the design of alternative, innovative ways for reaching goals. This is especially true in the creative industries that are largely built on immaterial skills and resources.

3 Data on Swiss Film Market

Switzerland has a high annual rate of production when it comes to feature-length films. In 2015, it produced 78 films,[2] making it the seventh most active country in Europe, after the UK, France, Germany, Spain, Italy and Holland (European Audiovisual Observatory, 2016a). There are two reasons for this high level of film production. Firstly, Switzerland is a rich country, and the total amount of public resources devoted to support film production is among the highest in Europe (European Audiovisual Observatory, 2016b); this results in a high production rate. Secondly, more than half of the films are documentaries (54), which have lower production costs (Switzerland has a long tradition of documentary production).

If we examine distribution, instead, it emerges that the number of Swiss films distributed in 2015 (69, 15.2% of the total) trails not only the number of US (113) and European films (212), but also those of French films (94). There is also a significant presence of German (37), Italian (19) and British (20) films on the Swiss market (Table 1). These trends are all easily explained by (a) the main languages

[2]Source: *Federal Office of Statistics*, www.bfs.admin.ch

Table 1 Films released in Switzerland by country of origin

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Switzerland	46	56	58	59	75	66	63	77	67	69
Germany	32	36	30	34	32	38	34	43	43	37
France	89	88	89	95	87	88	86	96	99	94
Italy	19	27	27	17	23	22	16	18	21	19
UK	19	19	19	16	18	17	26	18	21	20
USA	106	112	110	117	110	105	112	121	118	113
Others	77	60	69	88	74	68	77	73	82	99
Total	388	398	402	410	419	404	414	446	451	451

Source: *Federal Office of Statistics*, www.bfs.admin.ch

Table 2 Film market shares in the three linguistic regions of Switzerland

	CH	USA	EU	Others
2011				
Total	4.3	64.6	28.8	2.3
GSA	5.2	68.3	24.2	2.3
FSA	2.7	56.8	38.2	2.3
ISA	0.5	66.3	31.7	1.5
2012				
Total	4.8	58.2	34.0	3.0
GSA	5.3	60.2	31.4	3.1
FSA	4.1	52.7	40.4	2.9
ISA	1.5	68.6	28.7	1.3
2013				
Total	6.2	67.1	23.8	3.0
GSA	7.5	67.7	21.9	2.8
FSA	3.4	65.3	27.9	3.4
ISA	4.6	69.4	24.1	1.9
2014				
Total	4.8	61.9	29.3	4.0
GSA	6.1	65.1	25.6	3.3
FSA	2.3	54.6	37.7	5.4
ISA	3.2	72.3	20.0	4.5
2015				
Total	5.4	65.4	24.9	4.3
GSA	7.2	64.9	24.0	3.9
FSA	1.5	65.7	27.5	5.3
ISA	3.4	75.6	18.1	2.9

GSA German-speaking area; *FSA* French-speaking area; *ISA* Italian-speaking area
Source: *Federal Office of Statistics*, www.bfs.admin.ch

spoken in Switzerland; (b) the linguistic-cultural affinities with its neighbouring countries; and (c) the fact that these countries are among the most important film producers in Europe.

Audience data reveals that Swiss films are not well attended: the market quota of domestic cinema in 2015 was 5.4%, and over the previous 5 years, this figure fluctuated between 4.3 and 6.2% (Table 2). In terms of the performance of domestic filmmaking in the home market, this is one of the lowest figures in all of Europe: only the "micro-States" and Portugal have lower rates.[3] This data is particularly surprising considering the significant public investment into national cinema, the high total number of films produced, and the recent result of a quantitative survey of 1409 Swiss citizens, which revealed that the public is positive about its own national cinema (Moeschler, 2008). The same study also confirmed that spectators

[3]Source: MEDIA Salles, www.mediasalles.it

are happy with the variety on offer and, therefore, do not perceive a lack of competition, nor any limitations imposed by the market.

How can this data be explained? The market quota of US films is 65.4% (in line with the European Union's average, 64%); therefore, we can conclude that the quota of national films watched is instead curbed by European films. As such, once again the justification of this data leads us back to the issues presented above, its language fragmentation, which limits the distribution of domestic films to just one of the linguistic regions (reducing box office potential) and the Swiss market's permeation by the films of its neighbours.

Data on film consumption does indeed vary between the linguistic regions. National films have a greater market quota in the German-speaking region, most likely since the majority of films are produced in this region and therefore have Swiss–German dialogues. European films have greater success in the French-speaking region, therefore demonstrating that its audiences have the same viewing tendencies as France. Finally, US films have a particularly high quota in the Italian-speaking region, where very few Swiss films are distributed and where European cinema has little success (similar to Italy).

The data confirms that the Swiss film industry consists of three distinct markets, which have different economic characteristics. The majority of tickets are sold in the German-speaking region (67.9% of all tickets in 2015), while in quantitative terms the Italian-speaking region is insignificant (2.5%) (Table 3). The Italian region is geographically the smallest and also the region with the lowest annual rate of cinema attendance. The fact that the French-speaking region has the highest rate of annual revenue per capita confirms the existence of cultural affinities between the linguistic regions and their neighbours (Table 3).

Table 3 Admissions and pre-capita admissions in Switzerland

	Admissions (%)			Per-capita admissions			
	GSA	FSA	ISA	GSA	FSA	ISA	Total
2006	67.5	29.2	3.3	2.1	2.5	1.7	2.2
2007	67	29.3	3.7	1.7	2.1	1.5	1.8
2008	66.1	30.4	3.5	1.7	2.2	1.5	1.9
2009	67.1	29.6	3.3	1.8	2.4	1.5	2
2010	66.3	30.2	3.5	1.8	2.3	1.6	1.9
2011	65.6	31.4	3	1.7	2.4	1.3	1.9
2012	67.5	29.7	2.8	1.9	2.4	1.3	2
2013	67.4	29.8	2.8	1.6	2.1	1.1	1.7
2014	66	31.6	2.4	1.5	2.1	0.9	1.6
2015	67.9	29.5	2.5	1.7	2.1	1	1.8

GSA German-speaking area; *FSA* French-speaking area; *ISA* Italian-speaking area
Source: *Federal Office of Statistics*, www.bfs.admin.ch

4 Swiss Film Policy Frame

Switzerland's highest cultural institution, the *Bundesamt für Kultur/Federal Office of Culture*, which operates within the Department of Internal Affairs, has acknowledged most of the aforementioned difficulties that afflict the country's market. In its presentation of the Cinema branch, the Federal Office for Culture (*Bundesamt für Kultur*) states: "In Switzerland, a multilingual and multicultural country, the film market is fragmented. Moreover, the film industry is too limited, compared to countries like France, Italy or Germany, to establish itself with its own forces. To ensure its survival, State financial support is necessary for production and distribution" (Bundesamt für Kultur, 2015a, p. 42). Given these premises, the Swiss film industry has always relied to a significant extent on public funding. A recent study shows that Switzerland is the 10th European country for total value of public funding to the audio-visual sector (European Audiovisual Observatory, 2016a). These funds operate at all levels of governance: federal (national), regional and cantonal (sub-national). This section analyses this multilevel support scheme, the rationale and rules guiding it, the institutions and organizations responsible for its implementation.

In Switzerland, like in most other small European countries, the biggest share of public financing to the film industry comes from the national (here: federal) government, based in Bern. Federal funds are managed by the *Bundesamt für Kultur* (Federal Office of Culture) and find their primary legal basis in the Swiss Constitution: "(1) The Confederation may encourage Swiss film production and film culture; (2) It may issue regulations to promote the diversity and the quality of the cinematographic works that are offered" (Art. 71). This general provision is further elaborated in the Federal Act on Film Production and Film Culture, which sets out to support measures for film production and distribution, as well as the promotion of film literacy and culture (LCin 14/12/2001, Art.1). Traditionally, the Confederation has granted financial aid to the film sector on the basis of two criteria: (1) quality (through selective aids) and (2) box-office performance (so-called "*success-linked aids*"). In July 2016, a new support fund was launched, based on the geographic location of the film production (Decree of the Federal Department of Internal Affairs 21/4/2016—OPCin). This location-based support scheme constitutes an unprecedented "third pillar" for the federal film policy, and it is likely to affect policy in substantial ways in the future. Section 4 of this chapter is specifically devoted to the analysis of this newly created support scheme.

4.1 Selective Aid

The Confederation provides financial aid to companies and professionals operating at all stages of the film value chain: screenwriting, project development, production, post-production, distribution and circulation. Criteria for selective aids, which are evaluated by committees of experts, include: (a) the originality and artistic quality of the project; (b) the level of contribution to Switzerland's cultural landscape; (c) the feasibility and economic soundness of the film production package and (d) the potential for commercial exploitation in the different language regions, among others.[4] Federal selective funding can be granted to national films as well as international co-productions. The latter have lower funding caps. The total amount of funding cannot exceed 50% of the film's countable costs, and it is granted as non-repayable money. Such favourable conditions reflect the rationale underpinning the federal scheme of selective funding, which values cinema's cultural and artistic nature more than its economic dimension. At the same time, however, the small and fragmented nature of the market makes non-repayable funds the most viable form of support for Swiss film companies. Selective funds account for the biggest share of Swiss public funding to the cinema sector, and the majority of this subsidy benefits production. In 2015, almost 15 million Swiss francs (13.8 million euros)[5] were distributed to fiction films, documentaries, short and animated films and multimedia projects. The overall number of supported projects was 115, with documentaries (55 projects), fiction films (52) and most other applications coming from the German-speaking area (Bundesamt für Kultur, 2015a, b).

4.2 Non-selective Aid

The Confederation also awards non-selective, i.e. "automatic", financial support to film production, as well as the distribution and promotion stages. Automatic funds for film production are awarded on the basis of the film's theatrical success. This is calculated according to the number of tickets sold at the box office, and points are also earned for participation at important film festivals. This funding scheme, named *Succès cinéma*, remunerates the film's commercial and artistic success, at the same time promoting a more diverse range of films for the audience. It provides proportional rewards to all of the professional categories involved in the film's success: screenwriter, director, producer, distributor, and exhibitor. The amounts paid by the *Succès cinéma* programme must be reinvested in new film projects, both Swiss productions and international co-productions. With the single exception of exhibitors, these sums must be reinvested within a 2 years' time period. In 2015, the success-linked aid scheme has led to a total reinvestment of 4.9 million francs (4.52 million euros) in the preparation and production of new Swiss films (Bundesamt für Kultur, 2015a, b). Switzerland does not provide for specific fiscal incentives to the film sector (with the only, partial exception of reduced VAT on cinema tickets).

Non-selective aid to film distribution is divided into three funding schemes that cover different scenarios: (1) the distribution of national films in national theatres; (2) the distribution of foreign films in national theatres; (3) the distribution of

[4]For the detailed list of selective criteria see Annex n. 1, point 2.1 of the Decree of the Federal Department of Internal Affairs 21/4/2016—OPCin.

[5]All conversions are calculated with a currency exchange rate of 1 CHF/0.922 euros, as of 31 December 2015. Source: SIX Swiss Exchange.

national films in foreign theatres. The first scheme is aimed at Swiss films and international co-productions with Swiss directors, for activities such as copy printing and marketing. It places particular emphasis on film launches in French- and Italian-speaking cantons. This incentive follows a decreasing order: films exceeding 60,000 cinema tickets sold cease to be entitled to the aid. The second scheme supports foreign distribution companies specialized in arthouse features (*films d'essai*), therefore promoting a more diverse choice of films for Swiss moviegoers. Eligible films must have a production budget of less than 10 million Swiss francs (9.22 million euros), and they must not have received funding from the EU's MEDIA programme. This latter parameter also applies to the third categories: Swiss films distributed in foreign theatres (and Festivals). In this case, the *Bundesamt für Kultur* provides funding to the Swiss distributor for printing copies, subtitling and marketing activities carried out abroad. These funds are distributed by the *Bundesamt für Kultur* with the administrative collaboration of the SWISS FILMS Foundation, the promotion agency for Swiss cinema.

4.3 Sub-national Funds

Selective and success funding at the national level are the most important sources of support for Swiss filmmakers and producers. However, there is also sub-national aid available in the form of regional and cantonal film funds, although these are unevenly distributed across the territory. At time of writing, only nine of Switzerland's 26 cantons provide financial support for project development, production and/or distribution: Fribourg, Geneva, Jura, Neuchatel, Valais, Vaud (associated in the *Cinéforom* fund), Bern, Zurich and Tessin (the latter in the form of grants for young filmmakers) (OLFFI, 2016). All these funds share the goal of supporting local talents and enterprises, as only people residing in the territory for at least three consecutive years can access them. It should also be noted that Swiss sub-national funds function under the same kinds of rules (non-repayable) and criteria (quality-related selection) that guide the majority of national funds: in this sense, they act as decentralized supplements to the federal funding scheme.

4.4 International Engagement

As previously mentioned, the market's small and multilingual nature inhibits Swiss filmmakers from exporting their films across regional borders. To distribute Swiss films outside national borders is even more difficult. In order to foster the circulation of Swiss films abroad and international engagement with Swiss filmmakers, different support schemes are available. This includes both national and supranational programmes, which have been recently aggregated into one policy act by the Federal Department of Internal Affairs: the decree concerning the promotion of the international presence of Swiss films and the MEDIA compensatory measures (OPICin 21/4/2016). Switzerland's international presence is supported by means of selective funds that benefit: the distribution of Swiss films and co-productions in foreign countries; the participation of Swiss filmmakers in international festivals, markets and awards ceremonies and the continued training of film professionals (art. 4 OPICin).

Since 2014, the *Bundesamt für Kultur* has devoted a considerable amount of money (around 10 million Swiss francs; 9.22 million euros) as compensatory measure following Switzerland's exclusion from MEDIA, the most important European funding programme for the audio-visual sector. Between 2007 (the first year of the country's participation) and 2013, Switzerland contributed on average over 9 million Swiss francs per year (8.3 million euros) to the *European Commission*. In order to minimize the potentially disruptive effects of Switzerland's exit from MEDIA, the Confederation provides equivalent sums and administrative support to film companies through the MEDIA *Desk Suisse*. In terms of eligibility criteria and funding mechanisms, the compensatory measures follow the MEDIA programme very closely. A majority of funds (both selective and "automatic") are devoted to national companies for the distribution of European films in Switzerland. Additional funds moreover support Swiss producers in the development of single projects or packages of projects (so-called slate funding) with good distribution potential in Europe. Finally, financial support is also available for continued education initiatives aimed at the *European Economic Area*; for networking activities by Swiss filmmakers and to Swiss festivals that screen European works.[6]

4.5 Trans-national Co-productions

For a small country like Switzerland, it is paramount to preserve and strengthen international engagement, not only for film distribution purposes but also for production. To this regard, the *Bundesamt für Kultur* is adamant: "With national financing alone, many movies could not be made or distributed abroad. For this reason, most of Swiss films are co-produced".[7] This is especially true for fiction films, which generally have higher production costs than documentaries. Trans-national co-productions (both majority and minority) accounted for 55% of the 45 full-length fiction films produced in Switzerland in 2014, against 24% of documentaries. The same ratio applies in 2015: co-productions equated to 56% of 39 fiction films, against 24% of documentaries (data: *Media Desk Swiss).* In order to encourage Swiss producers to collaborate with international partners, and to guarantee mutual advantages to both parties, the Confederation has signed co-production agreements with the neighbouring countries: bilateral agreements with France and Italy and multi-lateral agreement with Germany and Austria. Moreover, there are bi-lateral agreements with other French-speaking territories:

[6]See Chapter 3, Section 1 of OPICin 21/4/2016 for the detailed list of compensatory measures.

[7]*Bundesamt für Kultur* (BAK), Film, *Koproduktionsabkommen*, www.bak.admin.ch/film/03604/index.html?lang=it

Table 4 Chronological overview of the Swiss contribution to *Eurimages*

Year	Contribution (CHF)	EUR
2015	718,282	662,866
2014	648,000	598,006
2013	648,000	598,006
2012	675,000	622,923
2011	705,000	650,609
2010	810,000	747,508
2009	857,397	791,248
2008	889,880	821,225

Source: Bundesamt für Kultur (2015a, b)

Table 5 Number of Swiss co-productions funded by *Eurimages*

Year	*N*. Funded films
2015	4 (3 fiction; 1 doc)
2014	5 (2 fiction; 2 animation; 1 doc)
2013	8 (7 fiction; 1 animation)
2012	5 (fiction)
2011	5 (fiction)
2010	6 (5 fiction; 1 doc)
2009	4 (3 fiction; 1 doc)
2008	5 (fiction)

Source: Bundesamt für Kultur (2015a, b)

Luxembourg, the French community of Belgium and Canada (the latter also includes television content). Co-production agreements allow Switzerland to overcome (or at least to reduce) some of the limitations of its film industry. They do so by allowing Swiss producers to access further funding provided by bigger States; to distribute their films in larger, more profitable film markets and to screen them at major film festivals abroad. Thus, co-productions offer opportunities not only for the economic growth of the national film industry but also for the international promotion of Switzerland's image and cultural values. The cultural dimension is at the core of *Eurimages*, the most important supra-national fund that supports co-productions between European countries. Switzerland is one of the 37 States currently participating in this programme, which is managed by the *Council of Europe* and has a total annual budget of 25 million euros.[8] In 2015, the Swiss contribution to *Eurimages* increased, following a 7-year decreasing trend (Table 4).

In the same time, frame 42 Swiss co-productions (both as majority and minority partner) received funding (Table 5).

[8]Over 90% of the budget is allocated to co-productions, 5% to distribution, 3% to cinema theatres and 1% to promotional activities (see the *Eurimages* activity report for 2015).

4.6 Co-productions with Broadcasters

In defining European films, Thomas Elsaesser points to two of its typical financing models: "co-productions and television money" (Elsaesser, 2014, p. 18). Swiss film production is no exception. In addition to the co-production schemes described above, Swiss broadcasters—particularly public broadcasters—play a pivotal role in financing and circulating national films. In Switzerland, there are four public radio and television companies, once for each language area: SRF (*Schweizer Radio und Fernsehen*) for the German-speaking cantons, RTS (*Radio Télévision Suisse*) for the French, RSI (*Radiotelevisione della Svizzera italiana*) for the Italian and RTR (*Radiotelevisiun Svizra Rumantscha*) for the Romansh. They all pertain to SRG SSR, the Swiss Radio and Television Company, which is a public association based in Bern. The SRG SSR is mostly financed through annual fees paid by viewers. Its television channels hold market shares of between 30.3 and 37.9% (2013) in the three main language regions. Audience figures oscillate between 36.7 and 45.7% of the total viewing population during primetime.[9]

As part of its mandate as a public service broadcaster, the SRG SSR has to contribute to the production and circulation of domestic films. Similarly to the funding scheme at the federal level, the support programme of the Swiss public broadcaster provides for selective as well as automatic mechanisms. The terms and conditions of these funds are set by the *Pacte de l'audiovisuel* (i.e. "audio-visual pact"), an agreement that was signed in 1997 by the SRG SSR and the major trade associations of the Swiss film industry (producers, filmmakers, screenwriters, etc.). In 2015, under the umbrella of the *Pacte*, 28.5 million Swiss francs (26.3 million euros) were invested in the development, production and dubbing of films for cinemas and television, as well as multimedia projects. The overall budget is divided among the four regional companies, which invest them in selected film projects on the basis of quality criteria. In 2015, the *Pacte* chose 203 projects for selective funding: 87 were funded by the German-speaking public broadcaster, 74 by the French, 35 by the Italian and 7 by the Romansh. The biggest share of the budget went to production support. A total of 89 films were funded: 33 documentaries, 23 animated films, 19 shorts and 14 feature films (SRG SSR, 2015). The SRG SSR is a non-profit association, so public broadcasters must reinvest revenues deriving from the commercial exploitation of co-productions in new film projects. This obligation for Swiss broadcasters to invest in cinematic production mirrors similar rules set by the EU's *Audiovisual Media Service Directive* (2010/2013). For the SRG SSR, this obligation falls within the cultural mandate of the public service broadcaster to contribute to a more diverse and quality-oriented base of audio-visual products.

In addition to selective funding, the *Pacte de l'audiovisuel* also includes two success-based programs: *Succès passage antenne cinéma* (SPA cinéma) and *Success Artistique*. The former has a 1.5 million Swiss francs (1.38 million euros) annual budget, awarding *Pacte* co-productions for each broadcast of the film on the SRG

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[9] See www.srgssr.ch/en/television/

SSR channels during a 1-year period. The producer must then reinvest the funds in new co-production projects, for which the SRG SSR has a first-look right.[10] *Succes Artistique* remunerates the artistic success of *Pacte* co-productions, by allocating 500,000 Swiss francs (461,000 euros) annually to the films that receive the highest number of awards or invitations to major international festivals in the previous year. The receivers of the *Succès Artistique* funds must comply with the same re-investment rules of the SPA cinéma programme.

5 Conclusion: A New Federal Fund, a New Policy Direction

At the time of writing there were on-going negotiations to bring Switzerland back into the MEDIA programme, although it is unclear when this is going to happen. Currently, the Federal Government continues to support its industry without counting on potential European subsidies to be paid out in the future.

There has recently been an important change in film policy. On the 1st of July 2016, a new Federal fund (of 5 million Swiss francs; 4.61 million euros) was created, to support both Swiss films (including documentaries) and international co-productions with Switzerland that are filmed at least partially in Switzerland (*Location based fund for film production*, original name: *Standortbezogene Filmförderung*). To be eligible:

- Films must have a budget of at least 2.5 million Swiss francs (2.3 million euros) and carry out at least 5 days of the shoot in Switzerland.
- Documentaries must have a budget of at least 500,000 Swiss francs (461,000 euros).
- Swiss films must spend at least 80% of their budget in Switzerland (60% in the case of documentaries), equating to at least 400,000 Swiss francs of expenses (369,000 euros) (200,000 for documentaries, 184,000 euros).
- Co-productions must spend at least 400,000 Swiss francs in Switzerland (369,000 euros) (200,000 documentaries; 184,000 euros).

The condition that feature films—including domestic productions—must have a minimum production cost of 2.5 million Swiss francs (2.3 million euros) is surprising, especially for a small country. Nevertheless, the imposition of this elevated cost can be justified in view of two presumed objectives of the fund: (a) to increase Switzerland's chances of being included in international co-productions and (b) to use film production as a catalyst for economic development.

[10]See detailed guidelines: www.srgssr.ch/fileadmin/pdfs/012_Reglement-SPA-2012-2015_fr_Nouveau.pdf (in French).

5.1 Pushing Towards International Co-productions

The emergence of this fund makes Switzerland an interesting potential partner for foreign producers, who are attentive to the possibilities of public financing, especially when such funds are not connected to any selective criteria. In other words, this fund helps to involve Swiss producers in the strategic development of the national film industry—from which, in reality, they have always risked exclusion (especially following withdrawal from the MEDIA programme). Co-productions are typically distributed on several national markets, and therefore these agreements allow Swiss partnerships to reach countries where domestic films are not typically marketed.

In fact the Swiss case presents further advantages. Thanks to the potential of co-productions, for example, Switzerland can make high-budget films, which, as mentioned above, prove difficult for Swiss producers alone. A useful example is *Youth* (by Paolo Sorrentino), a co-production between Italy, France, the UK and Switzerland with a budget of 12.3 million euros, which gained a broad international distribution (including in the USA) and won four European Film Awards. Moreover, the film was almost entirely shot in Switzerland, demonstrating that Swiss producers are able to take part in important projects, organize extensive film shoots and provide below-the-line resources that match international standards. Furthermore, co-productions allow Switzerland to access the MEDIA programme indirectly: if the majority co-producing country has access to the programme, it is possible to request the European support for the production and distribution of the film.

Evidently, the co-production incentive has some downsides. As has been widely recognized, such collaborations risk becoming hybrid products that are not rooted within the culture of their home countries and, therefore, less able to attract audiences. In Switzerland, this problem embodies even greater risks. In fact, the country is often involved as a minority partner that essentially provides a financial rather than a creative contribution. Co-productions, therefore, rarely include elements that evoke Swiss culture and accordingly risk being perceived as foreign productions by domestic audiences. Moreover, Switzerland is often unable to secure reciprocal agreements from partner countries, that is, commitment to a second co-production for which Switzerland is the majority partner. This is perhaps little surprising, since Swiss-majority co-productions prove to be little exportable to foreign markets (as the data on Swiss national films demonstrates).

The co-production fund cannot rectify these problems. However, the condition that a certain amount of the shoot must take place in Switzerland guarantees some visibility for the territory and allows Swiss movie-goers to recognize at least some ingredients of their own country in the films.

5.2 From Cultural to Economic Principles

In essence, film policy in Switzerland has always been cultural policy (Moeschler, 2011). Even automatic funding (e.g. *Succès cinéma*) aims to guarantee greater resources for a sector that gains State support in view of its cultural value. The arrival of this new fund, however, marks a change: for the first time the Federal government has decided to subsidize cinema for economic benefits that go beyond the film industry. The new fund assists film production with the aim of increasing spending in the Swiss territory and of inducing economic activity that has a greater value than the State's original financial contribution. In this case, the legislator has no interest in the technical or artistic value of the funded film, nor in the content it addresses, the influences the film could exert on the public or the availability of resources for future products. The legislator is exclusively interested in the potential for their financial contribution to become an incentive for national economic development. As a consequence, the only requirements when applying for the funding are budget size, a minimum spend in Switzerland and number of filming days in the country; the script itself and the box office takings do not count.

This new objective in public film funding is not unique to Switzerland. From the end of the 1990s, there has been increasing faith put in the creative industries in Europe, that is, in the ability of the arts and culture to inspire not only immaterial benefits on an intellectual level but moreover economic benefits in the short run (Garnham, 2005). With regard to cinema, this new approach to the creative industries has triggered the appearance and diffusion of fiscal incentives (tax credits and tax shelters), film commissions and regional funds (usually known as film funds): all tools that provide important support to film production (tax deductions, logistical support, financing) with the aim of generating an economic impact that is greater than the institution's original investment. However, these three tools were never used in Switzerland. No tax incentives are available for film production, and only film commissions or film offices have been established in Switzerland—several of which disappeared quickly (the *Zürich Film Office*, *Film Location Lucerne* and *Ticino Film Commission* remain active currently). There are several local film funds; however, unlike equivalent regional funds in other European countries, the aims of the Swiss funds have always been cultural and served to boost the Confederation's funding.

In recent years, the absence of these tools has proved a disadvantage for Switzerland's potential as a filming location. Indeed, foreign producers can find indistinguishable landscapes in France, Germany, Italy and Austria, all countries in which they can moreover rely on a series of film-friendly policies that reduce production costs. Such policies are absent in Switzerland, where the high costs of living handicap the country as such. Indian film productions constitute an emblematic case in this regard. For some decades, Indian productions have chosen to film in Switzerland, principally because the nation's mountainous landscape is compatible with an oneiric image of India that matches several song and dance sequences. Nevertheless, this well-established tradition has weakened in recent years, and one of the main causes is the choice, on behalf of Indian producers, to shoot in countries that have particularly favourable and hospitable film policies (e.g. in Italy and Austria) (Cucco & Scaglioni, 2014).

Nevertheless, several recent films that were ultimately shot in Switzerland have demonstrated the potential profitability of attracting production companies to the country. Let us return once again to the case of *Youth*. The Swiss economic contribution (through public and private funds) was around 1 million euros, whereas the estimated spend on the territory was 3.5 million euros. This demonstrates that it is economically advantageous to host film shoots. Evidently, there are two possible ways to achieve this: (1) to initiate co-production agreements and (2) to offer money to producers that choose Switzerland as a film location.

The new fund encourages these two difficult paths. In doing so, it locates the rationale of film funding within a broader policy framework that is based on an economic rather than a cultural ethos. This trend is widely spread in the European context (Herold, 2010). In fact, the majority of European governments have moved away from direct and selective State aids, which potentially limit the development of sustainable, market-oriented film production. Virtually, all European States now provide indirect and non-selective aids to film companies in the form of tax incentives (European Audiovisual Observatory, 2015). This is not the case for Switzerland, where no tax incentives are available for film companies.

However, changes are imminent. The creation of a location-based fund aimed at Swiss films and international co-productions represents an unprecedented policy move. The integration of traditional, cultural-based support schemes with new equivalents that are grounded in economic measures is a necessary change for a small but wealthy State, which aims to remain relevant within an increasingly global and competitive film sector.

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United Kingdom: Film Funding, the "Corporate Welfare System" and Its Discontents

Jack Newsinger and Steve Presence

1 The British Film Industry: Tax Relief and the Problem of Equality

The use of tax relief to attract inward investment has comprised the foundation of the UK film industry since its introduction in 1992. Although the amounts and mechanisms of film tax relief have changed considerably since then, the fundamental principle of offering massively reduced tax incentives to film producers remains, and it has transformed the industry. The UK is now one of the most competitive places in the world to produce feature films, and the industry is larger, makes more films, employs more people and generates more money as a result (Olsberg SPI, 2015). Indeed, tax relief for film has proved so successful that a suite of similar tax reliefs have been introduced across the creative industries: for animation (2013), high-end television drama (2013), video games (2014), theatre (2014), children's television (2015) and orchestras (2016). Yet for all the benefits that tax relief affords the film industry in the UK, its primary beneficiaries are the Hollywood studios and other major multinational media corporations. The vast majority of the inward investment attracted by the tax relief system comes from Hollywood, and while this has helped boost employment and developed the UK's state-of-the-art facilities and world-leading talent and crews, the cost has been—and continues to be—a publicly funded "corporate welfare system" worth hundreds of millions of pounds to the British taxpayer, and a British film industry chiefly engaged in the production of Hollywood cinema.

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Arguments about the advantages and disadvantages of the UK film tax relief scheme are well rehearsed, as we will show. However, our objective here is to explore a perspective that is much less discussed and make an argument about the relationship between this mode of film funding and what we see as its damaging implications for social justice and equality in terms of citizens' opportunity to participate in the film industry and film culture, what is called "diversity" in contemporary public discourse in the UK. First, we explore the concept of corporate welfare and the emergence of commercial subsidy as a cornerstone of creative industries policy in the UK. We then investigate how the corporate welfare system for film funding contributes to the stratification of the UK production sector. Finally, we analyse the relationship between this system of funding and production and the dismal levels of diversity in the industry workforce. We explore the multiplicity of ways in which often indirect, unconscious and intersecting prejudices construct barriers that prevent equal participation for women, ethnic minorities, disabled people and working class people, particularly to higher-status creative roles, and how these barriers are structured into the largely freelance and informal labour markets and labour processes upon which the success of the UK film industry is built. It is our central argument that the current form of UK film funding maintains a structure and organisation of the film industry that directly opposes one of the stated key priorities of UK cultural policy: to "promote a more diverse workforce" (DCMS, 2008, p. 23).

2 The "Corporate Welfare System" and the Depoliticisation of Commercial Subsidy

The concept of the "corporate welfare system" features heavily in US debates on social and economic policy and is generally a pejorative term referring to the practice of large corporations lobbying for, and receiving, government subsidies (see Huff & Johnson, 1993; Nader, 2000). In contrast, in the UK, following the "markets work best" doctrine of the 1980s, mainstream political consensus has held that subsidy of commercial interests is a legitimate use of public money if it generates positive "externalities" such as the creation of jobs or the provision of services (Whitfield, 2001).[1]

Debates on the subsidisation of commercial media and culture have a complex history that is bound up with the development of the "cultural industries" approach to cultural policy in the 1980s and the subsequent adoption of the "creative industries" as a policy paradigm and official sector of the economy in the late 1990s (Flew, 2012; Garnham, 2005; Hesmondhalgh & Pratt, 2005; Hesmondhalgh, Oakley, Lee, & Nisbett, 2015b; Newsinger, 2012b; Schlesinger, 2007).

[1] The concept of a "corporate welfare system" is most heavily associated with Kevin Farnsworth's (2012) research on "business subsidy", which sparked a public debate in 2015 after being picked up for investigation by the centre-left *Guardian* newspaper (Chakrabortty, 2014).

Hesmondhalgh et al. (2015a, b) argue that *New Labour*'s cultural policy was the result of a complex series of tensions between various institutional, political and social forces, particularly social democratic policies aimed at redistributing cultural resources, contributing to social justice and mitigating market failure, and others, perhaps best described as "neoliberal" in character, which were designed to strengthen commercial activity and market operations. In this way, the corporate welfare system for film might be understood as a representation of these tensions, containing at once a cultural concern for the construction of an indigenous film culture, a social concern for the creation of employment and opportunity and a more neoliberal concern that sees market operations, competition and commercial success as the best mechanisms for economic growth and the allocation of resources.[2]

However, while *New Labour*'s social and cultural programmes were a significant—although secondary—part of the creative industries discourse, these concerns were ultimately subordinated to commercial interests. As Hesmondhalgh et al. (2015b) argue, film policy in this period demonstrates "a privileging of the interests of the cultural industries", "less concern with cultural factors" and a "neglect of problematic working conditions in the sector" (p. 122). Despite the continued vestigial attachment to social and cultural policy aims and objectives, the dynamism of the creative industries discourse played a central role in delegitimising non-market forms of cultural subsidy and depoliticising commercial subsidy. Thus, while public funding increased during the *New Labour* period, this was part of a process of the stripping back of social democratic values and practices, transferring cultural authority and material power ever increasingly to commercial markets and corporate interests. This interpretation helps to explain the continuation and extension of creative industries policy and practice after *New Labour* and its seamless continuity with a renewed Conservatism and financial austerity (for a more detailed version of this argument, see Newsinger, 2012a, 2014).

From a technocratic public policy perspective, an evaluation of the corporate welfare system for film might be posed as a question of balancing positive externalities with negative ones. However, as noted by a number of critics, in the development of creative industries policy, questions about the pay and conditions for labour rarely made it into the equation, being sidelined or ignored under the presumption that increased commercial activity was an unmitigated public good (e.g. Banks & Hesmondhalgh, 2009; Oakley, 2013).

We want to suggest that the role of *corporate welfare system* in limiting democratic accountability and maintaining systemic barriers to equal participation needs to be factored into this equation as a negative consequence with much more weight than has previously been the case.

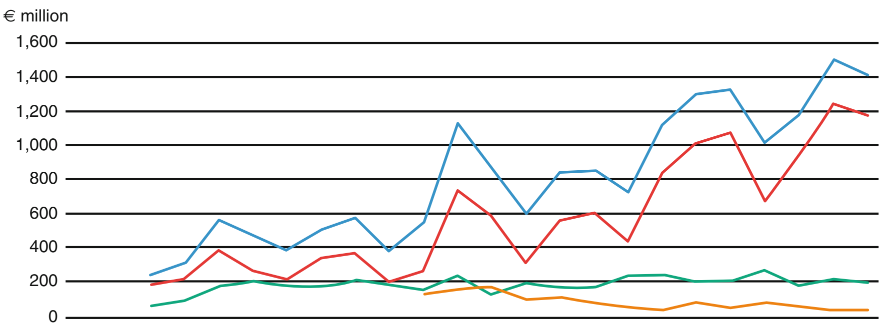
[2]It should be noted, however, that in Hesmondhalgh et al.'s account (2015b, pp. 104–108), film policy under *New Labour* is characterised as more straightforwardly commercial.

3 Film Funding in the UK

Tax relief is the cause of most economic activity associated with feature film production in the UK. Of the £1.4 billion (1.7 billion euros) spent in 2015, for example, the vast majority—83%, or £1.2 billion (1.4 billion euros)—came from overseas, predominantly for Hollywood films made in the UK, such as *Rogue One: A Star Wars Story* and *Pirates of the Caribbean: Dead Men Tell No Tales* (BFI, 2016a, p. 3) (Fig. 1).

By contrast, the total public funding for film production was a comparatively miniscule £414 million (481 million euros), of which more than half (61%) was automatically allocated to those films that qualify for the film tax relief. Of the rest, most comes from the *National Lottery* (18%, in 2015), a state sweepstake scheme set-up in 1995, central government (8%, in 2015) and the film production arms of the two main public service broadcasters (PSBs), the BBC (*British Broadcasting Corporation*)/*BBC Films* and *Channel 4*/*Film 4* (6%, in 2015) (BFI, 2016b, p. 3). The remainder consists of various investments of <2% from public bodies such as the *Arts Council*, the EU's MEDIA programme and various national and regional government departments across the UK (BFI, 2016b, p. 4). In economic terms, then, the UK film industry makes mostly Hollywood films that are attracted to the UK by its competitive, taxpayer-funded *corporate welfare system*.

That tax relief which is by far the single largest source of public funding for film in the UK is indicative of the extent to which the film industry is valued in primarily commercial terms by the state. Rather than using public funds to mitigate market failure, tax relief transfers those funds to the private sector and thereby boosts the commercial operation of the industry by reducing the costs and risks involved in private investment. Of course, the tax relief was ostensibly designed to benefit indigenous producers, and, to the extent that all films which qualify can claim



	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15
Inward investment	183	217	387	262	214	336	367	100	266	733	584	307	550	604	434	835	1,012	1,071	671	933	1,247	1,177
Domestic UK	60	94	172	203	175	170	212	180	156	236	126	192	168	167	237	242	202	203	267	179	212	198
Co-production	–	–	–	–	–	–	–	–	128	158	169	99	111	78	52	39	80	52	75	60	38	35
Total	242	311	559	465	389	507	578	379	551	1,127	879	598	837	849	723	1,115	1,296	1,327	1,012	1,172	1,497	1,410

Fig. 1 UK spend of feature films produced in the UK, 1994–2015, £ million (BFI, 2016a, p. 3)

back 25% of the first £20 million (24 million euros) spent and 20% of any subsequent spend, it does. However, because tax relief is proportionate to production spend, levels of subsidy for big-budget films far exceed anything available to indigenous filmmakers because the latter make films with considerably smaller budgets. Furthermore, the tax relief scheme has been so successful at attracting runaway productions to the UK that many of the high-end crews and facilities are contracted out by big-budget productions for much of the year and thus unavailable to independent producers. So, although the tax relief keeps production levels high, which in turn maintains the skills base and keeps people in work, those that ultimately benefit most from such stimulus are those organisations best placed to benefit from the commercial side of the industry. Although this includes the handful of British production companies that work with Hollywood finance (see below), the principal beneficiaries are the investors themselves: Hollywood studios and other major multinational media corporations based overseas (Presence, 2017; Steele, 2015).

Tax relief was first introduced in 1992 as part of a raft of other measures designed to counter the effects of a more extreme free-market approach to the film industry. In 1984, Margaret Thatcher's Conservative administration removed all forms of government support for the industry—which she referred to as the "paraphernalia of government intervention"—and brought the industry to the brink of collapse: investment in production fell from £270.1 million (320.1 million euros) in 1986 to £49.6 million (55.6 million euros) in 1989, in which just 30 films were made (Hill, 1996, pp. 103–104). As well as tax relief, other interventions included the establishment of the *British Film Commission* to attract inward investment in 1991; in 1993 the UK joined *Eurimages*, the European fund for production, distribution and exhibition; and in 1995 *National Lottery* funding for film was introduced, and the *London Film Commission* was established to attract inward investment to the capital (Caterer, 2011). Aside from the UK's membership of *Eurimages* (which was withdrawn in 1996),[3] the essence of these policies remains in place today despite significant changes to the institutional infrastructures that oversee and administer them (Doyle 2014). As such, the policy shift of the 1990s marks the beginning of the current epoch of film policy in which the economic foundation of the industry is based upon attracting inward investment via tax relief, while comparatively miniscule levels of funding from the *Lottery* and PSBs support low- to medium-budget, "culturally British" film.

[3]The UK withdrew its membership from *Eurimages* despite it generating an estimated £40 million (47 million euros) in film activity in return for the £5.5 million (6.5 million euros) membership fee, a decision which reflects the extent to which UK film policy was, and remains, highly Eurosceptic and geared towards attracting inward investment from the USA (Higson, 2015, p. 130; Jäckel, 2003, p. 79).

4 Film Production in the UK

Under the current rules, introduced in 2007 and revised in 2014, to benefit from the relief, films must both be produced by a British production company and either pass a "cultural test" as a British film or be registered as an official UK co-production.[4] The UK currently has bilateral co-production agreements with 12 other countries, while the cultural test is a points-based system that allocates points based on content, language, above- and below-the-line labour and so on (Table 1). This would appear to ensure that only culturally British films, or British co-productions made by British companies, can benefit from the relief.

However, because the tax relief is principally designed to attract inward investment, British companies working with Hollywood finance must be able to qualify. Therefore, the so-called cultural test for British film is sufficiently weak that Hollywood films made by British companies in the UK, such as *Gravity* (2013) or *Fast and Furious 6* (2013), can pass as culturally British and thus benefit from the scheme (Hill, 2016). Thus *Gravity*, a film majority financed by *Warner Bros*. about two American astronauts in space, was eligible for tax relief as a British film because it was produced by *Heyday Films* (the London-based company best known for the *Harry Potter* franchise) and passed the cultural test because the dialogue was in English and it was made in *Pinewood Studios* by crews from Britain and the European Economic Area and because its Mexican writer and director reside in London. In effect, the rules governing tax relief ensure only that Hollywood studios support the UK industry indirectly by forcing the studios to work with UK companies. Although this benefits the UK film industry in several ways, it also has a variety of adverse effects of the production sector.

Large but unpredictable levels of inward investment from the USA combined with inadequately low levels of public subsidy have helped perpetuate a notoriously unstable film production sector that is small and fragmented, divided across the two opposing sources of support on which it depends. UK film production is heavily concentrated in London and the south-east and polarised between a large number of small, independent companies and a small number of bigger companies with established ties to Hollywood. Unsurprisingly, it is the small number of relatively large companies that makes the bigger-budget films (£10 million or above; 12 million euros or above) with Hollywood finance. Although these large-scale productions represent the bulk of the overall UK production spend, they account for just a small fraction of the total films produced. In 2015, for example, 201 films

[4]The UK currently has 12 bilateral agreements with other countries: Australia, Brazil, Canada, China, France, India, Israel, Jamaica, Morocco, New Zealand, occupied Palestinian territories and South Africa. The UK has also ratified the *European Convention on Cinematographic Co-production*, and films accorded co-production status under this agreement also qualify for tax relief. Created in 1992, the convention aims to encourage European co-production by allowing three or more companies from different European countries to benefit from tax relief on a single production. Like everything else since Brexit, what will happen to this convention after Article 50 is invoked is unclear.

Table 1 Summary of points, cultural test for film

	Cultural test	Points
A	Cultural content	
A1	Film set in the UK or EEA	4 points
A2	Lead character British or EEA citizens or residents	4 points
A3	Film based on British or EEA subject matter or underlying material	4 points
A4	Original dialogue recorded mainly in English or UK indigenous language or EEA language	6 points
	Total Section A	18 points
B	Cultural contribution	
	The film demonstrates British creativity, British heritage and/or diversity	4 points
	Total Section B	4 points
C	Cultural hubs	
C1	(a) At least 50% of the principal photography or SFX takes place in the UK	2 points
	(b) At least 50% of the VFX takes place in the UK	2 points
	(c) An extra 2 points can be awarded if at least 80% of principal photography or VFX or SFX takes place in the UK	2 points
C2	Music recording/audio post-production/picture post-production	1 point
	Total Section C (maximum 4 points in total in C1)	5 points
D	Cultural practitioners (UK or EEA citizens or residents)	
D1	Director	1 point
D2	Scriptwriter	1 point
D3	Producer	1 point
D4	Composer	1 point
D5	Lead actors	1 point
D6	Majority of cast	1 point
D7	Key staff (lead cinematographer, lead production designer, lead costume designer, lead editor, lead sound designer, lead visual effects supervisor, lead hair and makeup supervisor)	1 point
D8	Majority of crew	1 point
	Total Section D	8 points
	Total all sections (pass mark 18)	35 points

Source: BFI (2017)

were made in the UK, yet just 15 big-budget (£30 million or above; 36 million euros or above) films accounted for 73% of the total production spend (BFI, 2016a, p. 2). The proportion of UK spend associated with inward investment films more generally was even higher: 83%. The median budget for these inward investment films was £13.1 million (15.2 million euros); for domestic UK films, the median was only £500,000 year (581,000 euros) (Table 2).

The handful of UK companies that work with Hollywood finance do of course benefit from the studios' investment. This includes companies such as *Working Title*, *Heyday Films* and *Scott Free Films*. Most of these companies have established ties to Hollywood or other major international media corporations: *Working Title* is a subsidiary of *Universal Pictures*; *Heyday Films* has a first-look

Table 2 Median feature film budgets, £ million, 2009–2015

Production category	2009	2010	2011	2012	2013	2014	2015
Inward investment	18.45	13.09	17.64	1.58	11.24	12.61	13.10
Domestic UK	0.20	0.13	0.17	0.15	0.15	0.26	0.5
Co-production	1.35	2.56	1.10	1.05	1.01	1.40	1.27

Source: BFI (2016a, p. 8)

deal with *Warner Bros*., with which it produced all eight films in the *Harry Potter* franchise; and *Scott Free Films*, Ridley Scott's company, is run by former *Columbia Pictures* executive, Michael Costigan, and is part of Scott's wider content creation company, RSA *Films*, which has offices in LA, Hong Kong and Shanghai. These companies are very successful, but they are not representative of the industry overall. The vast majority of productions companies are small, are independent and struggle from one project to the next, typically making one film per year with the support of one of more of the three main funders: the *BFI*, *BBC Films* or *Channel 4*.

Despite their comparatively paltry resources, these funders support a wide range of independent British films each year. Yet the small sums with which they work are insufficient to address the structural issues faced by the production sector. The *BFI*'s Film Fund has an annual budget of around £26 million (31 million euros). It finances approximately 25 major feature film awards each year and provides development support for around 100 more, as well as support for distribution and sales. This is the largest annual budget of all the public funders by far, but is still £6 million (7 million euros) less than the £32 million (38 million euros) budget for *Paddington* (2014), *Heyday Films*' *Studio Canal*-financed film about the famous Peruvian bear, and is positively dwarfed by the £132 million (156 million euros) spent (even before P+A costs) on *Star Wars: The Force Awakens* (2015). After the *BFI*, *Film 4* is the next largest: it currently consists of a £15 million (18 million euros) budget and aims to make between 10 and 12 films per year, while the BBC aims to produce 8 films per year with its budget of £11 million (13 million euros). Additional four agencies in each country of the UK—*Creative England*, *Film Cymru Wales* (*Film Agency Wales*), *Creative Scotland* and *Northern Ireland Screen*—also provide a range of smaller funding and development opportunities relating to their areas, as does *Film London*, the screen agency for the UK's film-making capital. These agencies are financed with a mixture of government funds and, via the BFI, money from the *National Lottery* and award production funds between £200,000 (237,000 euros) and £800,000 (948,000 euros).

As noted, the low- to medium-budget films supported by these public organisations comprise the majority of features made in the UK each year.[5] Yet despite their mostly low budgets, because they rely on such poorly resourced public

[5]Categorised by the BFI as domestic UK features, the median budget of these films was just £430,000 (600,000 euros). It should also be noted that the median budget for UK independent films is likely to be revised even lower because of the delay in acquiring data about low- and micro-budget productions (BFI, 2016a, pp. 2–8).

funders, none of these films are single-source financed. Instead, projects financed by the BFI, Film 4 and BBC Films use the backing of the public funder/s to secure further finance from a patchwork of other sources, including the agencies above, presales from distributors and sales agents or contributions from investment banks or private equity firms. With such a large number of stakeholders involved, this patchwork or "jigsaw" financing model is complex, is time-consuming and has to be repeated for each project.

5 Funding, Production and Workforce Diversity

The model of film funding that depends on tax relief has had remarkable success on its own terms. Although it fluctuates each year, inward investment has risen steadily from £182.7 million (216.5 million euros) in 1994 to £356.8 million (422.9 million euros) in 2008, £752.7 million (892 million euros) in 2009 and £1.18 billion (2.1 billion euros) in 2015 (BFI, 2016a, p. 3; UKFC, 2010, p. 134). Unsurprisingly, these levels of investment have proved popular with those figures in the industry that benefit from them. Michael Kuhn of *Qwerty Films*, for example, describes the system as "fantastic" and designed "very cleverly, very effectively" (House of Lords Select Committee on Communications, 2010, p. 27). Similarly, Ivan Dunleavy, chief executive, *Pinewood Group* plc, describes it as "a clear demonstration of how [the] government has supported UK Film and helped fuel growth in the creative industries to the benefit of the taxpayer" (Quoted in *Treasury Press Release*, 21st August 2015, n.p.).

The British film industry and the *corporate welfare system* paradigm that supports it enables films to be made in the UK, utilising UK talent and facilities and sometimes reflecting aspects of UK culture. As pointed out by a number of critics, however, such success—measured primarily in terms of commercial and economic competitiveness—has tended to sideline important questions about inequalities in access to labour markets and poor conditions within them, questions that are only recently entering into mainstream debate (Banks & Hesmondhalgh, 2009; Comunian, Faggian, & Jewell, 2011; Oakley, 2011, 2013). While a number of high-profile initiatives by funders and broadcasters have sought to address the lack of diversity in the creative industry workforce (Arts Council England, 2011; Creative Scotland, 2015; Creative industries Federation, 2016), little work has highlighted the role of public funding for film in maintaining the systemic barriers to equality that characterise the industry.

That the industry has a problem with equality and diversity is beyond dispute. For example, according to *Creative Skillset*'s Creative Media Census report, representation of *Black, Asian and Minority Ethnic* (BAME) people in the film production workforce fell from 12% in 2009 to 5.3% in 2012 (Creative Skillset, 2013). As noted by Keith Randle, only 1% of visual effects workers in 2012 were BAME, compared to 9% of workers in all industries (Randle, 2015). In the same period, the proportion of the workforce reported by employers as disabled also fell from 1.9 to 1.5% (Creative Skillset, 2013). While by some measures gender representation in the film industry is roughly equal (47% in 2012), analysis has shown that key, high-status creative roles tend to be male-dominated (Steele, 2013). Between 1999 and 2003, fewer than 15% of UK films were credited to a female screenwriter (Sinclair, Pollard, & Wolfe, 2006), and the most recent film credit analysis produced by the BFI (2014) shows that only 14% of directors and screenwriters were women in 2012/2013 (Fig. 2).

The persistent lack of diversity in the UK film industry workforce has been subject to considerable investigation and analysis which has identified a range of interlinked causal factors. In 2007, an investigation commissioned by the European Union's European Social Fund found "little tangible evidence of direct discrimination or overt prejudice against particular minorities" (Randle, Leung, & Kurian, 2007, p. 9). Instead, it locates the barriers for marginalised social groups in the requirements of entry into and progression in film labour markets. Those seeking to enter the workforce are often expected to obtain an undergraduate degree and then work, often near London, for no or very low pay for a number of years which limits participation to those with significant financial resources and/or support. Given the disproportionate concentration of ethnic minorities in lower socio-economic categories, the lack of ethnic diversity in the workforce may be more to do with the structural intersection of race and class than with racial prejudice and discrimination (Randle et al., 2007, p. 10).

In a follow-up study on freelance women film and television workers, Leung, Rosalind Gill and Randle isolate two major factors limiting gender equality: "informality" and "parenting". They note that the "most distinctive feature of recruitment in the sector is its informal, word of mouth nature" (p. 56), with people being hired for short-term projects at short notice based on personal recommendations and previous working relationships. Networking is seen as "a time-consuming and demanding requirement of freelancing" (p. 57) which places additional burdens upon women. As personal trust is viewed by employers as vital, there is a tendency towards "homophily", "the practice of insiders recruiting in their own image, or selecting candidates with whom they feel they have an easy rapport" (p. 57). Given that most decision makers tend to be (white) men, this replicates existing gender inequalities. Parenting contributes to gendered inequality due to the "automatic connection between gender and childcare" drawn in the sector, "taking for granted the idea that parenting is primarily women's responsibility" (p. 59). Leung, Gill and Randle outline two factors that are sometimes conflated: a difficulty of balancing strenuous creative work with childcare for women who do have children and the assumption that childless younger women will choose to have children, causing employers to perceive them as less committed to work and invest fewer resources in them. Informality in recruitment processes makes proving discrimination very difficult, while short-term contracts and the importance of personal reputation mean workers are discouraged from complaining for fear of the damage this will do to their careers (Leung, Gill, & Randle, 2015). As O'Brien (2014) argues, the "dependence on informal networks for work and promotion" mean that "the question of gender bias could not be tackled or addressed directly or formally" (p. 1216).

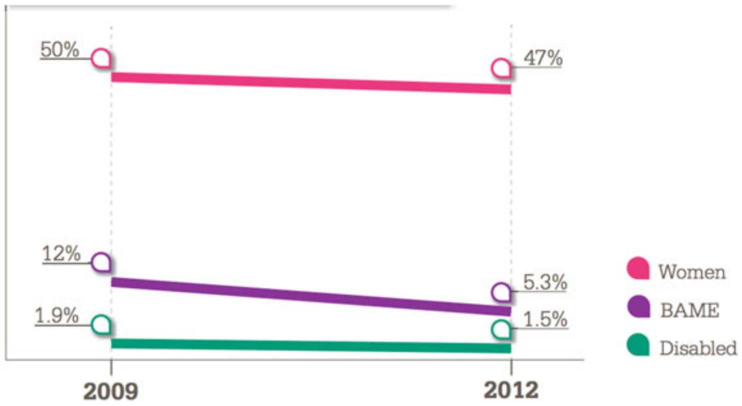


Fig. 2 Film production workforce participation of women, BAME and disabled people, 2009–2012. Source: Creative Skillset (2013, p. 31)

Research has also explored barriers to equal participation built into labour processes in the film industry. In the only empirical study to explore the experiences of disabled film and television workers, Randle (2015) notes a "double disablement" in access to film and television labour markets and in performing labour processes prevalent in the sector. The traditional entry level role as a "runner" "involves long hours, low pay and requires workers to respond quickly and to be highly mobile" (p. 12), all of which can inhibit people with impairments. Disabled workers are socially and culturally excluded from professional networks and may also be physically excluded from networking events which often take place in inaccessible social venues. Although "few workers reported direct or overt forms of discrimination", Randle argues that "discrimination appeared to operate more insidiously" (p. 20).

In summary, participation in the film industry in the UK is highly unequal with persistent intersectional barriers structured into labour markets and labour processes that discriminate in terms of gender, ethnicity, disability and social class (Banks & Hesmondhalgh, 2009, p. 420; Bhavnani, 2007). This is now well known. However, the extent to which this is a by-product of a system maintained through public funding has received far less scrutiny. Doris Eikhoff and Chris Warhurst have argued that social inequalities in employment are a direct result of the model of production in the creative industries. Short-term contracts, project-based work, informal recruitment practices and the associated disproportionate reliance on freelance labour are a response by employers to the inherent uncertainty as to what cultural products will be commercially successful, placing the risks of cultural production upon workers themselves. This means that any attempts to increase diversity that do not tackle the structure of the industry are likely to be unsuccessful. As Eikhoff and Warhurst argue, "a meritocratic world of work cannot be delivered within the creative industries' current model of production" (Eikhof & Warhurst, 2013, p. 504).

The public policy response has, however, been slow and to date profoundly inadequate. For example, Mark Banks and David Hesmondhalgh identify 2007's *Staying Ahead* report as the first to identify problems in the lack of diversity in the creative industry workforce. As they note: "the report chooses not to elaborate on the causes and consequences of these social disparities. Nor does it suggest how labour markets might be progressively reformed in order to overcome these problems. Instead, the 'diversity' issue is elided, and, indeed, more substantively represented as a problem of individual rather than social origin" (Banks & Hesmondhalgh, 2009, p. 423).

A good summary of the problem of diversity in New Labour film policy is made by Nwonka (2015). He notes that "the film industry continued to resist an interrogation of the hegemonic employment practices" despite mounting evidence that these played the fundamental role in reproducing inequality in the workforce. Instead, underrepresentation was understood as rooted in a lack of formal qualifications and training opportunities for ethnic minorities, the appropriate response being "a simplistic democratisation of previously unequal access to filmic education" (p. 12). He continues: "In this way, the UKFC's diversity agenda was energised by a continuing evasiveness and a plethora of paradoxical impulses of discriminatory recruitment cultures, which populate British film in an era of increasing inequality of opportunity" (p. 12). For Nwonka, "the very nature of diversity has, paradoxically, performed a key role in maintaining the status quo" (p. 13).

6 The UK's Corporate Welfare System: Maintaining Systemic Barriers

The main argument of this chapter is that the dominant mode of film funding in the UK, which we have described as a *corporate welfare model*, maintains a structure and organisation of the film industry that directly mitigates against addressing the lack of workforce diversity. As we have shown, this model emerged in the 1990s and has continued apace since then and, while it has afforded a number of commercial benefits to the industry, has contributed to the polarisation of the production sector.

On the one hand, a small number of established companies make films with Hollywood finance attracted by the tax relief, high-end facilities and a highly skilled, flexible labour force, and on the other, a large number of small companies rely on under-resourced public funders to leverage patchwork finance for low- to medium-budget, culturally British films. The tax relief has cost the UK taxpayer an estimated £1.45 billion (1.72 billion euros) between 2006 and 2014, yet policymakers, broadcasters and funders have been unable to change discriminatory practices and cultures that characterise the industry. On the contrary, the structural conditions that produce this lack of diversity have been strengthened. As we have argued, these conditions represent barriers to participation that prevent selected disadvantaged groups in society from participating in film production.

The significance of this point is twofold: firstly, that initiatives designed to increase diversity are unlikely to be successful unless these underlying structures are addressed, and, secondly, that public funding for the film industry suffers through a contradiction that runs to the very heart of cultural-creative industries policy, the incompatibility of narrow corporate interests and wider sociocultural interests that emerge from civil society. It is notable that there is evidence to suggest that many of the negative conditions that exist in the film labour market and labour processes are mitigated, to some degree, within parts of the broadcast sector that have been shielded from the full force of commercialisation in the period under scrutiny, such as the *BBC* and *Channel 4* (see, e.g. Steele, 2013). While being progressively eroded, the production models and relatively high levels of unionisation in these organisations provide a more stable and accountable platform for the integration of social concerns within cultural production. If they are lost or significantly deregulated, as seems likely (Presence, 2017), this will further emphasise the trends described above towards fragmentation, precarity and inequality that pervade the UK film industry.

The "corporate welfare system" for film artificially increases the size and economic activity of the commercial UK film sector but does nothing to use this leverage to shape the labour market or labour process in favour of equality of participation. Consequently, the film industry benefits from substantial amounts of public money without the requirement to address the structural issues that prevent women, working class people, members of ethnic minorities and the disabled from participating in it. While this is a clear question of social and economic justice, it also speaks to a profoundly important question about the distribution of cultural and communicative resources. As Oakley rightly argues, "Who gets to make culture [. . .] matters, because it is how we understand ourselves as a society" (Oakley, 2013, p. 56).

All of the features of the UK film labour market described in this chapter—the high economic and cultural capital required to gain entry, informal recruitment practices, "homophily", short-term contracts and job insecurity—are reflections of an industry where capital is strong and labour is weak. The pathological and systemic lack of diversity that characterises the UK film industry is a symptom and expression of the power of global media conglomerates to shape national and local labour markets in their own interests: highly skilled, highly flexible production units available for short-term hire. If this argument is correct, then it follows that any initiatives, policies or activities aimed at increasing workforce diversity to more equal levels are unlikely to have anything more than short-term superficial effects unless it is combined with systemic change that counterbalances the labour-capital power relationship more in favour of labour. The corporate welfare model of public film funding is uniquely and fundamentally incapable of achieving these aims.

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Beyond the "Studio System": Public Support for Films in the United States

B. Kathleen Gallagher, Amy Aughinbaugh, and Zannie G. Voss

1 The US Film Industry: The Studio System

Films attract significant interest from an array of stakeholders. Audiences seek to be "transported," stimulated, or entertained. Actors seek popularity and critical reception. Producers and investors are mainly focused on revenues. Public agencies in the United States are not immune to the attraction of the film industry, but their direct involvement is limited and decentralized.

It has been asserted in the United States that the purpose of government is to do what the private sector cannot or will not. Policy makers consider the success of the market in providing equitable access to public goods and may leverage strong markets for public economic benefit. Economists have explained many reasons contributing to market failure for the traditional benchmark arts of classical music, ballet, the fine (visual) arts, and theatrical productions (Heilbrun & Gray, 2001; Towse, 2010). To correct market failure, the US model relies on a diversified system of funding with limited amounts of direct government spending. Additional government intervention comes from Federal policies that provide indirect support designed to incentivize private charitable giving to nonprofit organizations. Nonprofits are those bound by a non-pecuniary constraint that prohibits the distribution of net earnings among those who oversee the organization. A thriving, commercial film industry, therefore, does not signal need of public intervention; it attracts and rewards investors through the distribution of net revenues and largely falls outside the realm of this limited direct government support.

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As a commercial industry, film production generates jobs, local spending, and economic benefits. State and local governments have identified the film industry as a potential economic engine. Film festivals are one prospective area of economic activity. These can attract tourists who will arguably spend locally at dining, lodging, and retail establishments. Film production, on its side, can stimulate local economies with an influx of spending from outside of the state, prompting state and local governments to develop policies and programs to attract production. As the economic benefits are delivered locally, these are best studied subnationally for better and more nuanced understanding.

Film production is not universally commercially viable. The "Studio system" and contemporary Hollywood film industry often exclude minorities, nontraditional genres, and atypical plotlines (Ortner, 2012). Hollywood's reluctance to undertake these projects, commonly because they are commercially risky, has given rise to the independent film category supporting production and distribution through indie festivals such as *Sundance*. Such instances are evidence of market failure and support the argument for public intervention.

Nonprofit organizations have formed in response. As nonprofit or 501(c) organizations, they benefit from private contributions, a form of indirect subsidy. Analyzing the population dynamics of this group of organizations over time enriches understanding of the US film industry as a whole. Population fluctuations reflect changes in popular attitudes and the inability of the Studio system, market-driven productions to represent and serve a diverse population, as well as illustrate how a decentralized and diversified approach to arts funding may function.

The diversified and decentralized approach to funding the arts and, as this chapter details, film in the United States has created multiple policy environments in which organizations operate. Individual states have enacted different policies and incentives to attract film production and the associated economic impact. Utilizing the theory of organizational ecology, we examine the subnational environments in which film organizations operate and report on population patterns. We employ organizational ecology theory since it considers the diversity of organizations through the lens of formation, growth, transformation, and demise or exit and, therefore, helps illuminate how industries have developed and changed. Population patterns offer another means by which to evaluate the impact of policies on industries. Data limitations preclude studying the sector in its entirety but do allow the opportunity to examine the nonprofit division of the sector from 1989 to 2012. Using data from the National Center for Arts Research at Southern Methodist University, we found that California and New York remain geographic centers for the studio system and the nonprofit portion of the sector. They are not, however, the only environments in which the film industry resides or works.

This chapter first contextualizes the overall development and structure of public arts funding in the United States, followed by a discussion of how public monies impact on both commercial and nonprofit profit film industry players. Using organizational ecology, the chapter next explores the population of nonprofit film organizations subnationally by summarizing historical trends in births and deaths, geographic centers, and revenues. Finally, it concludes with a discussion of opportunities for further investigation of the ways in which subnational policies shape the arts.

2 Arts Funding in the United States: Implications for the Film Industry

The European tradition of supporting artists and the arts was largely built on patronage from aristocracy and the Roman Catholic Church (Miller, 1974). The United States intentionally broke with this tradition and maintained limited direct financial support for the majority of its history (Binkiewicz, 2004). Lloyd Goodrich, curator and director of the *Whitney Museum of American Art* and chair of the *Committee of Government Arts* in the 1950s, reported that the three greatest obstacles to federal patronage were a puritan tradition, a decentralized federal system, and the growth of private wealth (Larson, 1983). These circumstances resulted in the government's limited involvement in the arts for the majority of US history. This position changed in 1965 with the formation of the *National Endowment for the Arts* (NEA), an independent agency of the United States Federal Government that provides funding and support for the arts. While the NEA formalized a role for government involvement at the national level and incentivized development at the state level, levels of public funding remained limited and modest, using public policies to diversify sources of revenue for arts and culture organizations (National Endowment for the Arts, 2012a, b). Nonprofit arts and culture organizations (also referred to as "nonprofits") rely on a combination of indirect and direct subsidies and earned income as primary sources of revenue.

2.1 Direct and Indirect Subsidies

Direct subsidies derive from federal, state, regional, and local agencies (National Endowment for the Arts, 2012a, p. 3). They occur when government agencies provide funds directly to artists or an arts institution (Cowen, 2006). In the United States, direct subsidies are typically funded via legislative appropriations or allocations from a general fund. Legislative appropriations are authorizations from a specific fund to a specific agency or program to make expenditures or incur obligations for a specified purpose and period of time (National Assembly of State Arts Agencies, 2012). Grants are a common form of direct public subsidies. Public grants are payments from a government or government agency to an organization or an individual with the intent of supporting some of the service or activity of the recipient (Beam & Conlan, 2002).

Indirect subsidies are the original form of public support in the United States for arts and culture organizations. The government provides indirect subsidies to nonprofit organizations by means of tax expenditures, which are income the government forgoes to encourage certain behavior from individuals and corporations (Howard, 2002). The government sacrifices tax revenue through policy providing for deductions by taxpayers. The policy incentivizes charitable giving by reducing tax obligations and allowing individuals to choose which charities to support rather than leaving that decision to the government (Howard, 2002).

A common indirect subsidy to the arts is the income tax deduction offered to individuals who make charitable contributions to nonprofit arts and culture organizations. Donors to an organization that has been granted "tax-exempt" status by the US Federal Government may deduct the value of their gifts, up to 15% of their income (Cowen, 2006; National Endowment for the Arts, 2012a). Supporters of this form of intervention prefer the approach because it allows individuals to decide to whom to distribute their donations (Cowen, 2006; Howard, 2002; National Endowment for the Arts, 2012a).

Additional indirect subsidies provided to tax-exempt non-profits by the government include the exemption from paying taxes on earned income, gifts, and property taxes (Cowen, 2006; National Endowment for the Arts, 2012a). Indirect subsidies are unmeasured (National Endowment for the Arts, 2012a), although Brooks (2004) estimated current indirect subsidies to arts and culture as equal to $16 USD for every $1 USD of direct aid. A 2006 *Boston Globe* editorial spoke to the benefit of indirect aid, arguing that private support for arts and culture nonprofits was more reliable than government funds that reflect political partisanship and government budgets (Garber, 2008). Accordingly, individuals, corporations, and foundations contribute 31% of arts and culture nonprofits' revenues (Americans for the Arts, 2014), or $14.44 billion USD (Boehm, 2013). They are favored by a breadth of policy-makers because they encourage desired behavior without demanding it (Howard, 2002).

In the United States and elsewhere, government subsidies for the arts have been justified as a method of economic development as they contribute to developing tourism, attracting businesses, and increasing public access to the arts (Heilbrun & Gray, 2001; Mulcahy, 1992). Furthermore, it is argued that government patronage inspires and encourages private patronage of the arts since government funding directly endorses and underscores to the public the value of supported arts activities (Garber, 2008). While government subsidies may have significant symbolic power, these have extremely limited spending power in the United States. An estimated total of only 6% of arts and culture nonprofit expenses are supported by contributions from all levels of government: 1% from federal, 2% from states, and 3% from local sources (National Center for Arts Research, 2016).

In addition to government funding and charitable contributions from individuals, corporations, and foundations, the majority of nonprofit arts organizations rely heavily on earned income to acquire sufficient revenue. Earned income results from services provided for a fee, including but not necessarily limited to admissions, education programs, gift shop sales, and licensing. A shift in purpose (from repositories of cultural artifacts and relics to educational facilities) and changing patterns of philanthropy prompted elite cultural organizations, such as New York's *Metropolitan Museum*, to venture into new methods of generating revenue (Toepler, 2006). Earned income accounts for an average 60% of nonprofit arts and culture revenues (Americans for the Arts, 2014). Earned income produces the largest stream of revenue, on average, to arts and culture organizations. As nonprofit organizations, the income earned from activities specifically related to advancement of the organization's social mission is exempt from taxation. This is an important benefit of indirect subsidies, though there have been movements to change this policy in addition to arguments in favor of taxing nonprofits.

This system of funding arts and cultural organizations in the United States has attracted criticism and praise. Critics have argued that the government's limited funding showcases a lack of commitment to and endorsement of the arts and that it devalues them to the broader public. In contrast, this approach has been lauded for the diversified and decentralized approach to funding which moderates financial risk and fosters creativity and aesthetic achievement (Cowen, 2006). This decentralized and diverse approach to arts funding also emphasizes the need to examine cultural policies among the different levels of government in order to develop a comprehensive perspective.

For the United States in general, and the film industry specifically, state and local policies are an area demanding additional exploration and understanding. In 2002, Schuster articulated the need to explore cultural policy subnationally. "What I wish to argue is that there is good reason to begin to turn our analytical attention towards the cultural policies of sub-national levels of government (particularly intermediate levels of government)" (Schuster, 2002, p. 182). In the United States, each of the 50 states and many municipal governments enact and administer cultural policies. A significant body of scholarship has investigated US cultural policy through a national lens. Schuster makes the argument that the "more or less independent, uncoordinated activities" of state agencies also require observation and analysis (Schuster, 2002, p. 181). Direct spending by state arts agencies, in aggregate, now exceeds that of the National Endowment for the Arts (National Endowment for the Arts, 2012a). All 50 states and six special jurisdictions of the United States have state arts agencies and their combined spending exceeded that of the NEA in 1986 (National Endowment for the Arts, 2012a). In 2015, there were $349 million in legislative appropriations to state and jurisdictional arts agencies (Stubbs & Clapp, 2015). There are more than 5000 local arts agencies (National Endowment for the Arts, 2012a). Counties and municipal governments spent an estimated $840 million in direct expenditures on the arts in fiscal year 2015 (Stubbs & Clapp, 2015).

Reforms associated with New Public Management, an approach that sought to modernize and increase the effectiveness of the public sector, further decentralized cultural policy-making and public funding in the United States (McCarthy, Ondaatje, Zakaras, & Brooks, 2004). The instrumental benefits of the arts were offered as evidence of outcomes to satisfy demands of the reforms (Belfiore, 2004; McCarthy et al., 2004). The instrumental purposes were frequently in areas more commonly addressed by state and local governments (Schuster, 2002). The implications of this were that state and local agencies gained additional influence on cultural policies and decisions (Belfiore, 2004; McCarthy et al., 2004; Schuster, 2002). This has resulted in multiple ecosystems that have experimented with and implemented innovative approaches to and usage of arts and culture (Schuster, 2002).

Relevant to a discussion of public policy and its implications on the film industry is a contextualization of the economic dynamics of American film. Film production in the United States is dominated by the "Studio System" in which capitalism and markets are primary driving forces. Film productions adhering to this model secure financing from commercial banks, other financial institutions, the stock market, and internal industry sources (Towse, 2010). California's power, felt globally, has prompted many other countries to provide financial subsidies and/or tax benefits to protect their domestic markets (Towse, 2010). Market success underscores the financial viability of the film industry and resists need-based arguments for public intervention in the United States. Instrumentally, economic benefits from the film industry have prompted the development of state and local policies devised to attract film production to their areas.

The Studio System provides a functional market for films of popular models and styles. It does not, however, function for the full spectrum of films, particularly those that are not commercially viable. Small, low-budget, and independent films often struggle to secure funding and distribution. In response to the merits of these productions, nonprofit film organizations have emerged to fill the niche.

These developments resulted in two distinct areas of intervention in the film industry. First, state and local government have deployed policies leveraging tax credits and subsidies to garner economic benefit from film production and from tourism linked to film festivals. Second, nonprofit arts and culture organizations with film-related missions have formed to foster and support films that deviate from studio system formulae. These will be discussed in the following sections.

3 Subnational Policies for Film Across the United States

State governments' pointed interest in attracting film productions via financial incentives began with the passage of a 2002 Louisiana tax law that sought to compete with Canadian film production incentives (Swope, 2005). Louisiana's tax incentive program was not designed to support the nonexistent film industry in the state but rather to build it by attracting Hollywood players (Swope, 2005). Recognizing the potential of these policies, other states rushed to pass their own "Movie Production Incentives" (MPIs), driving the number of states with MPIs from 5 to 44 states between 2002 and 2010 (California Research Bureau, 2011). Spurring MPI growth, the National Governors Association circulated a policy brief in 2008 outlining the argument for developing and implementing movie production policies. The brief pointed out that filmmaking accounted for more than $60 billion USD in contributions to the American economy and argued that MPIs could support state economies by

(1) Attracting out of state investments
(2) Creating high-paying jobs
(3) Contributing economic vitality to communities
(4) Stimulating cultural tourism (NGA Center for Best Practices, 2008)

The brief also recommended supporting the growth of a state film industry by investing in supporting initiatives ancillary to film production such as university-level educational programs and other workforce training opportunities (National Governors Association, 2008). State MPI policies take varying forms and include a range of financial incentives, including but not limited to tax credits, rebates, or exemptions, labor incentives, lodging incentives, state property use incentives, loans, vouchers, and grants (NGA Center for Best Practices, 2008). Notably, grants stand out as the only direct subsidy provided by state film production policies; the other policy incentives provide indirect funding in accordance with the typical American public arts funding model.

On average, state MPIs provide a 25% tax subsidy to filmmakers (Tannenwald, 2010). The two states that are widely perceived to have the most attractive MPI programs are Louisiana and Georgia (Lee, 2015). Louisiana’s policy offers a 30% uncapped tax credit on applicable in-state expenses relating to movie production in addition to a 5% labor tax credit for employees of state-certified movie productions (California Research Bureau, 2011). Georgia passed its major MPI law in 2008, which provides up to 30% in subsidies on qualifying expenses up to any amount (Lee, 2015) and an 8% sales tax exemption on most production material purchases or rentals (California Research Bureau, 2011). Competition between states to offer the most lucrative incentive policies was heated during the MPI boom from 2002 to 2010, leading states to offer increasingly lucrative subsidy policies. The California film industry was naturally concerned about the danger that state incentive programs posed to its existing Hollywood empire. Accordingly, the *California Research Bureau* issued a 2011 report on the competition impact of film industry incentives. The report concluded that the precipitous rise in state MPIs did not significantly harm California’s film industry based on a comparison of the growth of L.A. County film jobs while non-L.A. film job figures remained relatively stagnant (California Research Bureau, 2011). This data brings to light a question of the overall effectiveness and efficacy of MPIs in general.

After nearly 10 years of experimentation, many states that implemented film production incentives failed to realize long-term economic growth as a result of their policies (Luther, 2010). Though taxpayers provided approximately $1.5 billion USD in film subsidies in 2010, evidence suggests that this money disproportionately benefitted production companies while it actually produced net costs for the states that intended to benefit from film industry expansion (Tannenwald, 2010). Though debate still rages (particularly between the Motion Picture Association and its impartial critics), multiple studies have now shown that MPI programs neither pay for themselves nor create many new jobs (Henchman, 2011). Since production companies tend to prefer to bring their own highly skilled employees rather than hire new crews in their shooting locations, state employment related to film production tends to be low-wage, unskilled labor such as hairdressing and catering that does not build strong economic foundations (Tannenwald, 2010). Further, film subsidies have been far more expensive than states initially budgeted, with film production revenues failing to overcome the cost of the subsidies provided (Tannenwald, 2010). Part of this unexpected deficit arises from a complication pertaining to the necessity of California-based production companies selling their subsidy credits back to the states in order to actually cash in their subsidies. Intermediary brokers that facilitate these transactions then take 10 or 15% cuts for brokerage fees, which accounts for some of the additional expenses to states whose policies planned for a more frictionless financial exchange (Swope, 2005). Movie production incentive programs peaked in 2010 as governors began reconsidering their budgets in the wake of the 2008–2009 economic downturn (The Economist, 2011). As of 2015, only 39 states have retained their film funding incentives and even Louisiana, the original champion of MPIs, began to reconsider its policies surrounding movie production incentives, placing a $200 million cap of the subsidies for the first time (Povich, 2015). In light of the economic evidence and increasing conservative political pressure, governors are now trending toward rolling back film production tax incentives in the coming years (Cieply, 2011; Landergan, 2016).

While MPIs apply to any film production, regardless of its commercial orientation, the bulk of MPI users are for-profit production companies that have the flexibility and resources to scout, shoot, and move production to the most financially friendly locations. Ironically, while these for-profit companies lured by MPI incentives evidently drain the resources of state and local economies, film festivals appear to offer greater economic benefits at a lower public cost (Marshall, 2004). On average, film festivals in the United States account for an annual $89 million in cash spending and $55 of in-kind merchandise or service donations while festivals only receive $24,000 in government grants (Marshall, 2004).[1] Unlike MPIs, state and local government agencies have not mobilized around a common funding policy to support or incentivize the growth of independent or nonprofit film festivals.

America's arguably most well-known independent film festival is the *Sundance Film Festival* which takes places annually in the state of Utah. The nonprofit entity that orchestrates the festival, the Sundance Institute, operates on an annual income of just under $38 million USD (GuideStar Report: Sundance Institute, n.d.) with which it generated $63 USD million in spending during the 10-day January film festival event in 2014 alone (Stambro, 2014). Though detailed funding reports for Sundance are unavailable, average American film festivals receive the vast majority of their funding from private entities (especially corporations) and earned revenue (predominantly ticket sales) (Marshall, 2004). Though few federal, state, and local governments have devised formal film festival public policies, festival organizers have developed their own strategies to secure direct subsidies in the form of grants. A common tactic that helps secure film festival grants are economic impact reports that detail a festival's financial return for its host city or community (Independent Filmmaker Project, 2014). Though cities appreciate economic impact reports and especially recognize the potential for tourism sparked by film festival events, grants are inconsistently available in potential host cities causing many film festivals

[1]There are, however, arguments on whether film festival spending contributes additional economic income or simply displaces spending that would otherwise be used elsewhere (Heilbrun & Gray, 2001).

(especially those in less urban locales) to rely almost entirely on corporate sponsorships for funding (Hill, 2015). However, the lack of developed policy theory and public funding models for film festivals may possibly contribute to their financial success within the American arts and culture economic model; current information suggests that cities and states may benefit from incentivizing the birth of such festivals. The implications of government funding for nonprofit film organizations are more thoroughly illustrated by an organizational ecology data analysis on their population dynamics over time. A description of methods, results, and interpretations of such an analysis follows below.

4 Organizational Ecology and Nonprofit Film

"Organizational ecology" is a theory that relies on the analysis of population dynamics to understand how environmental factors contribute to birth, change, and death of organizational forms (Carroll, 1984; Carroll & Hannan, 2000; Carroll & Khessina, 2005; Hannan & Freeman, 1977, 1989). The theory posits that organizations must compete for finite resources in a process that resembles natural selection. Hannan and Freeman (1977) argued that ecological approaches undertake examination of how environment, or local context, shapes the distribution of organizations and limits these structures over time. The indicators of population change include standard vital statistics: births and deaths of organizations, growth of forms, population density, niche development, and resource division. Analyses by this approach identify variables that improve sustainability or elevate vulnerability. This theory was applied to nonprofit organizations by Bowen, Turner, Nygren, and Duffy (1994). Their study revealed a higher incidence of death, or exit, by nonprofit organizations generally and among arts and culture organizations in particular, suggesting that these organizations are more vulnerable to threats in the environment than other types of organizations. Financial records are often a tremendous resource for studying organizational populations.

Unfortunately, financial records for all organizational types are not universally available. Publicly traded, for-profit organizations must file financial statements with the SEC that are then made accessible to the public, whereas privately owned, for-profit organizations that are not publicly traded are not required to file. In the United States, nonprofit organizations are required to file annual reports with the *Internal Revenue Service* (IRS). The IRS Form 990 has been required of nonprofits since 1941 (National Center for Charitable Statistics, n.d.). It is the only financial information that a nonprofit organization is required to make public and is, therefore, a common source of information (Calabrese, 2009). However, rules governing the 990 have changed over time, exempting organizations under a certain revenue threshold from the burden of preparing and submitting the form (National Center for Charitable Statistics, n.d.). That is to say, until recent rule revisions, not all nonprofits were required to annually file; thus, newly formed and smaller organizations may be absent from the data from the earlier period. This discontinuity results in a disparity of information between the sectors, including the film industry.

The *National Center for Charitable Statistics* at the *Urban Institute* compiles and maintains the *National Center for Charitable Statistics* (NCCS) Core Files. NCCS' core financial files include more than 60 variables drawn from the annual *Return Transaction File* (RTF) of the *Internal Revenue Service* (IRS) for all nonprofit organizations required to file since 1989 (Urban Institute, 2006). RTF are the most recent, original tax returns filed with the IRS. These data include organization name, "Employer Identification Number" (EIN), address, and financial details, such as program revenues, contributions, and total revenues. Important variables for the purposes of this chapter include the *National Taxonomy of Exempt Entities* (NTEE) classification. This system uses a system of letters and numbers to subdivide tax-exempt entities. All tax-exempt arts, culture, and humanities organizations are classified as "A" organizations. Decile and centile codes further identify an organization's activity area. NTEE classification A3 includes all tax-exempt media and communications organizations while A31 includes only those that are film organizations. This study is limited to nonprofit organizations classified as A31.

Another essential variable from this data is the rule date. It records when the tax-exempt status of an organization was initially granted and is used as a proxy for birth or entry into the market (Bowen et al., 1994; Hager 2001). These data files also document the final year an organization filed their Form 990, which is used to establish the year of "death" of a nonprofit. Hager (2001) used the failure of an organization to file the IRS 990 for three consecutive years as an indicator of exit, when an organization ceases to operate or "dies." This is consistent with current IRS policy that revokes tax-exempt status for failure to file the appropriate 990 for three consecutive years (Internal Revenue Service, 2013). Death is marked then, the year after the final filing when an organization does not file that year and two subsequent years. Using this data, made available by SMU's *National Center for Arts Research*, it is possible to study the population of nonprofit film organizations operating in the United States from 1989 through 2014.

There are 1166 nonprofit film organizations, which have existed since 1989, or are currently operating throughout the United States. Many among this population filed the IRS Form 990 annually between 1989 and 2014, yielding 8227 observations for the period. From this rich data, it is possible to examine the population as a national aggregate as well as explore subnational variations.

The population of nonprofit film organizations has expanded since 1989. The number of nonprofit film organizations filing since 1989 or later who received tax-exempt status prior to 1989 is 239. Tax-exempt status was granted to 927 new film organizations during this period. Exits total 459 for the period. The population presently numbers approximately 700.[2]

[2]We have organizational births for every year in this period. However, the definition of death means that we only have deaths through 2012. Thus, the current population size is estimated without this information.

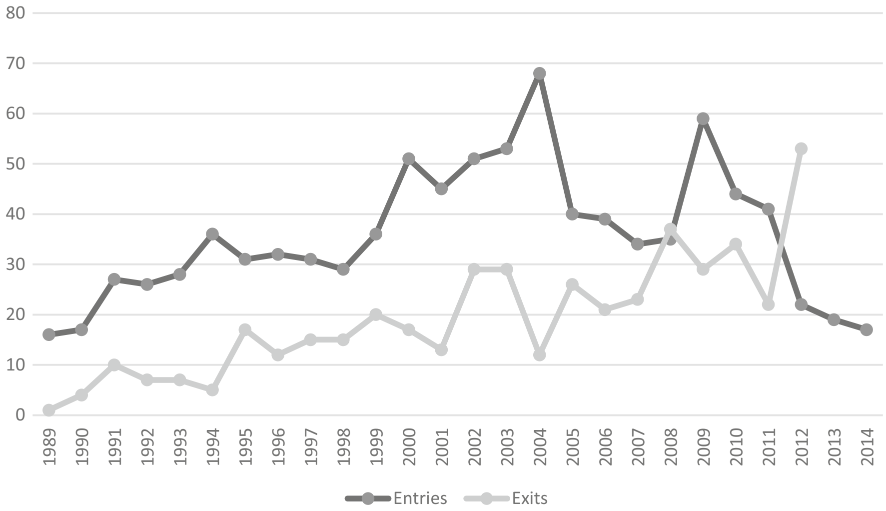

Fig. 1 Film nonprofit annual births and deaths (Source: The authors, based on data from the National Center for Arts Research)

Figure 1 illustrates growth in the number of organizational "births" from 1989 until 2004. Births ranged from 16 in 1989 to 68 in 2004 with an average of just over 35 new nonprofit film organizations emerging each year. This 2004 peak of nonprofit film organization births suggests that the population may have been responding to the aforementioned Movie Production Incentives. With Louisiana initiating the trend in 2002, the nonprofit film industry may have recognized the subnational policy interest in film industry development and been more inclined to found nonprofit ventures inspired by the industry economic shift.[3] Following the 2002 peak, there was a dramatic drop in organizational births in 2004. It logically follows that after a boom in births, more nonprofit organizations will shut down in the following years as ineffective organizations fail, leaving only the savviest nonprofits to survive. Births remained at the more modest levels after 2004 except for a brief surge in 2009, dropping again in 2010, and hitting levels not seen since 1989. The low birth rates beginning in 2010 directly correspond with the national conversation around the ineffectiveness of MPI state policies. It is difficult to directly connect these two phenomena without comparable data on the births and deaths of privately held for-profit film companies, but the incidents of high-then-

[3]Although nonprofit film organization births peaked in terms of national figures, births in Louisiana did not grow above typical levels, which undercuts this theory. It is still possible that nonprofit births grew in response to the change in film industry dynamics. However, the data suggest that nonprofits may have emerged in states that were not pioneering *Movie Production Incentives* (MPI), possibly to capture market space when film production moved to states with MPIs.

low nonprofit birth rates chronologically aligned with high-then-low interest in movie production incentives are suggestive of a pattern.

Organizational "deaths," or exits, are of equal importance in understanding population dynamics. As the number of births has risen since 1989, so too has the number of organizational deaths each year. Deaths, or exits, ranged from 4 in 1989[4] and 5 in 1993 to 37 in 2008 with an average of almost 17 per year. This is to be expected in raw numbers. When a population expands, the number of deaths will also increase. The number of total deaths for the period was fewer than the number of births, resulting in the growth of the population. Population totals ranged from 267 in 1989 or 284 in 1990 to 703 in 2010 with an average population size of 488. The number of deaths dropped sharply in the same year that births reached their pinnacle, in 2004. Deaths returned to the previous pattern the next year, slightly exceeding the number of births in 2008 and again in 2012. Given the indicator of organizational death, or exit, 2012 deaths are calculated looking at absence of filings for the years 2012, 2013, and 2014.

The application of organizational ecology has shown that smaller and newer organizations have increased vulnerabilities. Contributions, program revenues, fees, investment income, and total revenue can be used as proxies for size. These are indications of resources available to the organization on which they could draw if an economic shock were to occur. Shocks include such events as an unexpected major expense, a change in the organization, or changes in the environment in which the organization operates. The range and averages for the population are reported in Table 1. Total revenue for nonprofit film organizations during this period ranged from a loss of $191,472 to $80,600,000, with a median of almost $570,000.[5] This reveals significant variation which stems in part to California and New York.

California and New York are recognized as centers for the for-profit film industry. This was also found to be the case among nonprofit film organizations. Figure 2 illustrates the total number of nonprofit film organizations that were formed during this period in each of the 50 United States, the District of Columbia and the US Virgin Islands. It also illustrates estimated current populations of nonprofit film organizations. California and New York are clearly the most frequent locations for nonprofit film organizations to form. Their populations account for 24 and 17% of total births, or a combined 41%. These two states are home to 42% of the approximate, current, national population, with 25% in California and 17% in New York. Including California and New York in national aggregates of population and revenues skews the figures upward, as is evident in Tables 2 and 3.

[4]1989 is the first year for which data are digitally, and therefore more easily, available. Interpreting figures from those years may present certain limitations. Additional details were offered to offset the limitations.

[5]Negative program revenue and negative total revenue are unusual. The data used for our analysis do not include detail to explain the reported negative figures.

Table 1 Summary of sources of revenue, nationally

All orgs/1989–2014	Mean	Min	Max
Contributions (7574)	$328,526	$–	$80,400,000
Program revenues (7574)	$190,903	$(294,472)	$16,900,000
Dues (6388)	$37,426	$–	$8,800,000
Investment income (8075)	$8532	$(87,074)	$2,831,599
Total revenue (8227)	$569,005	$(191,472)	$80,600,000
$n = 8227$			

Source: The authors, based on data from the National Center for Arts Research

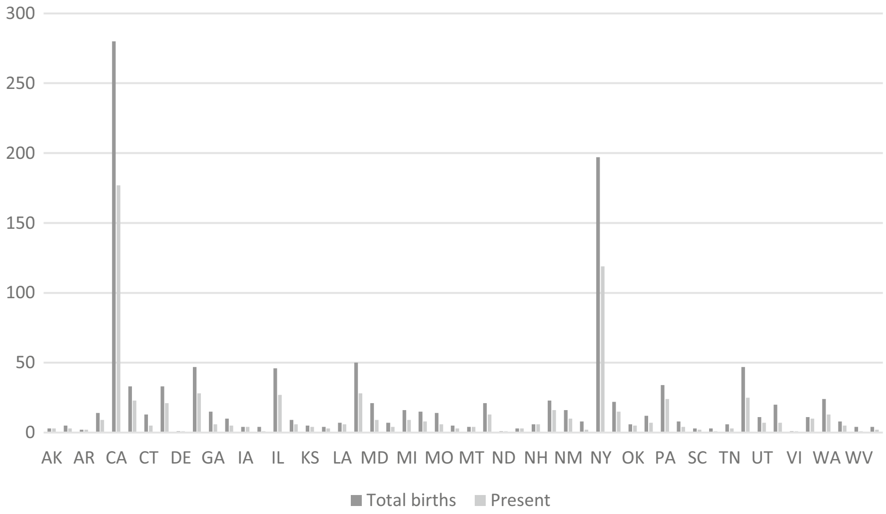

Fig. 2 Nonprofit film total births versus current population, subnationally (Source: The authors, based on data from the National Center for Arts Research)

Table 2 Summary of sources of revenue, all states and districts excluding CA and NY

	Mean	Min	Max
Contributions (4358)	$237,378	$–	$18,000,000
Program revenues (4358)	$147,735	$(294,472)	$9,800,000
Dues (3631)	$25,162	$–	$7,700,000
Investment income (4616)	$4004	$(9,697)	$1,400,000
Total revenue (4690)	$422,503	$(191,472)	$28,000,000
$n = 4690$			

Source: The authors, based on data from the National Center for Arts Research

Table 3 Summary of sources of revenue, California and New York

CA & NY 1989–2014	Mean	Min	Max
Contributions (3628)	$446,867	$–	$80,000,000
Program revenues (3628)	$248,696	$(2572)	$17,000,000
Dues (2757)	$50,965	$–	$8,800,000
Investment income (3476)	$14,485	$(8704)	$2,800,000
Total revenue (3537)	$768,751	$(61,218)	$81,000,000
$n = 3537$			

Source: The authors, based on data from the National Center for Arts Research

Table 4 Percentage of US mean when limiting population geographically

Comparison to US	Mean for US excluding CA and NY (%)	Mean for CA and NY (%)
Contributions	72	136
Program revenues (3628)	77	130
Dues	67	136
Investment income	47	170
Total revenue	74	135

Source: The authors, based on data from the National Center for Arts Research

Comparing medians of the different sources of revenue from the entire United States except California and New York and from only California and New York to the aggregate medians underscore these state-level market differences. Median total revenue of nonprofit film organizations between 1989 and 2014 for all states except California and New York is only 74% of the total US median; the combined median for California and New York is 135% of the US Median. The greatest difference in comparison appeared when looking at median income from investments. Excluding California and New York from the analysis produces a median that is only 47% of the US median. Limiting observations to those in California and New York results in 170% of the US median. Median comparisons for all measures are reported in Table 4.

5 Conclusion: Limited Government Intervention

Globally, the myth and magic of the US "Studio System" for movies are widely recognized. Hollywood, CA, dominates the film industry and is the force with which other places and systems of production must compete. The commercial success of this system has prompted other countries to support production and distribution of domestic films in order to compete in the marketplace. Conversely, the success of the Studio System is a reason for limited government intervention within the United States, although exceptions do exist and should better be explored subnationally.

Federal, state, and local policies contribute to a diverse and dynamic film industry that includes organizations in both the private and non-profit sector. State and local governments have tested tax credits and incentives that attract film productions, attempting to lure them away from the centers of economic agglomeration in California and New York. Analyses of outcomes from these efforts have delivered mixed results, and, as a consequence, tax credits and incentives have been eliminated in some places. Film festivals have been supported in an effort to attract tourists and spending. Economic impact reports produced by film festivals suggest that festivals stimulate economic activity in host locations. However, direct public funding for film festivals represents only a small portion of festival funding and its availability does not principally support the existence of film festivals. Federally, the U S system of nonprofit organizations provides indirect subsidies to noncommercial film ventures. Tax policy allows for deductions for charitable donations by private citizens, foundations, and corporations. The revenue of nonprofit organizations is also exempt from federal taxation. Hence, the US system for supporting the film industry is clearly decentralized and diversified in its approach.

The population of nonprofit film organizations classified as NTEE A31 has grown from 239 in 1989 to approximately 700 in 2014. These organizations serve a variety of missions—from presenting film festivals to producing and distributing films that represent the diversity of the US population to those projects judged to not be commercially viable within the studio system. Total revenue for these organizations during this period presented a range of almost $80,800,000 USD. A deeper analysis exploring variations in total revenue, as a proxy for size, and testing for correlation with persistence, or continuation, and exit, would deepen understanding of the film sector beyond the studio system. Additional analysis of state populations revealed that California and New York are home to 42% of the approximate current population. The importance of this finding is that 58% of nonprofit film organizations are located outside of California and New York, underscoring the need to consider the dispersion of film organizations subnationally.

The dominance of the studio system and centrality of California and New York to the film industry are often reported and are supported with substantial evidence. The dominant system has proven to be a commercially viable venture and not in need of public support. But the studio system does not represent all voices equally nor are Hollywood and New York the exclusive domains of the film sector. There are many microcosms of the film industry within the United States as state and local policies and programs, populations of film organizations, and local resources result in multiple environments thrive throughout the United States as a whole. The untold story of US film industry rests in subnational contexts and warrants additional research and exploration.

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Evidencing the Economics of Film Festival Funding: Do Government Subsidies Help?

Gerald Zachar and Michael Paul

1 Introduction: The Economics of Film Festivals

Since the first film festival was established in Venice in 1932, the number, worldwide distribution, thematic diversity, and economic and cultural significance of film festivals have changed greatly. Even if numerous new festivals were founded in the decades after 1945, the total number of festivals around the world has strongly increased since the 1980s, a trend which climaxed in the years 2009–2010 (Follows, 2013). This argument is supported by Marijke de Valck as follows: "Festivals play immensely important roles in sustaining cultural diversity, nurturing cinematic appreciation, fostering communities, and instigating (political) debate. While the global film industry is dominated by a few players, the film festival landscape is characterized by diversity and difference as well as hierarchical stratification" (see de Valck & Loist, 2009). The commitment to artistic excellence and the interest in showing the cinemas of the world are at the heart of festivals' success and proliferation. Film festivals, however, have been equally affected by trends that apply to the cultural sector at large. In the European context, where the tradition of state subsidies for the arts and culture is strong, the trend toward a more instrumentalist understanding of the value of the arts and corresponding changes in cultural policy have indeed played a role in increased competition for public funds and sponsorship. The pressure on festival organizations to articulate their impact and provide (quantitative) evidence is high. Positively framed, one could say that this trend stems from a fundamental belief in art's capacity to transform the lives of individuals and communities. A real danger, however, is that the dominant (economic) interpretation of impact steers organizations toward more homogeneous practices, which ultimately may jeopardize festivals' contribution to circulation of truly diverse forms of cultural expression.

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Austria, a small country in the center of Europe, also reflects this wider trend. There, four were established in the 1980s, 12 in the 1990s, 15 in the 2000s, and 10 even after 2010 when a peak in number growth seemed to have reached.

As in many other European countries, however, there is little data available on the cultural and economic impact of film festivals in Austria.[1] It is mainly for this reason that we have been commissioned by the Association of Austrian Film Festivals (*Forum der Österreichischen Filmfestivals*, in the following abbreviated as FÖFF), the Austrian festival organizers' lobbying association, to undertake a first survey on the economics of Austrian film festivals. When founded in 2012 by 18 Austrian film festivals, the FÖFF claimed that public funding would be far from providing a solid financial basis. Film festivals in Austria would not have enough security for long-term planning and were thus obliged to strongly rely on the commitment of their "unfairly" paid staff members.[2] As independent evaluators, it has been our task to collect reliable data in order to substantiate, interpret, or, in some cases, nuance these claims and to provide a solid basis for decision-making for all stakeholders in the film festival sector in Austria.

In this chapter, we will present major findings of a survey conducted in 2015 and discuss some main results in the context of the Austrian cinema landscape and the global transformation of film distribution. Certainly, the growing audience of Austrian film festivals and the number and quality of people employed in the sector are essential for their overall success. But what is the role of local, regional, and national subsidies in this context? Are festivals *generically* dependent on government money in order to survive?

1.1 Do Government Subsidies Help?

Given our evidence, we first concede that public grants are fundamentally safeguarding the economic existence of film festivals in Austria. In total, these grants account for 57% of all Austrian Film Festival revenues (FÖFF_{17}). Certainly, these funds are of prime importance as they provide a stable financing base for the festivals. Sponsoring and ticket sales are the second and third most important sources of revenue (16 and 13% on average across all film festival sizes).

Equally important is the fact that film festivals can only survive when film festival staff is committed to their jobs, often below standard industry wage rates. As staff expenditures form the majority of all film festival expenses with some 45% of total budgets, the fact that festival staff, more often than not, accepts little to no payment for making film festivals happen is a big challenge for the sector.

[1] Some evidence related to the Austrian film festivals has already been collected and published by the Austrian Statistical Office (Statistik Austria, 2016a).

[2] See the first press release of the FÖFF, Oct. 31, 2012 (FÖFF, 2012).

In this chapter, we argue that Austrian film festivals make an important contribution to the diversity of the Austrian film landscape by multiplying the number and genres of films available on screen. This is essential as more and more films are produced every year across various AV platforms, making it harder for all of them to find an audience. Compared to the regular cinema exhibition, however, film festivals vitally contribute to a greater variety of different formats and genres for their audience. Hence, without subsidies for film festivals, "world cinema" would reach a significantly smaller audience in Austria.[3] It is also noteworthy that Austrian film festivals not only have a young, highly educated, and predominantly female audience but attract more than 12,000 visitors from abroad every year. On top, our findings substantiate the claim that Austrian film festivals generate a significant added value for each euro invested, leading to a total contribution to the Austrian gross domestic product of 14.6 million euro per year. Additionally, we explore short-term economic effects of film festival tourism in Austria, contributing 2.64 million euro to the country's economy.

In this chapter, we will not explicitly theorize on film festival governance and economics as this is done elsewhere (de Valck, 2007, 2013; de Valck, Kredel, & Loist, 2016).[4] Instead, we will present empirical findings based on case study analysis. We collected audience data with a Web-based online survey distributed to both organizers and visitors of film festivals in Austria, querying on basic economic figures, audience socio-demographics, attitude toward film festivals and film consumption, and other indicators of media behavior of Austrian festival-goers. The survey was conducted between February 2015 and January 2016.

The survey consisted of two parts: (1) festival visitors to answer 34 questions about their economic situation, audience demographics, attitude toward film festivals and film consumption, and other indicators (such as the use of various media channels and devices for watching films), and (2) festival organizers to answer 89 questions, covering information on financing, film festival funding, the festival's general direction, and the social conditions experienced by employees. The festival-goers could provide answers in German or English. 1980 festival

[3]We use the term "world cinema" as a synonym for foreign film, referring to films originating from all countries other than Austria, regardless of budget size or box office success. For a discussion of the term, see the Chapters "Introducing the Book's Topics" and "Towards a definition of "world cinema"" (Dennison & Lim, 2006).

[4]In an additional interview, Marijke de Valck named the disciplines that tackle research on film festivals as follows: "Film festivals are taken as research object by anthropologists, cultural sociologists, economists, and studied in the fields of organizational studies, urban research, communication studies as well as cultural policy studies. Most prominently, however, research on film festivals developed as part of film and media studies. Within this broad discipline it sports intersections with highly diverse traditions, such as media industries studies (production-oriented) and the work on world cinemas (which stays closer to the classical text-orientation of film studies)" (de Valck, as interviewed on August 30, 2017).

attendants completed the visitor's survey. Of the 22 festivals that belong to the FÖFF, 19 participated in the visitor's survey. Any information or conclusion based on this sample is therefore indicated as FÖFF_{19}. The survey for the film festival organizers was completed by 17 FÖFF film festivals. Whenever referred to this sample, it is designated as FÖFF_{17}.[5]

The Web-based survey was self-administered. In addition, 16 qualitative interviews with film festival directors (under FÖFF) and other representatives were conducted between October 2015 and January 2016 (a detailed overview can be found in the Appendix). For this, we used in-depth interviews, allowing the interviewees a high degree of freedom to express their thoughts and concerns. Each of our interview partners were asked about the general situation and recent development of his or her film festival and the current financial and social situation of the festival and the festival's staff, respectively. We also asked them to evaluate their specific funding situation.

1.2 Economic Effects of Festivals

As no data on film festivals can be drawn from national economic statistics in Austria, we had to rely on calculations on their impacts made in other countries. And, based on the premise that the structure of economic activity of film festivals is comparable among different countries with a comparable level of economic activity, we used the multiplying factors measured for the *Berlinale* and the *Sundance film festival* (Investitionsbank Berlin, 2013; Stambro, 2015) and applied them to Austria. This enabled us to determine the indirect and induced economic effects triggered by the direct expenses of film festivals in Austria. For determining the extent to which a film festival induces tourism, we correlated the expenses of film festival tourists during their stay in Austria (data drawn from our online survey) with data available for event visitor's expenses in Austria (Institut für Höhere Studien, 2012).[6]

In 2012, 22 Austrian film festivals gathered in the *Association of Austrian Film Festivals* (FÖFF), trying to improve networking with a view to improving their financial situation. As a result, they achieved that film festivals in Austria were recognized in 2013 by a resolution of the Austrian National Council (*Nationalrat*),

[5] Not all the required data were provided in a uniform set by all the Austrian film festivals gathered in the FÖFF. For this reason, we clearly indicate in this chapter on which data sample our conclusions are based. A detailed overview of the individual sample designations can be found in the Appendix.

[6] The completed study was presented at the *Diagonale—Festival of Austrian Film* on 9 March 2016. Financing was provided by the *Austrian Film Institute* (ÖFI), the *Austrian Federal Chancellery* (BKA), the *Collecting Society for Audiovisual Media* (VAM), the *Collecting Society for Filmmakers* (VdFS), and the *Professional Society for the Film and Music Industry, Film and Music Austria* (FAMA).

requesting the *Austrian Federal Ministry of Education, Art and Culture* to gather and publish basic data.

Our analysis found that film festivals generate impressive results in terms of a continuous rising public demand and positive value creation effects. Further, our findings offer a solid basis of decision-making for funding institutions and policymakers. Given the lack of an Austrian national film festival strategy and precarious working conditions for film festival employees on the one hand and rising demands for more funding inside the Austrian film industry and film archive community on the other hand, policymakers should now be able to make informed decisions on how public funding shall be shared within the Austrian film community in the mid-term. Based on the findings of our analysis, they can determine to what extent public funding should continue to support the presence of world cinema in Austria.

This chapter is organized as follows: First, we present key industry facts on film festivals in Austria, particularly on funding sources and employment. Second, we provide a detailed analysis of their visitors' socio-demographics and film consumption behaviors. We then assess the economic value added of film festivals and film festival tourism for Austria's gross domestic product. Finally, we locate the current situation of film festivals in the larger context of an internationally changing distribution landscape for film and highlight the paramount importance of public funding for the existence of film festivals in Austria.

2 Film Festivals in Austria: Some Key Facts

Film festivals in Austria are currently booming. In fact, between 2011 and 2015, the number of films screened at Austrian festivals increased by 19%, from 1741 to 2073 (FÖFF_{20}), while the number of days on which films were shown rose from 143 to 161 (plus 12.6%). In the same time period, Austrian film festivals also saw an increase in the number of festival attendants (plus 19%) (FÖFF_{20}). Excluding the events that were not held during the festival period (some film festivals in Austria are organizing events outside their respective main film festival period), a total of 213,830 tickets were sold or issued (in the case of film festival accreditations) at Austrian festivals in 2015. Compared to 2011, this is an increase of 19%. Additionally, 68% of all seats were occupied in 2015 ($\text{FÖFF}_{17\text{Aus}}$), a fact that accounts that festival-going is strong in Austria. As "seat load" data—data to indicate the percentage of occupied seats compared to the empty ones during one screening—is only available for 2015, we were neither able to evaluate how it developed prior to 2015, nor were we able to find out to what degree the abovementioned 68% of occupied seats might correlate with the increase of the number of tickets sold at Austrian film festivals.

In our view, there are no investigations of the audience size or seat load of film festivals in other European countries. Still, if one compares the 68% of seat load of Austria's film festivals, with, let us say, the frequency of France's cinemas, it becomes clear that the visitor's frequency at Austrian film festivals is indeed an outstanding one. In France, a country with an exceptionally high cinema visitor frequency, the average seat load is holding at only 14.2% (CNC, 2016).[7]

With regard to the origin of films shown at Austrian film festivals, 26% were of Austrian origin (including majority-share co-productions) (FÖFF_{20}): 540 Austrian films in total (including those with multiple screenings). Considering the fact that between 42 and 52 Austrian films were released every year from 2012 to 2016, the number of Austrian film at Austrian film festivals seems pretty high. Of the majority of the 2073 films that were screened in 2015, 29% were produced in other European countries, while 923 (44.5%) came from non-European countries. The market share of European films at Austrian cinemas in 2015 was 30.5%, while that of US works amounted to 68.2% (Österreichisches Filminstitut, 2016). Thus, Austrian film festivals provide more opportunity for screening European film productions than is possible at the regular Austrian box office.

Of those 2073 films screened in 2015, 43% were feature films ("Films with mainly fictional action"), 27% were documentaries ("Films with mainly non-fictional action"), 13% experimental films, and 17% animation films.

Three-fourths of the films screened at Austrian film festivals (FÖFF_{20}) in 2015 were <2 years old, calculated from production start. Some 60% had run-times under 45 min, a length that is evidently hard to be placed in theaters. 60% of the films screened at Austrian film festivals (FÖFF_{17}) in 2015 had premiered in Austria. In total, this is true of 1102 films. According to an estimation of Doris Bauer and Daniel Ebner, both spokespersons of FÖFF, it can be assumed that more than half of those films screened at Austrian film festivals would not otherwise have a theatrical release in cinemas. Therefore, we argue that Austrian film festivals make a major contribution to the number and diversity of publicly screened films, being thus an important display window for "world cinema" in the country. Further, 90% of the film projections at Austrian festivals (FÖFF_{17}) are digital. Of all films screened, 9.3% are shown in 35 mm film. Hence, the percentage of analogue films at individual festivals represents over 50% of the total. The open-air festival *Kino unter Sternen*, held in Vienna, is an exception. There films are mostly projected analogically.

[7]Due to the lack of seat load data of Austrian cinemas (official data only account for the average "seat load" per year but not per screening; see Österreichisches Filminstitut, 2016), it is not possible to draw a direct comparison between cinema and film festivals in Austria in this matter. Appropriate data are available for Austria's major cinematheque—the *Austrian Film Museum*—where the average seat load per year accounts for 47% (paul und collegen, 2016).

2.1 Funding Sources

In 2015, the total budget for all Austrian film festivals (FÖFF$_{17}$) was 6.5 million euros. The *Viennale—Vienna International Film Festival*, Graz's *Diagonale* (*Diagonale—Festival of Austrian Film*), and *Crossing Europe—Film Festival Linz* are the country's three largest festivals. They each have total yearly budgets of 500,000 to three million euros. There are also eight medium-sized festivals with annual budgets of over 100,000 euros and five smaller festivals that budget with <50,000 euros per year (FÖFF$_{17}$). The greater part of this budget, 57%, comes from state subsidies, while one festival, the Poolinale—Music Film Festival Vienna, conceived as a "display window" (as the organizers put it) for the music label Ink Music, never received any subsidies. Cash and "in-kind sponsoring," defined as sponsoring with products instead of cash, contributed with 16%. Proceeds from ticket sales contributed with 13% in total. Other sources of revenue, such as financial support provided by collection societies, professional organizations, or cultural institutes, represent solely a small portion of festival budgets. In all, financing for Austrian film festivals (FÖFF$_{17}$) is as follows (Fig. 1):

Compared to the *New Horizons International Film Festival* in Poland and the *International Film Festival Rotterdam* in the Netherlands, where data about the revenue structure are available for 2005 and 2006 (Bauer, 2007), it becomes clear that film festivals in Austria have a higher share of subsidies and a smaller share of revenue from sponsoring than their colleagues abroad: Subsidies account for 57% of the total budget of film festivals in Austria, while they contribute only 20 and 28% to the budget of *New Horizons Film Festival* and the *Film Festival Rotterdam*, respectively. With regard to the share of sponsoring, the difference is even more significant: it contributes with 41 and 23% of the total budget to the *New Horizon*

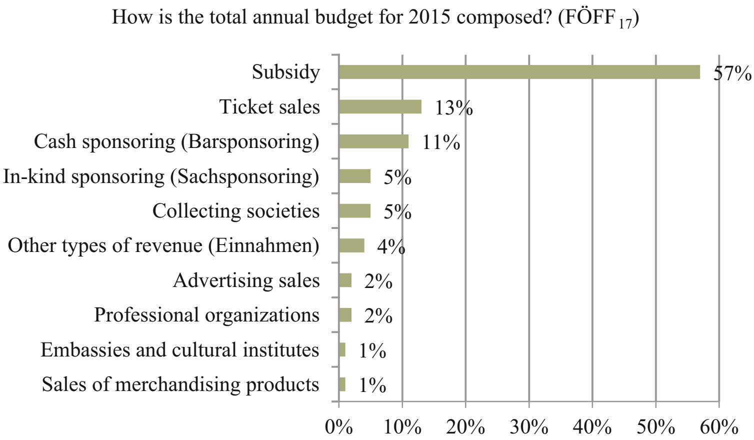

Fig. 1 Financing mix for Austrian film festivals (FÖFF$_{17}$). Source: The authors

Film Festival and *the Film Festival Rotterdam*, whereas it accounts for only 16% to the revenue of Austrian film festivals.

In 2015, Austrian film festivals (FÖFF$_{17}$) were funded by a total of 36 different institutions at the municipal, federal, or state level. The City of Vienna (MA 7, MA 13, and MA 57) was by far the most important source of funding, contributing approximately 50% and disbursing funds amounting to over 1.8 million euros. It was followed by the *Austrian Federal Chancellery*, which provided 16.5% (more than 600,000 euros). The third most important source of funding comes from the *Austrian Film Institute*, the country's national film board, with a share of 7.2% and total funding of approximately 260,000 euros. The list of funding institutions that provided over 2% of all funding includes the City of Graz (5.7%), the *Länder* Styria (3.7%), and Upper Austria (3.4%) and the City of Linz (2.4%).

All other sources of funding contributed a total of 10.6% of the total budget, amounts between 67,000 and 500 euros. This cluster comprises the:

- Tyrol (*Bundesland*)
- City of Wels
- *Vienna Film Fund*
- *Creative Europe* (MEDIA)
- Ministry of Education and Womens' Affairs (*Bundesministerium für Bildung und Frauen*)
- City of Innsbruck
- Municipality of Klosterneuburg
- City of Villach
- Lower Austria (*Bundesland*)
- Austrian Development Agency
- Carinthia (*Bundesland*)
- Ministry of Europe, Integration and External Affairs (*Bundesministerium für Europa, Integration und Äußeres*)
- Ministry of Labor, Social Affairs and Consumer Protection (*Bundesministerium für Arbeit, Soziales und Konsumentenschutz*)
- Salzburg (*Bundesland*)
- Future Fund of the Republic of Austria (*Zukunftsfonds der Republik Österreich*)
- University of Vienna's Institute of Cultural and Social Anthropology
- Municipal district of *Wien Margareten* (Vienna)
- *National Union of Austrian Students* (*Österreichische Hochschülerschaft*).

In light of the varying sizes of the budgets of Austrian film festivals, even relatively small subsidies can be absolutely decisive for the survival of some of them. On average, each Austrian film festival had 4.7 sources of funding in 2015. Applications for funding were normally submitted each year: Submissions at 2- or 3-year intervals, considerably reducing paper work for funding bodies and recipients alike, were the exception. In all, four festivals had agreements lasting several years with at least one funding institution (FÖFF$_{17}$). Long-term contracts with sources of funding would not only increase the level of certainty with which festivals could plan, they would also have a positive effect on the overall budgetary situation by facilitating the acquisition of sponsoring revenues (FÖFF_{16}). However, the highly fragmented funding landscape of Austrian film festivals, which includes a large number of small-sized actors, amounts to considerable administrative costs for film festivals and funding bodies alike. This is due to the absence of uniform submission and accounting requirements and forms. Standardization would definitely improve process efficiency.[8]

2.2 Employment

In 2015, Austrian film festivals employed a total workforce of 463 (FÖFF_{17}) in administrative, organizational, or technical areas. 68% of those were women and 32% men. The *Viennale—Vienna International Film Festival,* the *Diagonale—Festival of Austrian Film*, and *Crossing Europe—Film Festival Linz* had an average of 98 employees; the figure was 16.8 at festivals with an annual budget between 100,000 and 500,000 euros and 5.5 at festivals with a budget below 50,000 euros. In most of these cases, financially precarious job conditions were involved, since most employees received low salaries, worked on a project basis, worked part-time, or were volunteers. No more than 8% of all festival employees worked full-time and for film festivals only.

From a legal point of view, the collective bargaining agreement for the film and music industry (excepting filmmakers) applies to all employees of Austrian film festivals, stipulating a minimum gross hourly wage of eight euros. In reality, this agreement is rarely observed and film festival staff members, more often than not, receive less payment: One Austrian festival (which prefers not to be named here) calculated the actual gross hourly wage received by its employees, which was five euros only. Even if this calculation is not wholly representative of the situation of all festival employees in Austria, only one conclusion can be made: most of the work performed at festivals represents a form of self-exploitation. Discussions with management staff of all festivals (FÖFF_{16}) agreed on this. Still, numerous tasks do not require employee activity throughout the entire year. In other words, employees must offer their skills at several different festivals (as is the case with projectionists, hospitality service providers, and technical service providers) or find other kinds of work.

Half of all employees have worked at a film festival for fewer than 3 years (FÖFF_{17})—the lack of a living wage is tenable for a limited amount of time only. For festivals, this entails the necessity of constantly finding new employees. When management staff of Austrian film festivals was asked on the budget they would require to pay “normal” salaries to their employees, salaries which are in line with

[8]In September 2016, the City of Vienna and the Austrian Federal Chancellery—the two most important funding bodies of film festivals in Austria—taking up some of our recommendations—announced their plan to partly centralize and harmonize submission requirements.

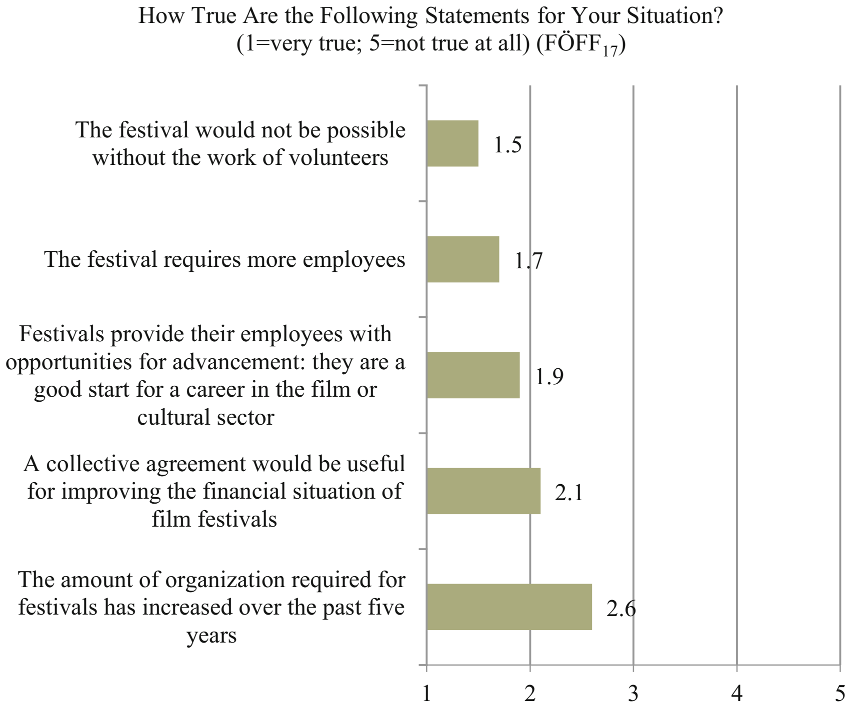

Fig. 2 2015: Survey of festival management on their work: "How true are the following statements for your situation?" (FÖFF_{17}). Source: The authors

collective bargaining agreements, Austrian film festivals would need eight million euros additionally (FÖFF_{16}).

Considering that the total budget in 2015 is 6.5 million euros, Austrian festivals would need either 23% more sponsoring funds or more funding in order to provide salaries and fees that are in conformity with the abovementioned collective bargaining agreement for the film and music industry (excepting filmmakers). The statement that film festivals would not be able to operate without the work of volunteers is, according to management staffs, "very applicable." At the same time, in the opinion of staff representatives, the professional experience gained at festivals represents opportunities for advancement in the scene in addition to a good start for a career in film or other culturally oriented activities (Fig. 2).

3 Visitors Socio-demographics and Behavior

In 2015, a total of 213,830 tickets were purchased at Austrian film festivals (FÖFF_{20}). But who are those visitors who come for 7.8 screened films (FÖFF_{17}) at a single Austrian film festival on average? As no information has been available on Austria's film festival-goers, we launched an online survey in order to obtain more detailed data on demography, their educational level and media behavior, as well as their estimations of various aspects of the film festival they visited. With 1980 completed online questionnaires, we obtained a representative sample of Austria's film festival visitors, providing a reliable data basis for our inquiry. In general, it can be said that the audience of Austria's film festivals is mainly female, young, educated, and film aficionados, going to the movies as frequently as to film festivals.

Audiences at Austrian film festivals were 63% female and 37% male. Of all visitors, 73% have already been at the festival involved. The largest visitor segment is between 20 and 29 years of age (40%), followed by 30–39 year olds (28%). Visitors over the age of 40 represent a total of 28% of all visitors: Thus, audiences at Austrian film festivals are younger and mostly female. In the latter, the percentages of gender are nearly equal (51% male audience members and 49% females), and the percentage of audience members under the age of 40 is 58%, while the share at film festivals is 71% (Österreichisches Filminstitut, 2016). Between 2012 and 2015, the age of the average cinema-goer in Austria rose from 39.7 to 40.2 years. Unfortunately, due to lack of data, it is not possible to determine whether Austrian theaters have lost younger audiences over the past 20 years, as is the case in Germany (GfK, 2015, p. 7).

The online survey on audiences at Austrian film festivals also shows that they are enthusiastic film lovers and watch nearly as many films at film festivals as at conventional theaters. Thus, this group's visits at festivals do not reduce their frequency at cinemas, and there is little differentiation between the two screening formats.

The audiences at Austrian film festivals have above-average educational levels. Thirty-five percent of all visitors have a master's degree, and 22% have graduated from high school (AHS). While the Austrian average in the area of tertiary education (bachelors, master's, PhD) according to the 2014 educational register is 28.3% (Statistik Austria, 2016b), that of audiences at Austrian film festivals is approximately twice as high, 58% (Fig. 3).

For those film festivals that would like to explore new target groups (not only to even out the statistics with regard to educational level), interested viewers could possibly be found in what are termed uneducated groups, who are underrepresented among festival-goers compared to the national average. Successes in film education for apprentices, such as at the *Diagonale—Festival of Austrian Film*, could be employed for this purpose.

Ninety-three percent of visitors at Austrian film festivals reside in Austria (FÖFF_{19}). The remaining 7% came from abroad, most of them claiming to have come to Austria especially for the festival. This is not surprising, as three-fourths of the foreign guests are employed in the film sector in their home countries.

At the regional level, the majority of visitors at Austrian film festivals reside in Vienna (70%). Twelve percent of all visitors live in Upper Austria and 7% in Styria. In light of the fact that nearly half of all Austrian film festivals take place in Vienna and are easy to reach for residents of Lower Austria (in contrast to residents of Vorarlberg, Carinthia, or Burgenland), the fact that only 5% of all visitors live in

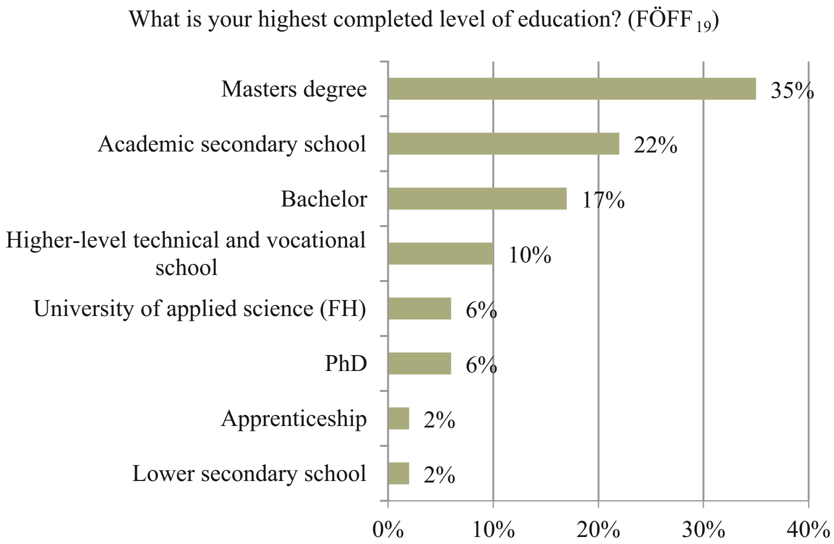

Fig. 3 2015: Educational level of visitors ($FÖFF_{19}$). Source: The authors

that federal state is noteworthy. Of the international visitors, the majority, 67%, were from Germany or Switzerland. Nearly 7% of foreign visitors were from the USA. Ten of 17 film festivals ($FÖFF_{17}$) offered accreditation, and a total of 3724 visitors took advantage of this. Of them, 54% traveled to Austria from abroad. Of all accredited visitors at Austrian film festivals, 42% were employed in the film sector, 35% were moviemakers or film crew members, and 17% were from the press sector (5% from other sectors).

According to responses to the question concerning their reason for visiting the festival ($FÖFF_{19}$), the two most important factors were a strong general interest in film in combination with an opportunity to see films that would not normally have theater runs. Of all visitors, 59% liked the "atmosphere at film festivals," and 49% of all visitors stated that the festival's "thematic focus" was decisive for their visit. Normally, the more distinctive and nuanced a festival's profile, the more important the thematic focus for visiting a festival (more than 80% of visitors made statements to this effect for *FrauenFilmTage*—a Viennese film festival dedicated to the visibility of female filmmaking—and the */slash* film festival, Austria's largest event dedicated to fantastic cinema). Interest in the festival's side program—solely 19% of visitors named this as a reason—was only a minor reason for visiting a festival (Fig. 4).

97% of all visitors plan to visit the festival again in the following year and were highly likely to recommend the festival they visited to others—both clear indicators of the visitor's overall satisfaction. A total of 57% of all visitors were present at more than one film festival in Austria.

Since the audience at Austrian film festivals tends to be affine to film in general and to cinema-going in particular, the fact that most visitors described the statement

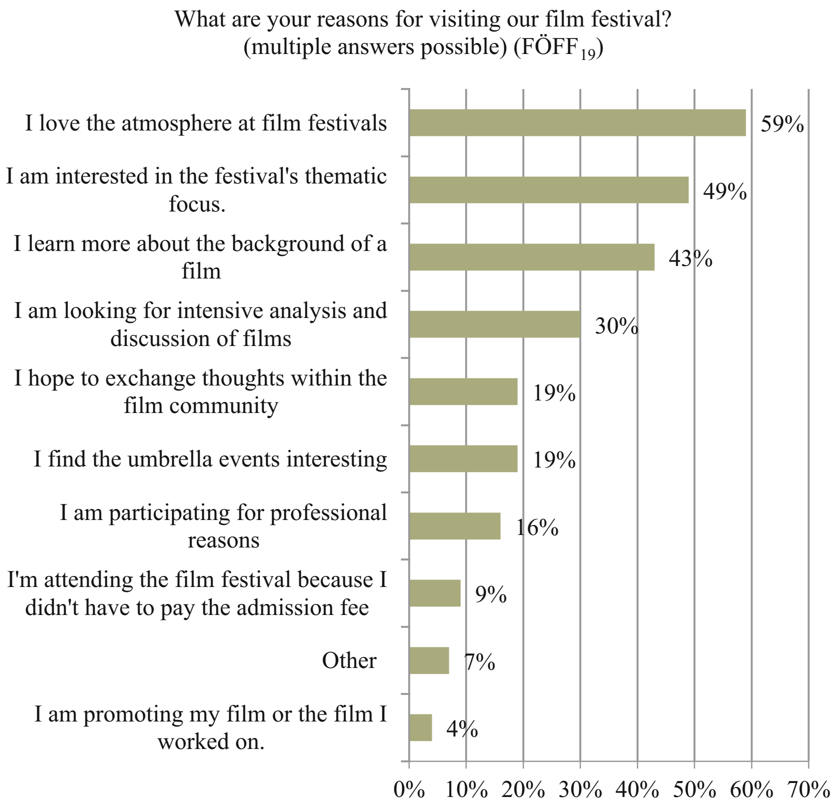

Fig. 4 2015: Reasons for visiting a festival ($FÖFF_{19}$). Source: The authors

"there should be more places in Austria offering an informed discussion about film" as "very accurate" is therefore not surprising. When visitors were asked about how they heard about the festival, recommendations from friends played a significant role ($FÖFF_{19}$) insofar as word of mouth was more important than recommendations on social networks. Classic outdoor advertising with posters and flyers were named by 34% of visitors as how they heard about the festival. At the same time, the fact that this figure can vary greatly from one festival to the next must be considered here: for example, it is 19% for visitors of *VIS Vienna Independent Shorts* and 55% for the *Viennale—Vienna International Film Festival*. While the significance of print media equaled that of the Internet (24% for both), the online world elicited more attention for film festivals by far: together, social networks, the Internet, and online media were relevant for 69% of all visitors. In the classic audiovisual media, 9% of visitors named radio, and cinema trailers and television played solely a subordinate role (Fig. 5).

Considering visitors' awareness of Austrian film festivals according to age, findings revealed that the older the visitor, the greater the significance of print

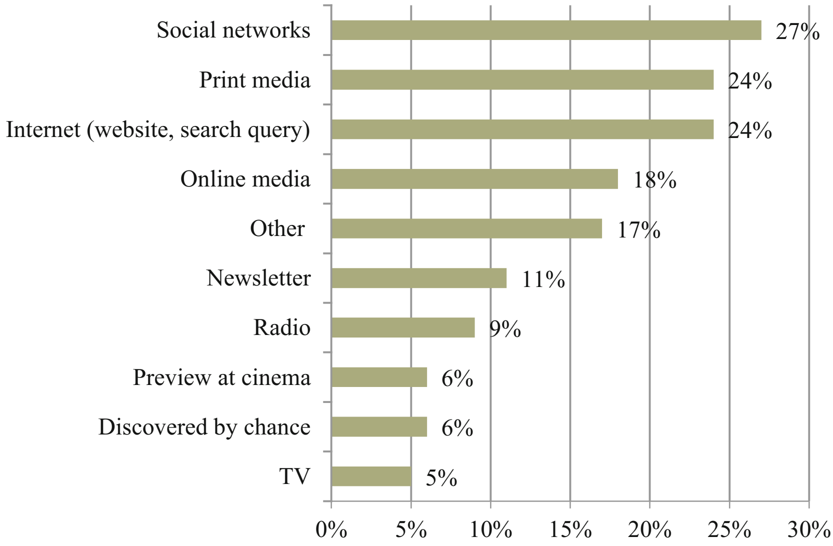

Fig. 5 2015: How did you hear about this film festival? (multiple answers possible) (FÖFF$_{19}$). Source: The authors

media and the smaller that of social networks (FÖFF$_{19}$). Posters and flyers are nearly equally significant for all age groups. Outdoor advertising and the Internet/ online media are approximately equally significant for all age groups (Fig. 6).

Here, Austrian film festival websites are decisive for information about the programs in addition to their catalogues and program flyers. All other sources of information, such as recommendations from friends, social networks, online and classic media, play a comparatively subordinate role.

The strong affinity of the audiences of Austrian film festivals to film is also reflected in the above-average number of cinema visits per year. At film festivals, 27% of the visitors were present at four to six screenings and 24% were at two to three screenings. The number of visitors who were present at more than seven screenings is 40%. The fact that the interest of audiences at Austrian film festivals in film is generally decisive is remarkable: whether the screening takes place as part of a cinema's regular program or at a festival is of secondary importance. In response to the question about how many films a visitor has viewed in the 12 months prior to the festival visit at cinemas or festivals, there are some minor differences, but it can be said overall that the numbers are equal. On the average, visitors of Austrian film festivals went to 7.8 screened films. This figure is considerably higher than for Austrians who go to the cinema regularly: in 2014, they saw 4.1 films per year at cinemas (Österreichisches Filminstitut, 2015, p. 34).

Cinema, as a traditional venue of consuming films, occupies an undisputed first place among visitors of Austrian film festivals. Among public screening venues, it

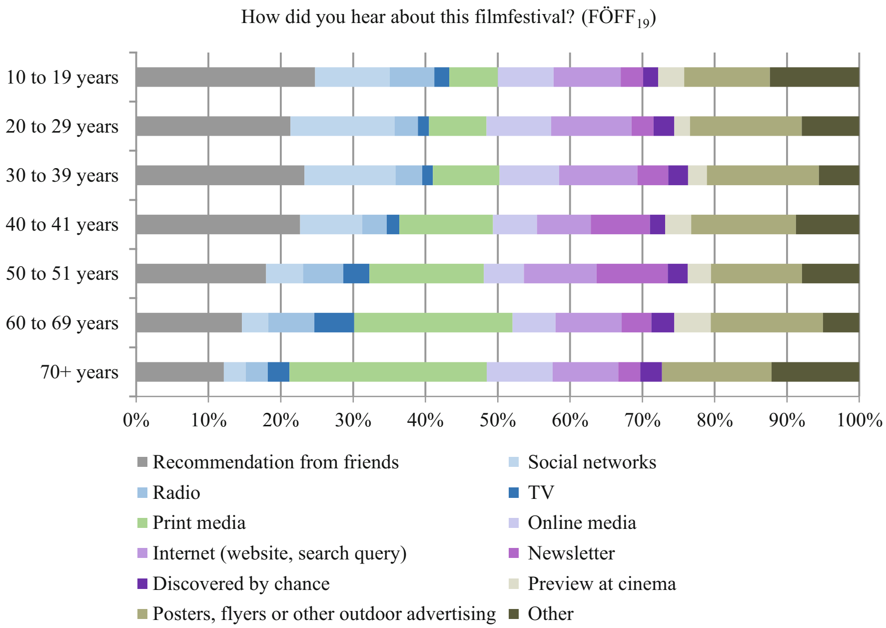

Fig. 6 Awareness by age and media channel: How did you hear about this film festival (multiple answers possible)? (FÖFF$_{19}$). Source: The authors

is the most important by far (85% of visitors surveyed go to the cinema), followed by film festivals (60%) and museums and galleries (15%). The fact that viewing habits—measured by the media channels through which films are watched—have changed drastically due to Internet platforms has been confirmed by the survey. In private settings, classic television and digital forms such as DVDs and Blu-ray discs are nearly equally as important as newcomers in the exploitation chain: platforms such as *YouTube* and *Vimeo*, streaming platforms, and video on demand. Classic television sets are used less often to watch films by the cinema-loving visitors of festivals than laptops. Mobile devices such as tablets and mobile telephones, on the other hand, play barely any role at all (Fig. 7).

4 Economic Value Added

In the past few years, numerous studies have examined the economic effects of film production in various countries (Deloitte Access Economics, 2015; Goldmedia, 2017; Nordicity, 2013; Olsberg SPI, 2015; PricewaterhouseCoopers, 2016; Roland Berger, 2014). However, no such examinations exist on film festivals.[9]

[9]Research focus in the field of film festivals does not rely on economic aspects only. See, for instance, http://www.filmfestivalresearch.org/ where an extensive bibliography on film festivals can be found but not a single entry on film festival economics.

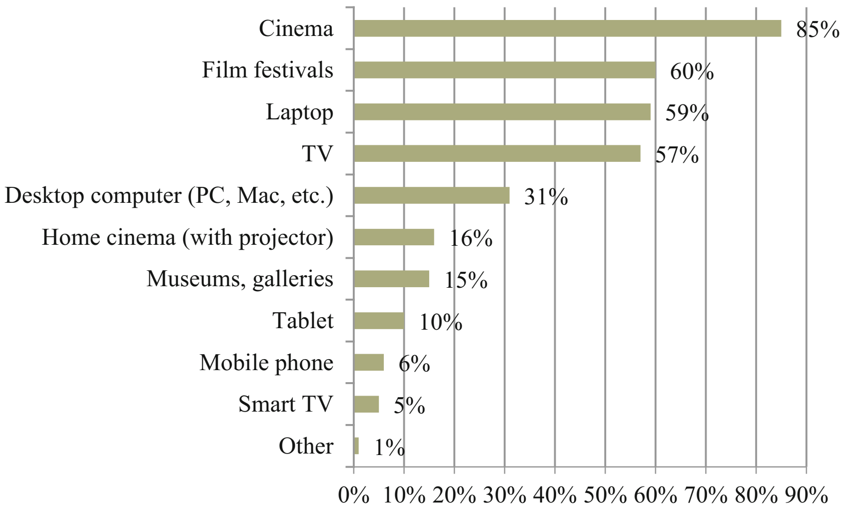

Fig. 7 2015: Where/with which devices do you regularly watch films? (Multiple answers possible)—FÖFF$_{19}$. Source: The authors

The calculations made in this chapter provide for some first information about the film festivals economic impact in Austria and might be useful for comparing the economics of Austrian film festivals with other countries.

The total of such economic effects generated by domestic festivals primarily comprises overall economic effect of the organization and operation of the festival itself in addition to the expenditures of the visitors whose main purpose was to see the festival. Compared with the similar phenomenon of film or screen tourism (see Euroscreen, 2015; Olsberg SPI, 2008; Roesch, 2009), we suggest to design festival-goers as film festival tourists. Since the expenditures of festival visitors who did not have to travel to a festival from outside, i.e., who generally live nearby, have not been taken into account in our calculation, the total expenditures of festival tourists represent a rather conservative figure, which is probably higher in reality. There are no data on film festivals that can be drawn from national economic statistics in Austria. For the calculation of the film festivals' contribution to Austria's GDP, we are thus relying on calculations for film festivals in Germany and the USA. What may seem odd at first sight—using data from abroad to determine the economic effects in Austria—is, in our opinion, justified by the similarities of economic activity of film festivals in Austria, Germany and the USA, i.e., between countries with a similar level of economic activity. The results of the abovementioned studies on the economic impact of a national film and/or TV industry substantiate this claim. Although the volume of total turnover, market orientation, and the volume of the labor force in the film industry of France, Germany, and the UK differ greatly from one another, the respective multiplier effect—enabling the calculation of the total economic contribution of one country's national film industry to the GDP—are

Table 1 Overview of multiplier effect for events and film festivals

Ratio of direct effect compared to total economic effects	Tourism	Gross production value
Events in Austria	1.86	1.82
Sundance Film Festival	1.11	1.89
Berlinale	1.82	
Average	1.6	1.84

Source: Institut für Höhere Studien (2012), Investitionsbank Berlin (2013), Stambro (2015)

in a small range, extending from 1.9 (France) to 2.7 (UK), with Germany in between with a factor of 2.6 (Le BIPE, 2013; Goldmedia, 2017; Olsberg SPI, 2015; Roland Berger, 2014). Based on the premise that the structure of economic activity of film festivals is comparable between Austria, Germany, and the USA, our calculation uses the multiplying factors measured for the *Berlinale* and the *Sundance Film Festival* (Investitionsbank Berlin, 2013; Stambro, 2015) and applies them to the data gathered in our survey.

Fees, salaries, and any other expenditures (rental fees, expenditures for technical service providers, advertising, etc.) account for direct expenditures; indirect economic effects are produced by service providers that assist operation of the festival, like hotels, printers, transport services, etc. Induced effects are triggered by economic activity in other areas, e.g., on the part of employees, who spend their earnings for rent, electricity, food, etc.

Based on the calculations provided by Investitionsbank Berlin (2013) and Stambro (2015), the multiplier effects are, on average, 1.6 for film festival tourism and 1.84 for the production expenditures of the festivals themselves (Table 1):

With a total budget of 6.5 million euros for Austrian film festivals (FÖFF_{19})—this equals the direct effects—the overall economic effects amount to 1.84 times this figure, or nearly 13 million euros.

> On the basis of the data obtained in the survey, the number of individuals who came specifically to visit a certain film festival and were responsible for "expenditures outside of the festival" can be calculated. This represents a total of 3715 film festival tourists: individuals interested in film, employees in the film sector, journalists, moviemakers, and film crew members. Festival tourists contribute additional purchasing power to the location where the festival takes place. The beneficiaries are the festival box office, and also hotels, bars and restaurants, retail, and the transport industry (taxis, public transportation, the railway, etc.). When completing the survey, festival tourists claimed to have spent 64 euros per day for food and accommodation for an average of 3.9 nights. Based on figures by *Statistik Austria*, relating to the makeup of expenditures of tourists in Austria in the areas of accommodation, food, transportation, cultural and entertainment services, and other expenditures (bmwfj, 2013), the total daily expenditures per festival tourist can be calculated. When the figure for expenditures obtained by the survey of 64 euros for accommodation and the expenditure share published by *Statistics Austria* (56% for accommodation) are employed for the calculation, total expenditures amount to 115 euros per person and day.

Thus, the direct expenditures for festival tourism in Austria amount to 1.65 million euros. Multiplying this amount with the average factor gathered for the *Berlinale* and the *Sundance Film Festival* (1.6), the overall economic effects of

Table 2 Calculation of consumption by film festival tourists (based on *Statistik Austria*)

Tourist consumption	Expenditure share (%)	Amount for the film festivals
Accommodation	30	64€
Food	26	
Transportation	16	19€
Cultural and entertainment services	9	10€
Other	19	22€
Total	100	115€

Source: The authors; bmwfj (2013)

festival tourism sum up to 2.64 million euros. Thus, the total amount of economic effects from festival operation and festival tourism for 17 Austrian film festivals amounts to 14.62 million euros (FÖFF_{17}). It was not possible to determine the share of expenditures that go to foreign countries (a majority, for example, for film rights) or services obtained from outside Austria. However, since the calculation of the economic effects is conservative (expenditures of visitors who did not travel to the festival were not taken into consideration), it can be assumed that the contribution of 17 film festivals (FÖFF_{17}) to Austria's GDP amounts to at least 14.6 million euros (Table 2).

As mentioned above, Austrian film festivals had a total budget of 6.5 million euros (FÖFF_{17}). Approximately 57% of that figure—3.65 million euros—was obtained through public funding (excluding sums from collecting societies and professional organizations). From the perspective of local, regional, and national funding institutions, those 3.65 million euros generated a total of 14.6 million euros of added value. One euro of funding invested into an Austrian film festival thus generated four euros of added value.

5 Conclusion: Subsidies Are Lifesavers for Festivals

The strong increase in the number of film festivals around the world reflects their growing importance in distributing film. This has finally changed: since the global production of films has greatly increased and classic cinema exploitation is under pressure from new distribution channels—pay TV and video on demand—the importance of film festivals as a platform for distribution and visibility for films has risen. This is also true for Austrian films released every year: Growing in number, they have more and more difficulties to find their audience, as the frequency of cinema visits has not increased accordingly.

The late director of *Viennale—Vienna International Film Festival*, Hans Hurch, claimed when asked about the importance of film festivals that 90% of all films produced worldwide would find an audience through film festivals only. Although there is no evidence for this claim, our research confirms that cinema is only one way for films (out of several) to find their audience. An example of this phenomenon is the fact that Austrian films reach an equal number of viewers through the branches and cultural institutes of the *Ministry for Europe, Integration and External Affairs* and on film festivals worldwide as they do in Austrian cinemas. This confirms the rising importance of film festivals and puts the traditional focus on a film's theatrical release into perspective.

Another reason for the increase in the importance of film festivals lies in the fact that their role as "mediator" between a large world cinema production and its audience has grown in importance. Arguably, this is also due to the constant availability of films on various digital platforms: film festivals stand for the quality of their curated programs and selected films. In addition, film festivals offer a growing visibility for documentaries, which have—according to some of our interviewees (FÖFF_{16})—more and more troubles to find broadcast time on television: In the past decades, documentaries were produced primarily for television before they moved to cinemas due to insufficient budgets and the lack of adequate formats. At present, exploitation of documentaries at cinemas only rarely works: such films have audiences primarily at film festivals—before they run elsewhere, possibly in paid-for and special-interest channels.

In times of the increasing disappearance of linear programming in classic television and the emergence of digital platforms in particular, film requires much more attention. Festivals offer this. Discussions, including with directors and other members of the film team, lectures, workshops, concerts, parties, exhibitions, and also award ceremonies, industry get-togethers, and other activities that involve mediation increase the visitors' total collective experience and set film festivals apart from classic cinema operations where this kind of event may take place, but on a much smaller scale.

The development of Austrian film festivals (FÖFF_{20}) over the past few years has shown that the majority of films screened are not shown in domestic cinemas, and this fact is valued by an increasing number of visitors. The growth in the number of viewers leaves no doubt that Austrian film festivals have experienced success in the past few years. Festivals must establish themselves and develop their audiences independently. This requires consistency and endurance. Plans should be made for periods of 5 rather than 2 years. The fragmented funding landscape and the funding approvals, which are often given for a single year, do not fit in with this necessity. Funding policy oriented toward the long term and based on an overall strategy is required. Such a strategy must also include clearly defined goals that funding and the festivals are expected to achieve.

For Austria, this would mean that all important funding institutions work out such a strategy together. They could define the framework for future development of Austria's film festival landscape and identify areas where concrete improvements are possible. The precarious financial situation of festival employees and the related brain drain represent an important challenge. A corrective could be closer cooperation in those areas which do not involve the festival's core profile (advertising, marketing, technical service providers, print acquisition, etc.). However, improving employees' financial situation will only be possible with higher budgets. The conclusion of several-year funding agreements would have a positive effect by reducing the amount of administrative work required of both the funding institutions and festivals, and the festivals would also have a better position when negotiating framework agreements and acquiring sponsoring funds.

All film festival directors interviewed agreed that public funding—be it local, regional, or national—is essential, if not indispensable for their continued existence. Public subsidies offer a basic revenue source, which enables film festivals to conclude sponsoring agreements and generate further income (ticket sales, in-kind sponsoring, advertising). At the same time, public funding enables film festivals to run a small organization, on the basis of which all financial, administrative, and curatorial tasks—indispensable before the film festival can actually start (and is able to sell tickets, offer accreditations, and fulfill the agreement with sponsoring partners)—can be performed. It goes without saying that a proper timing of subsidy payment is of the essence here: the selection of films, as well as the organization of film rights, takes time. If the funding approval does not arrive early enough, a film festival simply cannot take place. This happened for the 2017 edition of Vienna's open-air festival *Kino unter Sternen*: being left in the dark from one major funding institution as to the effective starting date and amount of financing, *Kino unter Sternen* was not able to pay their employees and partners and had thus to be canceled.

When asked about the prospects of growth of *Crossing Europe—Film Festival Linz*—one of Austria's major film festivals—Christine Dollhofer, its director, highlighted the fact that public funding is just enough to hold the status quo and that further development of new program agendas, the festival's side program, or staff development is only possible with additional sponsoring funds. This assessment is shared by those film festival directors in Austria whose film festival has been founded in the past decade and who managed to establish their film festival in Austria's festival scene but now struggle to be more visible on the national and international scene, due to their stagnating funding situation. One Austrian film festival—*VIS Vienna Independent Shorts*—managed to gain visibility outside of Austria by being recognized as "Academy qualifying festival" for the *Oscar* of the best short film; i.e., the winners at VIS automatically qualify for the *Academy Award* from this point on.

When interviewed, film festival expert Marijke de Valck stressed that there are many examples of successful festival funding. Further: "A more important issue seems to be that since the start of the financial crisis there has been a watershed between established (major) and struggling (minor) events. The shift is towards a winner-takes-all approach, where established events, the major internationally recognized festivals, are (relatively) secured of (state) funding, while others struggle to survive. In other words, while the total amount of funding available for festivals has decreased, this pain is unevenly felt amongst festivals" (de Valck, as interviewed in August 30, 2017).

As sponsoring money (or "in-kind" products sponsored) is a scarce and disputed resource in the cultural industry, we believe that a national funding strategy for film festivals is the best way to further allow the Austrian film festivals success story to continue. Within Austria, this would enable a growing market of film festival visitors to see world cinema in front of their doorstep.[10]

Appendix

List of the Festivals gathered in the FÖFF:

[10]This point is shared by Marijke de Valck: "In Europe, the necessity to complement state aid and ticket sales with sponsorship has increased, but state (or EU) subsidies remain crucial. Major film festivals have professionalized their sponsorship programmes, and the North American model of corporate sponsorship and mercenaries is tested and adapted to local societies. The commercial variant of festival organizations that emerges most strongly in Asia appears—at least for the moment—less influential in Europe" (de Valck, as interviewed on August 30, 2017).

Database for the sample names

No.	Name of the FÖFF festival	Cultural statistics[a]	Participation in visitor survey	Participation in festival management staff survey	Info on audience size (Auslastung)	Interview with management staff
1	FrauenFilm Tage	x	x	x	x	x
2	Tricky Women	x	x	x	x	x
3	Diagonale	x	x	x	x	x
4	Poolinale	x	x	x	x	x
5	Crossing Europe Filmfestival Linz	x	x	x	x	x
6	Ethnocineca	x	x	x	x	x
7	Festival of Nations[b]					
8	VIS Vienna Independent Shorts	x	x	x	x	x
9	Internationales Film Festival Innsbruck	x	x	x	x	
10	Kino unter Sternen	x	x	x	x	x
11	Shortynale Klosterneuburg	x	x	x	x	x
12	Der neue Heimatfilm Freistadt	x	x			
13	Alpinale	x	x		x	
14	K3 Film Festival	x	x	x	x	x
15	/slash	x	x	x	x	x
16	LET'S CEE	x				
17	video&filmtage	x	x	x	x	x
18	Vienna Jewish Film Festival	x	x	x		x
19	Viennale—Vienna International Film Festival	x	x	x	x	x

20	YOUKI Int. Jugend Medien Festival	x	x	x	x	x
21	Internationales Kinderfilmfestival					
22	This human world	x	x	x	x	x
	Total	20	19	17	17	16
	Sample name	FÖFF_{20}	FÖFF_{19}	FÖFF_{17}	$\text{FÖFF}_{17\text{Aus}}$	FÖFF_{16}

[a]The data relating to the cultural statistics comprise the number of screening days, film screenings and side events, information on the films shown at film festivals (current films, films shorter than 45 min, origin, genre), and the number of visitors at screening, side events, and the annual program (if available). The FÖFF collects these data from its members, and they represent the basis of both the Austrian Film Institute's *Film-Industry Report* (Österreichisches Filminstitut, 2016) and the cultural statistics published by Statistik Austria (Statistik Austria, 2016a)

[b]The Festival of Nations joined the FÖFF as an associate member in September 2015 and did not participate in the study

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Part III

Predicting Future Directions

Gender Inequality for Directors in the European Film Industry: Focus on Austria

Francine Hetherington Raveney, Birgit Moldaschl, and Anna Koblitz

1 Where Are the Women Film Directors?

The *European Women's Audiovisual* (*EWA*) *Network* was originally set in motion during a conference of pan-European filmmakers in 2010 at Santiago de Compostela, Spain. EWA is an independent pan-European non-profit organization spanning 47 European countries and beyond with an executive bureau, an advisory board of pan-European industry experts, national ambassadors and a dedicated multi-cultural team.

In 2015, EWA released a report focusing on the issue of women in the film industry. The report, titled *Where are the Women Directors? Report on gender equality in the European film industry*, was the culmination of a 2-year process which brought together comparative research from seven European countries: Austria, Croatia, France, Germany, Italy, Sweden and the UK. The report is to be seen as an active response to growing concern worldwide about the marginalization of female directors in film culture and aims to provide evidence to inform policy change at national and European level.[1]

[1]The report was drafted by Holly Aylett (*Birkbeck College*, University of London) under the project management of Francine Raveney (former EWA Director and current Head of PR). While the study was organized and managed by the EWA network, it was carried out with the support and collaboration of many institutions, including the *Austrian Film Institute*, the *Croatian Audiovisual*

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1.1 Gender Inequality in the European Film Industry: Alarming

The results of EWA's study covering an 8-year period detailed in the report are alarming. It finds that there is significant under-representation of female directors in all levels of the industry, albeit an almost equal share of women graduating from film schools. Only one in five films in the seven European countries studied is directed by a woman (21%). This means four out of five films are *not* directed by a woman.

- The vast majority of public funding resources (viz. 84%) go to films that are *not* directed by women. Hence, the lion's share of funding goes to films aimed at men and directed by men.
- Low funding perpetuates the scarcity of female-directed films in circulation, in turn affecting the market's willingness to invest in these films, thus creating a vicious circle.
- There is significant difference between the proportion of female directors graduating from film schools and entering the film industry (44%) and the overall proportion of female directors working in the industry (24%). The high proportion of female graduates shows that the talent exists but the potential is not fully exploited by the industry.

The report, which examined the film industry in the UK, France, Germany, Sweden, Italy, Austria and Croatia, found female directors everywhere were held down by a "celluloid ceiling", a metaphor used to describe barriers to workplace advancement for women and minorities. In the film industry, glass barriers and pervasive stereotypes of women persist.

The EWA report also found that although France had a "significantly higher number of [female] directors in comparison with other countries"—in part, thanks to its state-supported funding system—female directors still had to work with lower budgets on average than their male counterparts. Similarly, two thirds of female directors in the UK who responded to the study thought that private funders reacted negatively to projects directed by women (Aylett & Watson, 2016, EWA National Report UK, p. 29). It is not only on major features where women are being sidelined, however. The *Directors UK* report makes the surprising discovery that they are also being increasingly overlooked in favour of their male counterparts by the UK's major public funders (Follows & Krieger, 2016, p. 36). In the decade of study, just 21.7% of films receiving public funding had a female director. Worse,

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Centre, the *Centre National du Cinéma et de l'Image Animée* (CNC, France), the University of Rostock (Germany), *Birkbeck College* (University of London, UK), *Centre d'histoire culturelle des sociétés contemporaines* (CHCSC—Université de Versailles/Université Paris-Saclay, France), *Direzione Generale Cinema*/MIBACT (Italy), *Swedish Film Institute*, *Creative Skillset* (UK), the *Centre for Regional, Economic and Social Research*, Sheffield Hallam University and the *British Film Institute*. It was prepared on the basis of detailed quantitative research involving approximately 1000 industry professionals from throughout Europe.

public funding support for films with female directors decreased significantly over that period, from 32.9% in 2008 to just 17% in 2014.[2] The EWA study highlights a similar trend across the seven countries studied, finding that 84% of available public funding resources go into films that are directed by men. The EWA report notes that "women are seen as 'high risk', particularly for higher budget productions, and there is felt to be a bias towards certain narratives such as action drama, and male-led story lines" (Aylett & Watson, 2016, EWA National report UK, p. 29).

1.2 Hollywood: Prejudice Against Female Directors

As disclosed by the Hollywood industry website TheWrap, two of Hollywood's major studios, *20th Century Fox* and *Paramount*, have no films at all by female directors coming out between now and 2018. All of the 22 movies being released by *Fox* and the 25 by *Paramount* will be directed by men. TheWrap also revealed that *Fox* has not released a single film directed by a woman since Elizabeth Allen Rosenbaum's *Ramona and Beezus* in 2010. *Paramount*'s last film with a female director was *Selma* (2014), directed by Ava DuVernay, an outspoken advocate for the need to increase diversity behind the lens.

This news comes in the wake of a recent report from the Center for the Study of Women in Television and Film at San Diego State University (2016), which found that women directed just 7% of Hollywood's top 250 films in 2014, while men helmed 85% of all US movies. The film industry is under intense pressure to deal with allegations of gender discrimination. Shortly before the study was released, US equal opportunity officials vowed to interview dozens of female filmmakers as part of a historic inquiry into gender discrimination in Hollywood.

1.3 Methodology

The 2016 EWA study *Where are the Women Directors*? was designed to follow female directors through the trajectory of their careers and to identify key factors which obstruct their progression in the industry. Its scope does not include representational, on-screen issues. In relation to funding, the focus was on the distribution of national funds and the role played by public service broadcasting, the two most significant drivers for local content, both of which are funded by and

[2]It is worth noting, however, that the report looks at films in production up until summer 2014, before the *British Film Institute* (BFI) introduced their *Three Ticks* diversity initiative. Since then, the BFI introduced BFI Diversity Standards. "In the 2015–16 full funding year the number of BFI-supported feature films directed by women rose to 34%, or 11 out of 32 directors across the films we funded, our aim being that with further effort this will continue to rise," said BFI Film Fund director Ben Roberts in response to the findings. This lack of public funding support for female filmmakers is not confined to the UK.

accountable to national citizens. EWA's data was gathered through two sources: a comprehensive quantitative survey of national statistics provided by the seven research teams and a quantitative questionnaire distributed through national professional organizations to almost 900 professionals, male and female, working in and associated with the European film industry.[3] The results were analysed with the assistance of experts from Sheffield Hallam and Rostock Universities. Findings were discussed at a series of meetings held during the research period. Both Austria and Germany joined late in the process, in summer 2015. It should be noted that the countries included in this report have very different scales of production and belong to different EU classifications for industry size: Croatia, small; Austria and Sweden, medium; and France, Germany, Italy and the UK, large.

The EWA study covered the period 2006–2013. Participating countries answered an extensive set of questions eliciting information on inequality structures and processes affecting women directors in their industries. Statistics kept by different countries, however, vary considerably, and much of the data had to be mined by national researchers.

To compensate for typically high annual employment fluctuations, the report tracked progression where possible by gathering results across two periods of 4 years: 2006–2009 and 2010–2013.

The project includes documentary and fiction films of 60 min and over, in both the film and public broadcasting sectors, although information on gender equality in the broadcasting sector was especially difficult to access and was incomplete. The data did not include short films and animation, albeit that these are important for entry points for women, particularly in countries with a lower scale of audiovisual production, such as Croatia.

With regard to funding, the report focuses on the distribution of national funds and the role played by Public Service Broadcasting, the two most significant sources of funding for national content which are accountable to the public. There is also reference to private broadcaster funding although data is very limited and restricted to two countries, France and Sweden. With the exception of Croatia, where the size of the country militates against separate regional funds, all countries benefit from regional funds, most but not all of which are financed wholly or in part by the national film fund. These inputs are significant for female directors. Production and development funds can be allocated across more than 1 year, but for the purposes of the report, they have been included in the first year of production. Where films have been directed by more than one director, each director is counted as a fraction of 1. The exception is Austria, where films are ascribed to the gender of the first director listed in the credits, and Germany, where films with more than one director are excluded.

The purpose of this chapter is to allow readers to gain insight of how gender equality measures impact women's position within a specific governance domain (Rai & Waylen, 2008). Gender equality is often understood in terms of the share of

[3]The full questionnaire can be retrieved on demand from the Austrian Film Institute.

women present in a specific context. However, in most feminist analyses, mapping "equality in numbers" is merely the starting point for analysing the configuration of gender relations and gender power (see Dahlerup & Freidenvall, 2005; Franceschet & Piscopo, 2013; Jansson & Bivald, 2013). While governance regimes often include measures to increase women's participation, feminist governance studies argue that even if such measures benefit women's representation, they may reproduce gender inequalities in other areas or in other forms (Rai & Waylen, 2008). Therefore, equality requires "more extensive change than simply increasing the influence of previously excluded groups" (Waylen, 2008, p. 255). Thus it is important to understand not only the number of women participating but also the gendered conditions in which women participate, i.e. the distributive effects of the governance regime.

Essentially, EWA's report calls for "affirmative action" to change the status quo. It hence makes 15 recommendations, many based on best practices, which will address the challenges female directors face in sustaining their careers. EWA believes strongly in the powerful impact of the audiovisual media on our societies. By realizing female directors' full potential, our industries will be strengthened and diversity will be more successfully represented on our screens.

2 What Prevents Women from Working in the Industry?

"Barriers to entry" is a term used in economics that describes the cost that must be incurred by a new entrant into a market that incumbents don't have or haven't had to incur. These barriers can be structural, behavioural or psychological. Incumbents may deliberately erect barriers (i.e. artificial barriers), exploit barriers that naturally exist in the market, also called "structural barriers", or set barriers through their market behaviour. Additionally, new market entrants (i.e. female filmmakers) may find making film just too difficult to bother trying it out. EWA has drawn attention to the following issues:

- *Gender bias in the industry*. Over three quarters of respondents to EWA's questionnaire, released in all seven of the countries, feel that gender inequality exists, with the highest results in Germany and the UK. Of the male respondents, only half are convinced.
- *The struggle for funding*: is identified as women's most significant challenge, both economically, given their unequal status in the marketplace, and creatively, in terms of the range of stories they want to tell.
- *Risk aversion on the part of investors*. A significant number of respondents believe a female director negatively impacts on funding decisions: 56% negative for private funders and, remarkably, 31% for public funders across the board.
- *Lower share of broadcasting funds for female directors*: especially significant as directors move between cinema and television to sustain their careers.
- *Low representation of women on commissioning and funding panels* and low awareness by these panels of inequality.

EWA believes that these barriers are unjustified but also counterproductive since women's films are proportionately more likely to take part in festivals, to win awards and in some instances have a higher average number of admissions per film than those of their male counterparts.

Still, there are further barriers to entry for female filmmakers. These are:

1. *Inequality in average funding awards*. Female directors of fiction films receive less funding per project from national funds than their male counterparts. For documentaries, funding has been more equally shared, and in some cases (Croatia and the UK), female directors have been awarded larger amounts than their male counterparts. In the public broadcast sector, the proportion of investment going to female directors of fiction is even lower than that for national funds, though the investment is higher for documentaries.
2. *Distrust of female directors in delivering films with higher budgets*. The stronger presence of women as directors of documentaries is indicative of the fact that female directors fare better where budgets are smaller.
3. *Pay differentials between men and women*. With the exception of France, none of the countries in the report appear to monitor data on comparative earnings for female directors. However, if French findings are typical, they reveal that between 2009 and 2012, their average earnings were 31.5% lower than male directors' earnings on a euro per hour basis.
4. *Failure to support directors who are parents*. It is not parenting in itself which is a problem but the industry's lack of adjustment to the way in which this affects career progression, for instance, re-entry into the market after starting a family or the demands of childcare during production.
5. *Absence of statistics*. Few national institutions collect data and even fewer carry out data monitoring. In the context of this report, with the exception of the Swedish Film Institute, there is a lack of a coherent, evidence-based strategy within leading institutions to address inequality.
6. *Low support for distribution*. Almost all respondents recognized the need for greater support to boost visibility for female-directed films and develop distribution strategies.

3 Evidence from Austria

As described by Zappe-Heller and Moldaschl (2016), in July 2015, the EWA online questionnaire was distributed to the seven participating countries. In Austria, the questionnaire was sent out by the *Austrian Film Institute* to institutions such as professional guilds, film schools, film funds, TV broadcasters and several other professional networks who themselves spread the questionnaire to representatives of the Austrian film industry. Seventy-seven respondents answered the Austrian online questionnaire, which equals 9% of the total sample of 898 respondents.

Of the respondents the majority have job experience in three creative sectors: 57% described themselves as directors, 49% as scriptwriters and 35% as producers.

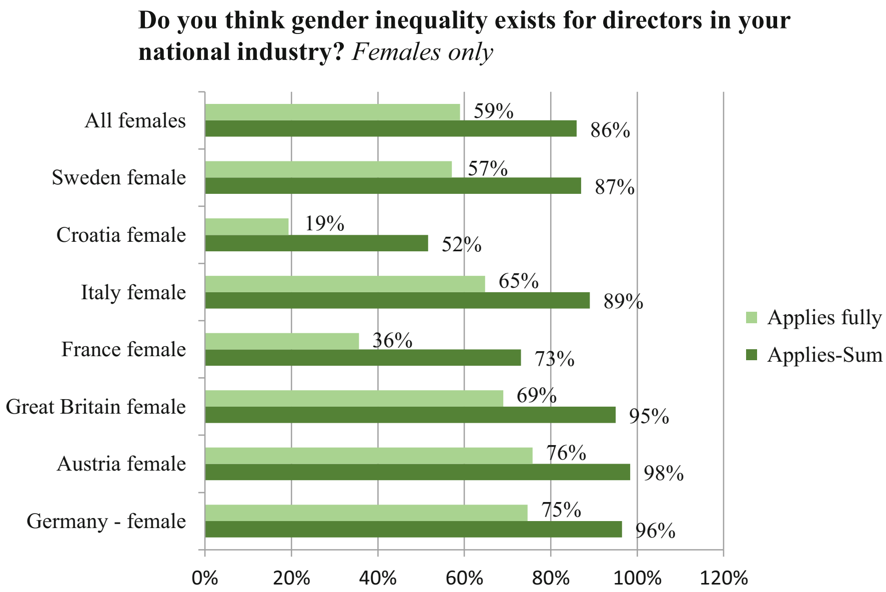

Fig. 1 Do you think gender inequality exists for directors in your national industry? Source: EWA Database—Questionnaire

The remainder are spread across all sectors of the industry. Most of Austrian respondents are female 81% (62n), and only 19% (15n) are male. This does not represent the gender distribution in the field; thus, the differences between male and female answers have to be interpreted carefully (EWA, 2016, pp. 13–4; Zappe-Heller & Moldaschl, 2016). Several questions invited respondents to select more than one option, so results do not always add up to 100%. Respondents select on a 1–4 scale, and the scale points either represent 1 = *applies fully*, 2 = *applies*, 3 = *applies less* and 4 = *does not apply at all* or 1 = *very important*, 2 = *important*, 3 = *less important* and 4 = *not important*. Results of questions that have been answered with a 1–4 scale are graphed with the summed percentage shares of respondents who indicated the top two answers (*applies fully* and *applies* or *very important* and *important*) (EWA, 2016, p. 15; Zappe-Heller & Moldaschl, 2016).

Figure 1 below shows both the sum of the percentage shares of female respondents who indicated the top two answers (i.e. *applies-sum*, the sum of *applies fully* and *applies*) and the top answer *applies fully* in response to the question: "*Do you think gender inequality exists for directors in your national industry*?". The sum of the top two answers *applies fully* and *applies* account for 98% of all 62 Austrian female respondents; 76% of them even indicate that the existence of gender inequality in the national industry *applies fully*. Together with the UK and Germany, Austria ranks among those countries with the highest perceived inequality (EWA, 2016, p. 16; Zappe-Heller & Moldaschl, 2016).

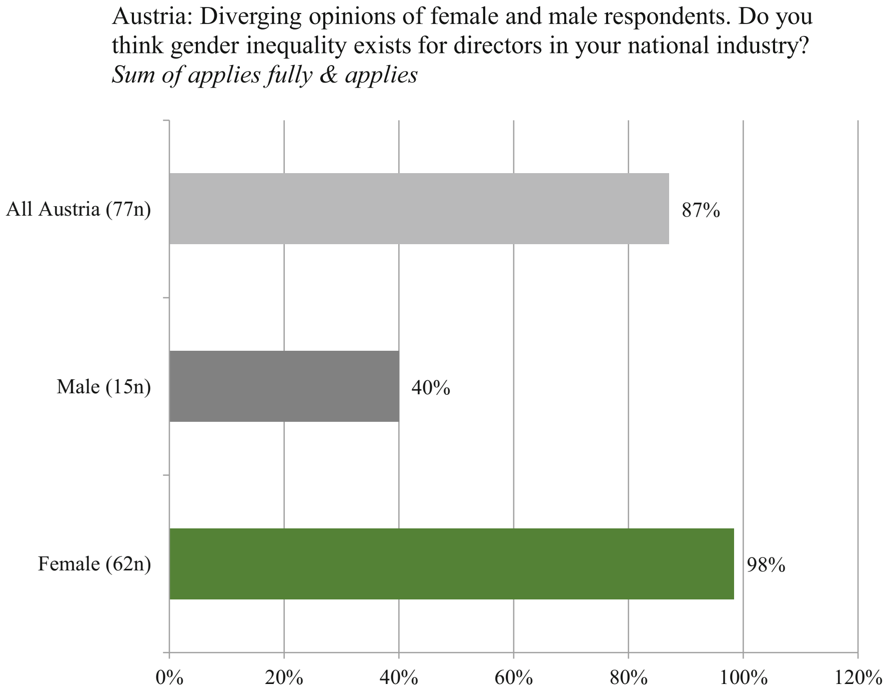

Fig. 2 Diverging opinions of female and male respondents. Do you think gender inequality exists for directors in your national industry? Source: EWA Database—Questionnaire

As shown in Fig. 2, female and male opinions diverge in Austria. Unlike female, male respondents indicate that the existence of gender inequality *applies less* (EWA, 2016, p. 16; Zappe-Heller & Moldaschl, 2016). As demonstrated in Fig. 2, the phenomenon of the different perceptions of equal opportunities can be found in other countries as well, for example, in England or Germany. In fact, this difference of opinion points to a problem which has already been analysed in several country studies. While many women are educated in the film sector at universities, only a few enter the labour market. In men it is the other way around: many work in the industry without film-specific training (Follows & Krieger, 2016; Hochfeld, Genz, Iffländer, & Prommer, 2017; see Fig. 4). These studies explain that this phenomenon is hardly perceived by the male side due to a general structural disadvantage of women and unconscious stereotypical thinking of men and women alike. Individual bias or even deliberate discrimination of women was not noticed in any study.

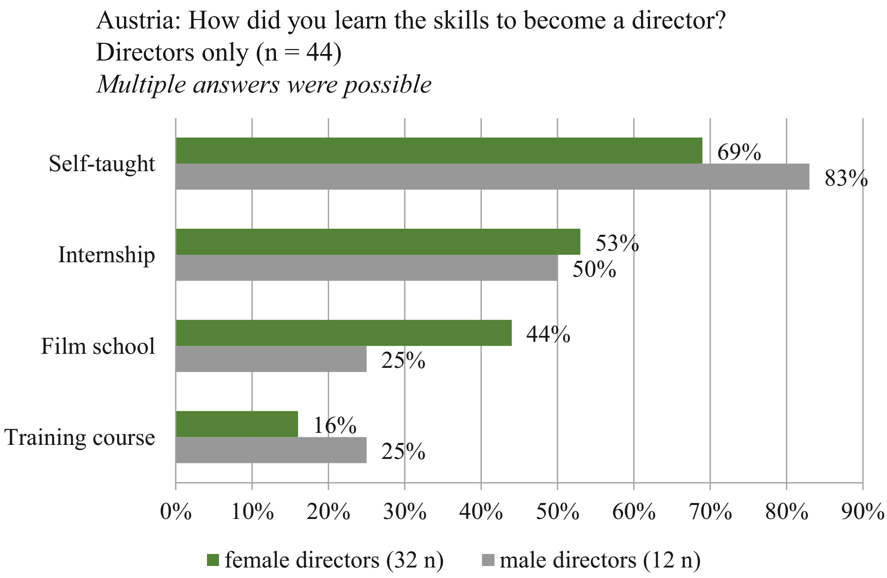

Fig. 3 Austria: How did you learn the skills to become a director? Directors only. Source: EWA Database—Questionnaire

3.1 How Did You Get Your Skills?

For this question, multiple answers were possible. Most of the female and male directors learnt their skills through *learning by doing* (i.e. self-taught); close behind, they indicate an internship/apprenticeship in the audiovisual industry. The smallest number of female directors learnt their skills through training courses; 44% of female directors went to film schools, while only 25% of male directors attended film schools and training courses (EWA, 2016, p. 19; Zappe-Heller & Moldaschl, 2016) (Fig. 3).

Eighty-five percent of the Austrian directors who did not go to film school learnt their skills through *learning by doing* (highest scores also in the other participating European countries). Forty-eight percent did an apprenticeship in the audiovisual industry; 15% attended training courses. Fifty-nine percent of the Austrian directors who went to film school did an internship additionally (the highest scores were in Sweden and Italy), 53% considered *learning by doing* crucial in addition to their film school attendance, and 24% also visited training courses (EWA, 2016, p. 20; Zappe-Heller & Moldaschl, 2016).

Due to the fact that in Austria, compared to the other countries, the *Filmakademie* (film school) is not the most important way to learn the skills of a director, for all respondents to the online questionnaire, the integration of more on-the-job training in film schools seems necessary.

This proposal, however, presents new problems as shown in the recently published in-depth analysis *Cut out of the picture* from the UK: “The lack of certainty in the film business creates two major undesirable outcomes: firstly, a fear of doing something different resulting in the veneration of rituals and conventions over facts or reason. And secondly, a reliance on ‘on the job’ training resulting in a lack of progress based on new ideas and methods” (Follows & Krieger, 2016, p. 73).

The authors of the study warn that more on-the-job training mitigates individual creativity and innovative methods. Furthermore they describe how the lack of female director role models leads into a doom loop: “There currently exists a vicious circle, whereby the lack of female directors leads to the image of a typical director being that of a man, which creates the unconscious assumption that men are better at directing, which leads to fewer female directors” (Follows & Krieger, 2016, p. 73).

It is not only difficult for a female director to enter the industry, it is also very difficult to do so and be innovative at the same time. In order to change the industry sustainably, a different understanding of its history and more visibility of female models in a historical and contemporary perspective are also required.

A challenge for Austria: The editors of a study by the *Sora Institute* to examine *Cultural Participation in Vienna* found that in Austria contemporary film studies are not taught in schools (Schönherr & Oberhuber, 2015, p. 27). Knowledge about film is therefore not part of the general education, and the knowledge about female role models is a special knowledge for a very few. Filmmaker Jutta Brückner from Germany sees the problem also in the fact that many male filmmakers set up foundations to preserve their heritage. Unlike them, most of the female filmmakers, in recent history, never have been so rich to preserve their heritage themselves. Therefore, the state has to support them to do so, claims Brückner (black box, 2017, p. 2).

It would be prefential if more professors and lecturers, aware of the problem, were to counteract the lack of female role models and support young female filmmakers to find their own language, innovative methods and try out new genres: female directors are overly represented in the genre of the drama, while thrillers and comedy (more preferred by young spectators) are dominated by male directors (Prommer & Loist, 2015, p. 7).

Studies such as *It’s a Man’s (Celluloid) World* (Lauzen, 2017) suggest that the number of female directors and female screenplay authors has a direct impact on the number of female (speaking) main characters in films. The study shows that filming projects in which the key positions book or directed by women were occupied more than double as many female protagonists showed up as films of exclusively male-dominated teams. The representation of female perspectives behind the camera is clearly linked to the presentation of female characters on the screen.

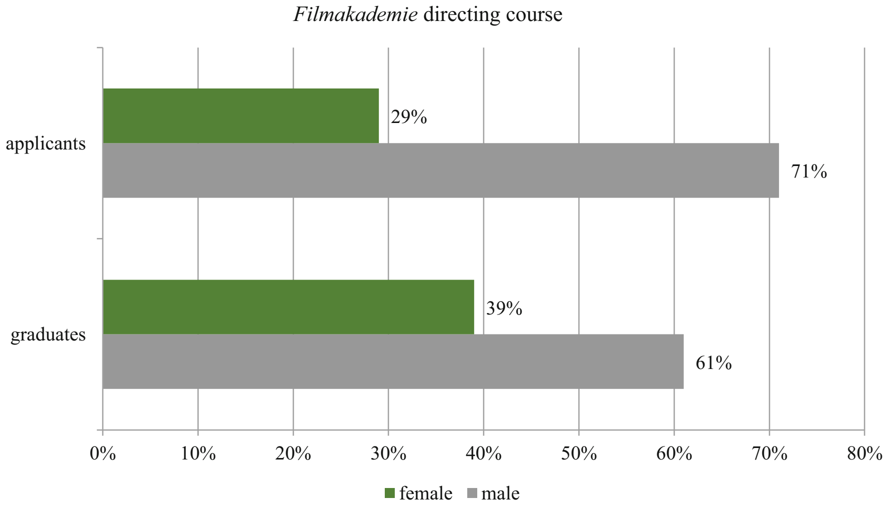

Fig. 4 Average shares of male and female, applicants and graduates, 2010–2013. Source: EWA Database—Survey

3.2 Around 40% of Film School Graduates are Female

Figures were taken for applicants and graduates from the directing course of the Department of Film and Television (*Filmakademie*) at the University of Music and Performing Arts, Vienna. The number of applicants is consistently higher than places available for both men and women. Whereas women comprise an average 29% of the overall number of applicants, they form 39% of the graduates, so the conversion rate from applicant to graduate is more favourable for women (Fig. 4).

The Austrian association for women in the audiovisual industry *FC Gloria* gives a possible explanation for the phenomenon of female directors' disappearing from jobs in the industry (*leaky pipeline syndrome*). It assumes that production companies are the primary source of the problem. Directors need a registered production company for an application for funding from the *Austrian Film Institute*, from FISA (*Film Industry Support Austria*), from *Vienna Film Fond* (the biggest regional fund) and from the ORF *Film/Television Agreement*. Approximately 83% of these production companies are controlled by men. The producer chooses the subject of a film, determines what will be made and calculates the budget of a film. For women it is more difficult to place their themes and contents within this gender unequal surrounding.

The picture changes when funding is granted without the patronage of a production company. The *Arts and Culture Division of the Federal Chancellery of Austria* hosts a special initiative (*innovative Filmförderung*), which funds artistic fiction and documentary films with low budgets, short films and new talent films. Applying filmmakers are entitled to apply without a production company. Of all films funded by the *Arts and Culture Division of the Federal Chancellery of Austria*, 45% have a female director, a figure which is almost twice as high as the 24% share of female-directed films that received production funding payments from national funds between 2009 and 2013 (EWA, 2016, p. 16; Zappe-Heller & Moldaschl, 2016).

3.3 Female Directors' Overall Share of National Production Funds

The figures in this section are based on total amounts of production funding payments actually paid out for a specific project (film) by at least one of the three national funding institutions (*Austrian Film Institute*, the *Arts and Culture Division of the Federal Chancellery of Austria*, FISA (*Film Industry Support Austria*)), allocated to the year of the first instalment. All Austrian films, including majority and minority co-productions, receiving funding from national funds, are taken into consideration.

Between 2009 and 2013, female directors' overall share of production funding payments from national funds averaged 24%. Their share of fiction production funding payments from national funds averaged 23%. Women's average share for documentaries is comparatively high with 30% and might be related to lower production costs (EWA, 2016, p. 25; Zappe-Heller & Moldaschl, 2016). Measured against the number of films female directors' overall share has averaged 30%. Their share of fiction films receiving production funding payments from national funds has averaged 25%. Women's average share for documentaries is with 34% again higher than the share of female-directed fiction films.

The share of female directors increases when the number of films is taken into account. This is linked to the fact that films with male directors receive higher average production funding payments than female-directed films, which is due to the fact that male-directed films have higher average budgets (EWA, 2016, p. 29; Zappe-Heller & Moldaschl, 2016). Table 1 shows that within 2009–2013 women

Table 1 Share of female directors measured against various indicators

Share of female directors measured against	Female directors' share of all films, 2009–2013	Fraction	Female directors' share of all fiction films, 2009–2013	Female directors' share of all documentary films, 2009–2013
. . . number of projects receiving production funding payments	30%	Each 3rd project	25%	34%
. . . production funding payments from national funds	24%	Each 4th euro	23%	30%

Source: EWA Database—Survey

direct almost each 3rd funded project, while they only receive each 4th euro of funding payments. Table 1 also shows that the investment in the projects of female cinematographers pays off.

3.4 Female Directors' Share of Average Budgets and Production Funding Payments

For fiction films the average production funding payment for a male-directed film is constantly higher than for a female-directed film. Within the period 2009–2013, the average production funding payment for a female-directed fiction film was 11% smaller than the average for a male-directed fiction film.[4] Although the share of female-directed documentaries is mostly higher than for fiction films, documentaries with a female director receive on average 16%[5] less production funding payments than those with a male director. The comparatively small differential between the respective figures of 11% and 16% shows that once female directors gain access to national funding, they seem to be treated almost equally to their male counterparts. So the difficulties would appear to lie in how female directors manage to get into the circle of funded directors. The 39% share of female graduates from *Filmakademie* shrinks to a 30% share measured against the number of films receiving production funding payments and reaches its lowest value measured against the total amount of all production budgets for all films released over the period 2011–2013.[6] As Fig. 5 shows, only 12% of all film budgets account for films with a woman director (EWA, 2016, p. 29–30; Zappe-Heller & Moldaschl, 2016).

These clearly lower investment sums in projects under women's leadership also correspond to the situation in other European countries such as England (Follows & Krieger, 2016, p. 20) or Germany (Hochfeld et al., 2017, p. 16). According to the FFA study *Gender and Film*, women are more likely to be associated with genres that have a rather low reputation in the film industry and accordingly have a less valuable label (Hochfeld et al., 2017, p. 52). Here the vicious circle, already mentioned in the commentary on Fig. 4, continues. However, the study found that cinematographic networks are perceived as the strongest barrier (Hochfeld et al., 2017, p. 55). In a men-dominated industry, this barrier affects female filmmakers more than men: "In a situation where hiring decisions need to be made fairly quickly, and without adequate time for reflection, it is not surprising that many producers are falling back on quick fixes, such as relying on heuristics and hiring

[4]The average amount of production funding payments for female-directed fiction films within the period 2009–2013 were 600,085 euros and for male-directed fiction films 675.531 euros.

[5]The average amount of production funding payments for female-directed documentary film within the period 2009–2013 were 103.092 euros; for male-directed documentary film 122.353 euros.

[6]The observation period had to be shortened here due to the fact that production budgets are difficult to access as no data was available.

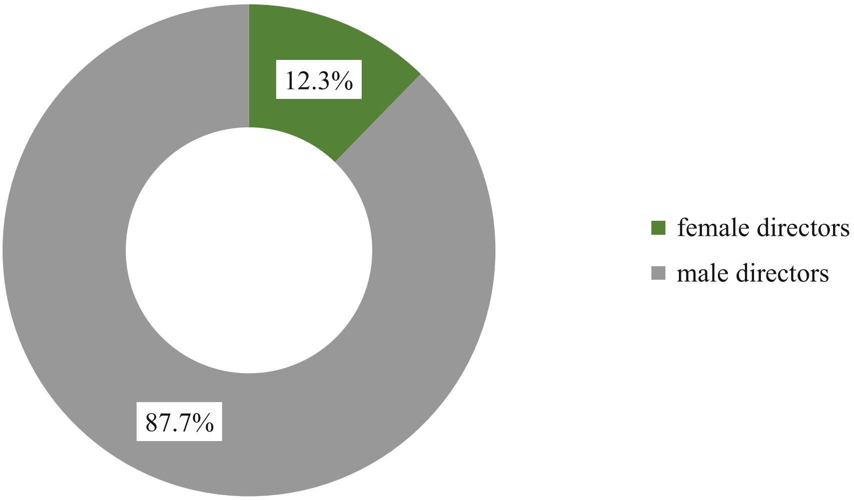

Fig. 5 Share of all budgets from cinema releases with National Funding, 2011–2013. Source: EWA Database—Survey

people who fit their pre-conceived notions or who they have already worked with" (Follows & Krieger, 2016, p. 84).

According to a study conducted by the public broadcasting corporation in Germany, the situation for women in the film sector has not improved over the last 20 years (Prommer & Loist, 2015, p. 5). To the same conclusion comes the report "Cut out of the picture" (Follows & Krieger, 2016, p. 78). German filmmaker and activist Jutta Brückner therefore claims that each funding institution should indicate the number of projects submitted after each commission meeting, the number of projects by directors and funding sums. "Actually, a matter of course, given the fact that film promotion is about public money of a country whose basic principle is that men and women are equal" (*black box*, 2017, p. 1), (Fig. 6).

Table 2 shows that the average male director film budget is higher than the female director film budget. Within the observed period, eight films had a budget of more than 7.5 million euros. Each of these big-budget films had a male director (EWA, 2016, p. 32; Zappe-Heller & Moldaschl, 2016). The study shows that as the budgets increase, the proportion of female directors decline. The general disadvantage of women in Austria was also made visible in the last *Global Gender Gap Report* 2016 (Leopold, Ratcheva, & Zahidi (2016): here, Austria ranked 52 out of 136 countries. A study by the *Chamber of Labour* in Austria (Spitzer & Wieser, 2017) showed that women are not able to go beyond middle management, as well as in other areas of the economy: in Austria, large budgets remain in men's hands. The film sector is not decoupled from this reality but firmly anchored in it.

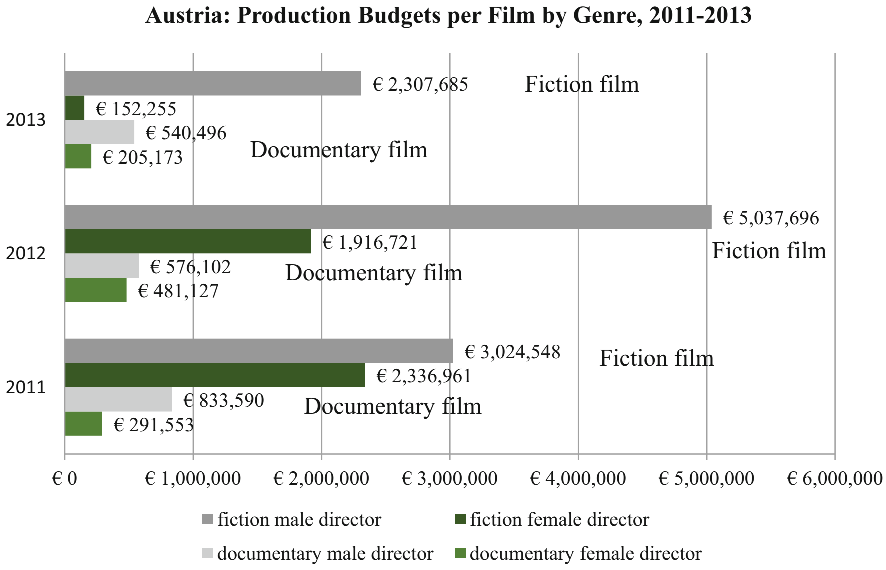

Fig. 6 Average production budget of Austrian cinema releases, 2011–2013 with gender and genre split in euro

Table 2 Austrian big-budget films of the cinema release years 2011–2013

2011	2012	2013
Hexe Lilli 2	Ludwig II	Der Teufelsgeiger
Poll	360	
Powder Girl	Die Vermessung der Welt	
	Amour	

3.5 Impact of Female Director on Public Funders

Two thirds of the male Austrian respondents indicate that a female director has a positive impact on public funders' decisions and none of them think that the impact is negative, while female respondents divide their answers evenly among the three possible answers with a slight preference for *no impact at all* (36%).

Still, every third female Austrian respondent indicates that a female director has a negative impact on public funders. Although differences between male and female answers have to be interpreted carefully, the contradictory perceptions in terms of possible public funders' gender-specific bias are apparent. At European level more respondents believe in a negative impact (31%) than a positive one (25%), while most of them think there is no impact at all (44%) (EWA, 2016, p. 35; Zappe-Heller & Moldaschl, 2016).

The recently published FFA study in Germany supports the suggestion that it actually has a negative impact: "The risk aversion of the film industry has a

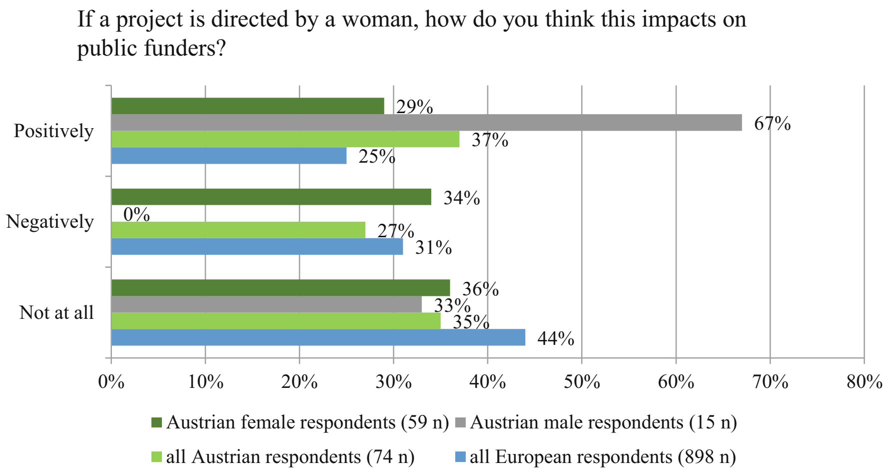

Fig. 7 Diverging opinions Austria versus Europe: If a project is directed by a woman, how do you think this impacts on a public funders? Source: EWA Database—Questionnaire

particularly negative effect on women, as due to stereotypical attributions of abilities and skills the character characteristic success is more associated with men than with women and women are considered to be a greater risk per se" (Hochfeld et al., 2017, p. 37), (Fig. 7).

3.6 Awards and Critical Reception

In this section all 43 Austrian documentary and fiction feature films with a cinema release in 2013 have been analysed according to gender of director, number of international awards and festival participation associated with the film. Data was mainly taken from the website of the *Austrian Film Commission*, which supervises most Austrian films for a certain period of time (often approximately 2 years) at international film festivals. The *Austrian Film Commission* provides no festival or award information about films that have a world distributor or which are supervised by other Austrian distributors such as *Sixpackfilm*.

In Austria, 71% of all female-directed films with a cinema release in 2013 were invited to participate in an international film festival, while only 56% of all male-directed films from the same year were invited. Forty-three percent of all female-directed films in 2013 won an international award, whereas only 19% of all male-directed films received an award in that year (Fig. 8).

Both Austrian and European films with female directors are more likely to win awards and get invitations to participate in film festivals. This evidence of critical success undermines claims about quality used to justify female directors' significant under-representation at A-list festivals. As films with female directors perform better at festivals than films directed by men but men secure access to the more

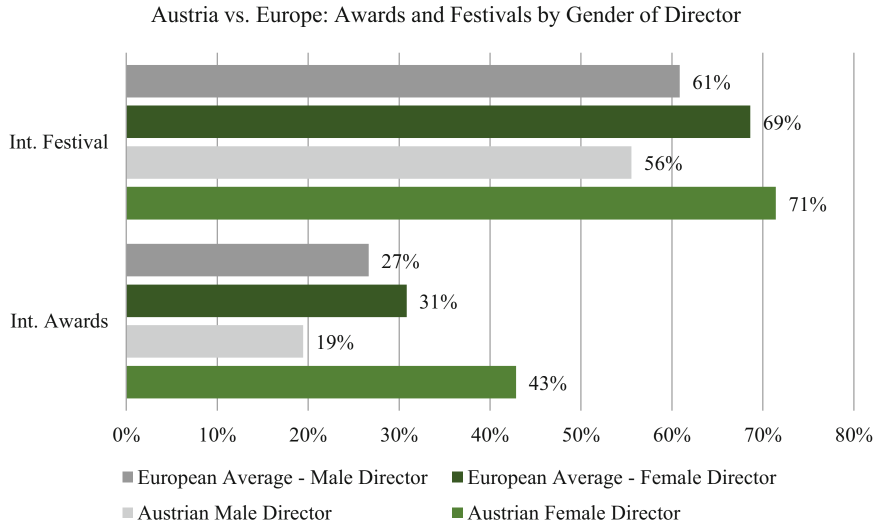

Fig. 8 Austria versus Europe: International awards and festivals by gender of director. Source: EWA report database—Festivals and Awards. Note: percentage refers to all films directed by men (=100%) or women (=100%)

prestigious festivals and prizes, it is a necessity to make all festivals, including A-list festivals, aware of the quality of female-directed films (EWA, 2016, p. 44; Zappe-Heller & Moldaschl, 2016).

Another German study (Krainhöfer & Schreiber, 2016) showed that the low level of funding also has an effect on the festivals, where female directors are clearly underrepresented. Already in 2014 Jane Campion claimed in Cannes: "especially when it comes to public money—it has to be equal" (Krainhöfer & Schreiber, 2016, p. 2).

Nevertheless, the report is consistent with the Gender Report (Prommer & Loist, 2015): both analyses showed a trend towards the fact that films produced by women in relation to films directed by men often won prizes. At the same time, however, the figures point to the fact that the distribution of the lucrative prices is clearly in favour of films by male directors. According to the study, the mean value of the awards awarded for women at 1919 euros is also for men at 5028 euros (Krainhöfer & Schreiber, 2016, p. 3). The last *Film festival report Austria* (Zacher & Paul, 2016) did not raise any comparable figures but shows that the proportion of female spectators in Austria are 60%. Nearly 70% of the employees working at Austrian festivals are women who work there in very precarious conditions. Hardly any employee stays for more than 3 years at a festival, which is a brain drain that should not be underestimated. The study also shows that working conditions in the whole sector can be improved through more investment.

4 Policy on Gender Equality in Film

The 2016 EWA study showed that more female-directed films in circulation would impact positively on the representation of women, promote equality and encourage tolerance in our society. Furthermore, the most important way to encourage women to direct is by showing more of their films on television and cinema screens. There is broad support for policy change, including measures to:

- Address the under-representation of female directors in educational programmes
- Equalize the distribution of public funds
- Achieve equal representation and greater awareness on commissioning boards
- Incentivize producers to support female directors
- Provide much greater support and a targeted strategy for publicity, advertising and distribution

Almost 70% of respondents to the 2016 EWA survey supported quotas to achieve equality targets. Support for this measure in the participating countries ranged from 58% in France to 83% in the UK.

Overall, the report finds that policy on gender equality is piecemeal and poorly monitored in most public institutions in the film and audiovisual industry and many private stakeholders keep no statistics at all. This is indicative of the continuing failure of the European film industry to take gender inequality seriously. Even though it may be argued that a competitive marketplace and job instability impact on male directors as well, their critical mass, propped up by the inherent bias of the industry, means they are far less affected. By contrast, for female directors, the combination of factors revealed in the report conspires to make their careers less sustainable, depriving audiences of their vision and talent and leading to a critical imbalance in film culture in Europe, whereas the evidence of the report shows that gender inequality persists for Europe's female film directors in seven countries, representing small, medium and large audiovisual industries.

While gender equality is being mainstreamed both in *European Union* and *Council of Europe* policy (Council of Europe, 2015), an acceptance of "the market" in audiovisual production is weakening cultural and educational aims with regard to gender equality in the film industry. Considering the impact of digital technology on traditional distinctions between film, television and telecommunications and its potential to affect the visibility of female-directed films and drawing on the aims of the *Sarajevo Conference Declaration* (see, http://www.sff.ba/upload/documents/Conference-Declaration-on-Gender-Equality.pdf) from August 2015 and proposals for the European film industry adopted in October 2015 by the *Council of Europe*'s film fund, *Eurimages*, EWA recommends that:

- The *European Commission* and the *European Parliament* urgently address equality agendas in the audiovisual industry.
- All European supranational film and audiovisual funds, in particular *Creative Europe*'s MEDIA subprogramme, noting and emulating where appropriate the

Council of Europe's initiatives, should actively address gender equality issues in all their policies, measures and support programmes: these should include training, distribution, exhibition, festivals and audience support, as well as media literacy initiatives.

- In any future revision of the European Union's e-Commerce Directive or the Audiovisual Media Services Directive (AVMS) attention should be given to improving measures for gender equality and the visibility of female-directed films and audiovisual works.
- Member funds of pan-European associations, such as the EFADs (*European Film Agency Directors*) and *Cine Regio* (Association of European Regional Film Funds), drawing on the expertise of EFARN (*European Film Agency Research Network*) and/or the *European Audiovisual Observatory* (EAO), should do their best to adopt a common approach to data gathering and analysis on gender equality by their members through agreed common indicators and standardized sets of data, as well as committing to the publication of this data on a regular basis and the exchange of best practice.
- These organizations should be strongly encouraged to dedicate a section of their websites to the issue of gender equality where the results of the research and studies undertaken at European or national level can be published.
- The *European Broadcasting Union* should encourage its members to agree common indicators to analyse gender equality in programme output, commissions and acquisitions, with regard to female directors, and this data should be monitored and published on a regular basis in order to track trends and progress.
- The *International Association of Film and Television Schools* (CILECT) should encourage all members to maintain and monitor statistics on gender equality regarding applicants as well as graduates, to ensure gender equality among teaching staff and to ensure greater visibility for female directors in all curricula and source materials.
- National film institutes should review gender equality and adopt action plans to include adequate systems for data gathering and analysis on gender equality for film directors, with results being monitored and published on an annual basis (statistics should include data on applications as well as awards) and initiatives to raise awareness and promote debate on the issue of women's marginalization and image misrepresentation in the media, in particular aimed at investors, producers and distributors.
- Five-year targets for all funding schemes (excepting those for first-time directors) to achieve an equal share of funding for female directors, to be averaged over 3-year periods in order to take into account annual variations in applications.
- Programmes for first-time directors allocating an equal share of funding to female directors with immediate effect.
- An equal share of funding for all schemes targeting first-time directors.

- Consideration, where applicable, of female directors' particular trajectory through the industry with regard to targeted funds for development and support for new directors.
- Recommendations on adding childcare as a line in production budgets.
- Increased support for publicity, advertising and distribution strategies for female-directed films with particular attention to the distinctive needs of first, second and subsequent productions.
- Lobbying to encourage investors and cinema owners/programmers to work for gender equality in film investment and exhibition.
- Audiovisual funds covering more than one European country, such as the *Nordisk Film & TV Fond* in the Nordic countries, and regional funds within countries, should also review gender equality and adopt action plans in the same manner as national film institutes.
- National regulatory bodies with responsibility for media and broadcasting, both private and public and terrestrial and online, should adopt measures to encourage gender equality and visibility for works by female directors, including developments in video-on-demand (VOD) and subscription video-on-demand (SVOD) platforms.
- Public service broadcasters should review policies for gender equality and adopt action plans to include targets to achieve a minimum 40% share for female directors of feature length, dramas and documentaries of over 60 min.
- Equal gender representation in commissioning and funding committees.
- Measures should be taken to monitor and increase the visibility of female-directed films in school curricula, school film clubs and video-on-demand services.
- All commissioning bodies, policy-making boards, selection panels and juries should be composed on the basis of gender parity.
- Further research should be funded, whether through national or regional organizations, to include (a) case study research with female directors of different generations to further our understanding of women's trajectory in the profession; (b) analysis of the way gender impacts on investor and commissioning decision-making and (c) analysis of the route to the market for female-directed films, including a focus on the effectiveness of support for publicity, advertising and the validity of distribution strategy.
- On the basis of the findings made in the report, EWA recommended that symposia be held in each country, with key stakeholders, to raise awareness, to identify and systematize data-gathering needs and to agree targeted action plans. This work has already started, and events have been held in the UK, France and Germany, with more planned in other countries. EWA is co-operating on an advisory basis with industry and institutional actors in the implementation of these recommendations.

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“Avant-Garde Film” Goes Digital Video: How Does the United States Fund Digital Video Art and Experimental Filmmaking?

Kristen M. Daly

1 Digital Video Art: Substantial Lack of Funding in the United States

Lack of funding is a defining characteristic of digital video art and experimental filmmaking. This is said to be particularly true in the US context where public funding for this segment is sparse in comparison to Europe (K. Sears, personal interview, Jan. 6, 2016). In fact, Fred Camper, a US film artist and lecturer at the *Art Institute of Chicago*, in his widely read list of six qualities used to determine “avant-garde film” or experimental film, stressed funding to be the first and hence most important quality: “It is created by one person, or occasionally a small group collectively, working on a minuscule budget most often provided out of the filmmaker’s own pocket or through small grants, and is made out of personal passion, and in the belief that public success and profit is very unlikely” (Camper, 2006). David Andrews, professor of film studies at *Loyola College in Chicago*, provides the example of the document “The First Statement by the New American Cinema Group” founded by Lithuanian-American experimental filmmaker Jonas Mekas, as demonstration that low budget has been integral to the identification of digital video art and experimental filmmaking (Andrews, 2010). Sometimes referred to as the “godfather” of American avant-garde cinema, Mekas already meant in 1960: “The low budget is not a purely commercial consideration. It goes with our ethical and esthetic beliefs, directly connected with the things we want to say and how we want to say them” (Mekas, 1962).

In this chapter, I will use the term “digital video art and experimental filmmaking” as an umbrella term for artistic practices with moving images, encompassing “avant-garde film” or experimental moving image art, experimental animation,

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video art installations, and more.[1] At its core, this chapter examines the discourse on current opportunities for funding of digital video art and experimental filmmaking with the aim of discerning changes both in conception and practice of digital video art and experimental filmmaking driven by the current pervasion of digital technologies in the field.

The chapter is organized as follows: I will first present some key conceptual issues on the cultural economics of digital video art and experimental filmmaking. On the basis of these theoretical considerations, I shall argue that some of the aesthetic styles and content formats of digital video art and experimental film such as "caméra-stylo," "hybrid cinema," "multiple screens," and "loops"—the terms are defined further below—have been co-opted by both "mainstream" Hollywood as well as independent cinema and the DIY (do-it-yourself) filmmaking community. I will argue that this process of "mainstreaming" which is largely driven by digital technology not only redefines the culture of video art and experimental filmmaking but also opens up new opportunities for the artist and, importantly, challenges the existing funding ecosystem for digital video art and experimental filmmaking.

I will then consider the current situation of funding for digital video art and experimental film in the context of the United States as case study. And finally, using the example of the *New York State Council of the Arts*, I will examine how this technological change affects funding systems in terms of how these need to change definitions or eligibility characteristics of digital video art and experimental film as digital technologies change the styles and formats of the art form as well as enabling an appropriation of traditional identifiers by the "mainstream" products that do not identify as art or fit into the digital video art and experimental film community.

For methodology, this research relies on interviews with filmmakers, correspondence with funding institutions, and reviews of well-selected articles by experts. Personal interviews with a number of digital video art and experimental movie making scholars such as Todd Bayma, Kathryn Ramey, Genevieve Yue, and Michael Zyrd added unique value.

[1]Kathryn Ramey (2016), of the *Department of Visual and Media Arts at Emerson College*, in her recent book on experimental filmmaking, writes in her introduction that she includes interviews with people who make "stuff (we might call it art, or experimental film, or digital-based communicative acts or (...) you get the idea)" thus highlighting the difficulty in defining the borders of this art form. The artists of this form I will refer to as "makers of digital video art and experimental film" as categorizing them as either "artists" or "filmmakers" alone is limiting to the arena in which they work and the boundaries they cross.

2 The Cultural Economics of Experimental Film

2.1 Commodification, Mainstreaming, and the "Artisanal Economic Model"

Sociologist Todd Bayma, professor at the University of Georgia, studied experimental film in Chicago in the 1990s and analyzed the ways in which the economics of art/experimental film, at that time, were hampered by isolation (Bayma, 1995). He noted the lack of definition of the field, something that will be further discussed below, as an issue in "commodification," that is the ability of digital video art and experimental filmmaking artists to market their art to the public as an "object with an economic value" (Appadurai, 1986, p. 3). The digital video art and experimental filmmaking community, Bayma argued, is "self-identified," meaning that an experimental filmmaker is not denoted by some level of recognition by the public or establishment in an institution but identifies him or herself as belonging to the community through the fact that he or she makes films that he or she considers "experimental" as opposed to commercial. He noted, at the time, that art/experimental film was definitively separated from commercial, feature films in that it was created on different material (16 mm versus 35 mm film), was exhibited in different venues (usually one-time showings in city art theaters or festivals versus extended runs at local cinemas), and was marketed in different periodicals (Bayma, 1995, p. 81). This distinction firmly prevented any "mainstreaming" of experimental film. He noted that grants did not confer prestige within the experimental film community and were useful only to academics. Bayma wrote that identification as an academic in and of itself brought antagonism from critics in the field who opposed the institutionalism of the form from the antiestablishment setting of the 1950s and 1960s (Camper, 1987, p. 109; Ehrenstein, 1984, pp. 18–19; Hoberman, 1984, p. 65).

US filmmaker and anthropologist Kathryn Ramey (2010), from the *Department of Visual and Media Arts at Emerson College*, uses ethnographic methods to examine the economics of experimental film communities primarily in New York and Chicago in the late twentieth and early twenty-first century. She considers the "artisanal economic model" to best define art/experimental filmmaking. This model of "painstaking production by individuals or small groups" stands in opposition to the industrial model and, as she notes, also "affects the senses and enjoyment of the person who buys or receives the artisanal product" (*ibid.*). Ramey, building off of Bayma, also illustrates some of the economic isolation and the difficulty of capitalizing on experimental film developing from a neo-Marxist foundation in the 1960s and 1970s and the organization into "film coops" (i.e., cooperations) which showed films theatrically and provided film rentals for low cost, operating as nonprofits without marketing or promotion of films. This economic model, based on "symbolic capital" within a small community, a concept which I will discuss below, did not allow for the exploitation early on of public enthusiasm for the form at a time when art/experimental film showings were well-attended public events and private film rentals had the potential to become an income opportunity for distributors. The anti-industry mentality, Ramey finds, is not as present in the younger generation who had experienced some crossover success between the video art installation and commercial film (Ramey, 2010; Halter, 2005). David Andrews, in reexamining Peter Wollen's 1975 article "The Two Avant-Gardes" and looking internationally, gives the examples of Michael Snow, David Lynch, Peter Greenaway, Chantal Akerman, Matthew Barney, Chris Marker, Isaac Julien, and Miranda July as artists who have "straddled the divide" between antiestablishment and commodification and between video as art installation and commercial, theatrical film (Andrews, 2010).

Ramey (2010) discussed digital video art and experimental film as a "distributed object." She says, "each work is an individual representation or index that retains a moment in the artist's expression of his or her own agency" (Ramey, 2010). The experimental film's value, according to Ramey, is based on its circulation. Genevieve Yue (2014), assistant professor of culture and media at the *New School* in New York, who analyzed contemporary experimental film, refers to "circulation" in festivals and art-world circuits as a key measure of value within the community as well. Interviews with contemporary experimental filmmakers, like Kelly Sears, also brought up "circulation" rather than "distribution" as this would be more common in discussing commercial film distribution implying an economic component, whereas circulation would rather infer a cultural or social aspect (K. Sears, personal interview, Jan. 6, 2016).

Both Bayma and Ramey look to French sociologist Pierre Bourdieu's writing on art and cultural economics. Beginning in the late 1970s, Bourdieu referred to a field of artistic production as being a "separate social universe having its own laws of functioning independent of those of politics and the economy" (Bourdieu, 1993), and Ramey (2010) picked up the argument along these lines and adopted it for experimental film. Ramey described experimental filmmakers' focus on acquiring "symbolic capital" which leads to prestige within the experimental film community. Both filmmakers, through circulation, and viewers, through having seen certain films and having attended certain events like film festivals and talks, can accrue this form of capital according to Ramey (*ibid*.). Bourdieu, as Bayma (1995) notes in relation to experimental film, wrote of the avant-garde's "ritual disavowal of the ordinary criteria of success" (Bourdieu, 1993, pp. 38–40) and instead the seeking of "recognition among similarly situated peers" (Bayma, 1995, p. 91). These descriptions applied to the video art/experimental film community paint a picture of a somewhat closed loop, excluding the greater public, where recognition and success exist within a circumscribed community and where more mainstream recognition could actually be a detriment.

Bayma turned to literary critic and political theorist Fredric Jameson (1990), as well as Bourdieu, and Jameson's concept of modernist art and commodification. Modernist art, according to Jameson (1990), is "embodied by isolated, individual efforts to produce aesthetic expressions that cannot be commodified" (pp. 15–16). Bayma building upon this concept argued that experimental film, arising from modernism, developed a similarly antagonistic relationship to mass culture, in this case commercial film. This resistance toward economic and institutional success has been a defining characteristic of digital video art and experimental film that, as I will argue, begins to change character with digitization as the ubiquity of digital moving image technology brings styles and formats that were characteristic of digital video art and experimental film into mainstream culture.

Defining art, experimental, or avant-garde film has always only been an approximation, and this is true particularly now, as the specificity of the medium is blurred by the ubiquity of digital technology in production and circulation. Some defining characteristics of digital video art, experimental (or avant-garde) film have, in some sense, been co-opted by the "mainstream" Hollywood system, as well as by independent films and DIY, through the default choices of digital technologies and networks. Media theorists Lev Manovich (2001) and Adrian Martin (2002) have both examined, toward the turn of the twenty-first century, how avant-garde filmmakers used aesthetic styles that with digital technologies become easy and widespread stylistic options. What was time-consuming and sometimes expensive to do with film, for example, editing, manipulating within the frame, or long continuous shots, becomes easy in digital with the command options of digital editing and have moved now into the realm of the smartphone. These types of affordances provided by digital technologies have made aesthetic styles of digital video artists and experimental filmmakers widely available.

In previous work done at Columbia University (Daly, 2009, 2010), I have explored the effects within independent and Hollywood cinema of widespread digitization, but the increasing penetration since then of digital technologies and moving image communication into everyday life through smartphones has mainstreamed styles into the wider DIY community. In turn, moving image artists and experimental filmmakers have been using both new technologies as well as performative and interactive forms to define themselves in new ways and to take the next step in representing the experience of the mediated twenty-first century. In reaction to changing technologies and the destruction of "medium specificity," funding sources for art and experimental moving images have adapted programs and funding goals.

2.2 The Concept of "Medium Specificity"

In the early days of video, "medium specificity" was emphasized in aesthetic discourse in terms of an artist best exploiting the characteristics of a medium that were unique to that specific medium (Bernstein, 2004). Theorist and critic Amy Taubin (2007) described how early video artists, led by Nam June Paik, tried to emphasize medium specificity of video such as electronic distortions, low-definition images, and the flow of video images in opposition to the transition of film frames. In order to get funding and space in the museum, she posits, video artists had to fetishize the difference (Taubin, 2007). This purposeful distinction exaggerated the differences at a time when the making of video art was still difficult and messy in comparison to film and focused the argument on the ontology of the medium. As video converged with film in terms of quality, the distinction began to lose importance in the popular discourse.

Currently there are so many ways of making moving images that the debate over medium becomes almost moot. Yue (2014) writes that the current batch of young filmmakers "leap over the medium-specific hurdles of their teachers' generation, switching easily between 16 mm and digital video, and traversing both the cinema and the gallery." In this sense, the artists must adapt the focus of content and form as Hollywood and amateurs take advantage of multiple forms and styles previously not accepted by broad audiences or available to hobbyists. Some of these examples of styles will be explored in the next section.

2.3 How Technology Redefines the Culture of Experimental Filmmaking

Stylistically, digital video art and experimental filmmaking had certain identifying characteristics which have now become the "mainstream." The idea of the "caméra-stylo" or "camera-pen" introduced by Alexander Astruc in 1948, (Astruc, 2009) enabled by lightweight, mobile 16 mm film camera technology afforded a style that was spontaneous, flexible, unobtrusive, and intimate and that video art and experimental filmmakers used to define their form. High-quality digital moving image technology has enabled both Hollywood cinema or Hollywood films to use multiple, small cameras to capture unusual, intimate, or site-specific scenes (Daly, 2009), as well as an explosion of DIY videos circulated on the web through *YouTube*, *Vimeo*, *Vine*, and other video-sharing sites, thus mainstreaming the style.

"Selfies," "loops," "multiple-screen" formats, and "hybrid cinema"[2] have moved from the museums and experimental film co-ops to the mainstream. Turning the camera on oneself was primarily the purview of experimental filmmakers, and now, through *YouTube*, *Vine*, *Instagram*, and many other sites and applications, millions of "selfie" videos are posted every day. There are *YouTube* and *Vine* stars who bring in six figure salaries (in USD) through endorsements and paid appearances.

Vine videos loop much like an experimental or art video displayed in a museum. Rex Sorgatz (2013), media and technology entrepreneur, goes so far as to say: "Now manifested in GIFs, Vines, Supercuts, music samples, instant replays, and endless other formats, the loop has become the preeminent narrative device of our time." This realm of alternative narrative or non-narrative is one within which experimental moving image artists have traditionally played. Videos in the form of

[2]*Selfies* are pictures of oneself that are taken usually with a smartphone and shared via social media. I use this term as an anachronism also to refer to self-referential films characteristic of experimental and avant-garde film. *Loop* is a short set of images and sounds that plays over and over. *Multiple-screen* involves having more than one set of images and narratives on the same screen or one picture across multiple screens. *Hybrid cinema* is the combination of moving images, sound, graphics and text together on the screen.

Vine, GIFs, and *Snapchat* become direct communication media through social media, something that will come up later in the discussion of a film funding institution's adaption to new technologies.[3]

Multiple interacting and contrasting screens and parts of screens have been a key aspect of experimental moving image art. This is defined in opposition to the "transparency" of most "mainstream" Hollywood cinema, where the audience is supposed to be immersed in the wholeness of the narrative and images, not "reflective" where the audience has to work and is simultaneously aware of the mediation. With digital and mobile technologies, users have become accustomed to a divided screen with multiple narratives or information overlaid with hybrid images, not photo-realistic, such that "animation," "green-screen techniques" and "rotoscoping,"[4] and the painting over live-action images become choices of techniques available at all levels of moving image making (Daly, 2009; Manovich, 2001; Gehman & Reinke, 2005).

Makers of digital video art and experimental film are countering this co-option and popularization of their mode by playing with the format and content. At *Sundance Festival*'s 2016 *New Frontier Exhibit*, virtual reality (VR) featured prominently. Media company 8i's principals Linc Gasking, Daniel Schechter, and Rainer Gombos created what they call "the first volumetric VR project," *#100humans*, that brings human actors into realistic virtual experiences (Gasking, 2016). They chose, as one of the features, *Vine* star Logan Paul to, as the *Sundance Institute* (2015) marketing put it, "help invent a new medium." Gasking referred to Paul a "pioneer in experimenting with a new platform" (Gasking, 2016) for his work on *Vine*. The piece can serve as a commentary on contemporary popular culture and stardom, the nature of art-making itself, and the role of the viewer or fan. Figure 1 shows a shot from the project featuring Paul and his parrot, *Maverick*, before the background becomes the *Roman Colosseum* and Paul a gladiator. *Volumetric* VR allows the viewer to walk around the actors. A familiarity with Logan Paul and his goofy, fun *Vine* videos, filmed around his university dorm room and apartment, usually seen in brief loops on a small screen, would create a conflict in the viewer of #100humans who then would see this familiar character in life-size 3-D and could move around him and seeing him transformed into a gladiator.

Arguably, film funding bodies are having a hard time to characterize this type of digital video art and experimental filmmaking in terms of its artistic or commercial criteria. The crossover *Vine* artist Kyle M. F. Williams, aka *Keelayjams*, is a sort of "best practice" example (Pugachevsky, 2013). Williams, who experiments on

[3] *Graphics Interchange Format* (GIF) was created in the late 1980s and became popular as a small file size that allowed movement and was cross-browser compatible. During the 1990s, GIFs became popular as a way to add moving imagery to web pages without high bandwidth needs (Baraniuk, 2013).

[4] *Green-screen technique* is the practice of recording images of an actor on a green or monochrome background which is later replaced in editing with either animated or real images that were not there at the time of recording. *Rotoscoping* is the painting over of live-action images to make animation.

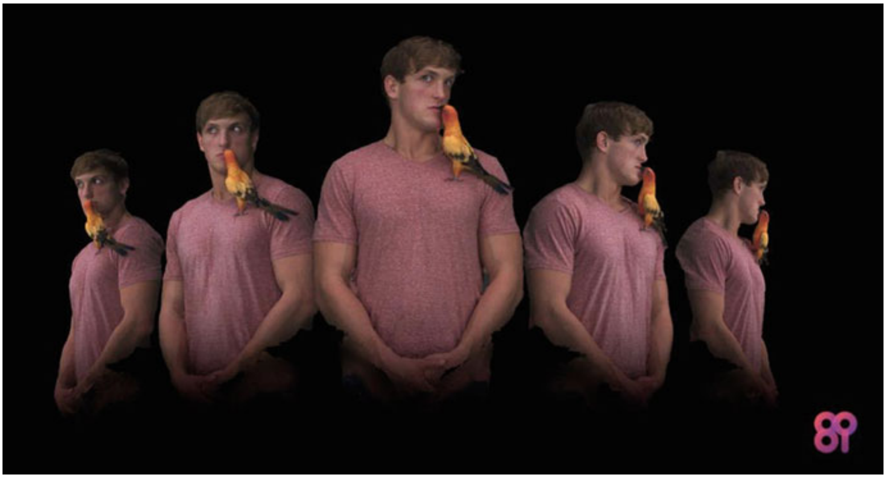

Fig. 1 Two-dimensional still of *Vine* actor Logan Paul and *Maverick* his parrot. Source: #100humans [shot featuring actor Logan Paul from the "Volumetric VR" project shown in *New Frontiers* at the *Sundance Film Festival* 2016]

sculptures, paintings, and even music (with accompanying videos), takes an avant-garde ethos into the *Vine* medium using found footage from *Google*'s *Street View* errors, surreal events, and non-sequitur editing, even creating a series of videos making fun of advertising in *Vines*.[5] Ramey (2016) noted that this process of "repurposing technology [. . .] for artistic expression" is characteristic of the digital video art and experimental film(making) community. By including and thereby commenting on contemporary media and technology use, makers of digital video art and experimental film are acknowledging the mainstreaming of avant-garde moving image culture and its use as a communication medium while at the same time moving on from these styles and using the new technology to create forms and contents which consistently critique and reimagine the mainstream use.

3 Funding Digital Video Art and Experimental Film in the United States

In the following, I will look at different levels of private and public funding for digital video art and experimental filmmaking in the United States. I examine the move into academia of its filmmakers and alternative options that artists explore in

[5]Keelayjams video "Funeral" provides a good example of avant-garde style in *Vine*: https://vine.co/v/hzbPF55wWgr

order to fund their work. Looking at some of the past innovations that funders made into media arts[6] in the 1960s–1980s, in reaction to the growing cultural power of television, can help shed light on how funding institutions adapt to changes in technology.

3.1 National Level Funding

The *National Endowment for the Arts* (NEA), founded in the mid-1960s, focused, in the area of film, initially on preservation (NEA, "A History," n.y.). The *Media Arts division* later expanded to the presentation of traditional performance art like plays and dance on television. In *The Economics of Art and Culture*, James Heilbrun and Charles M. Gray (2008) noted that the NEA found in 1992 that people who reported watching or listening to arts-related material in the mass media were also more likely to attend live performances (p. 51). Funding live performances on live television was also a way of bringing arts culture to more remote and rural regions of the United States. Brian O'Doherty, the head of the *Media Arts Program* in the 1970s, funded new media experimental projects in television and video and supported media arts centers within existing institutions and without. O'Doherty wrote that "the work of the independent artist, which maintains an individual voice in a mass medium overwhelmingly devoted to commercial ends, is still a misunderstood and underexploited resource" (NEA, "A History", p. 66). These media arts centers helped move art and experimental film out from New York and San Francisco. In the culture wars of the 1980s and 1990s[7], funding for the NEA was cut back, and there have been numerous movements by the national legislature to abolish the NEA altogether.

3.2 Private Funding

Howard Klein, at the *Rockefeller Foundation* in the 1960s and 1970s, took an interest in media arts and in particular video artist Nam June Paik, who was on the point of leaving the United States to avoid his electricity bill when he received a grant organized by Klein through the *Rockefeller Foundation* and the *State University of New York* (SUNY) in 1967 (Sturken, 1987). Paik received other grants through Klein and *the Rockefeller Foundation* and acted as a consultant during that time, facilitating grants for other video artists. Klein supported a number of experimental television centers founded within public television centers—the *National Center for Experiments in Television* (NCET) at KQED in San Francisco,

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[6]The term media arts generally refers to time-based art works that involve recording visuals and sound and was used with the advent of video, when a broader term was needed for moving image art works that did not necessarily involve film.

[7]See *National Endowment for the Arts*, particularly ch. 6 on *Culture Wars* (pp. 89–110).

The New Television Workshop at WGBH in Boston, and the *Television Laboratory* at WNET/Thirteen in New York City. These centers lasted only through the 1980s but provided opportunities, community, and legitimacy for a number of experimental moving image artists.

Some of the larger current private funding sources are the *Guggenheim Fellowship* and *Creative Capital*. *Creative Capital*, as stated in its own description, was founded as a response to the culture wars, the threat to the NEA, and the decision by the US legislature in 1999 that the NEA would no longer fund individuals. *Creative Capital* was founded on a "venture philanthropy" model, which means that it funds the project as well as career development for the artist and outreach for the projects, with up to US$90,000. Awards are one time only. Grantees have the opportunity to pitch to presenters, work on career goals, and develop marketing and administration plans (M. Ellsworth, personal interview, January 21, 2016). This is similar to the incubator/accelerator format for venture capital in the technology field.

The *Guggenheim Fellowships* are perhaps the most well-known of the private individual funding organizations. Awards are given one time to artists who have already established themselves and achieved considerable success in their careers. A look at the list of those who have received film and video awards indicates that a large number of the fellows are associated with universities. Experimental animator Kelly Sears at the *University of Colorado* noted that the majority of her colleagues have become associated with universities as this is the most stable source of support and funding for a moving image artist (K. Sears, personal interview, Jan. 6, 2016).

3.3 State-Level Funding

Most individual US states have their own art councils, and there are regional art councils both among states and within a state for some of the larger states. Each of these has different areas of focus and support. As an example at the state level, in New York State, the *New York State Council* of the *Arts Electronic Media and Film Program* (NYSCA EMF) funds nonprofit organizations in New York State.

The *New York State Council on the Arts*' (NYSCA) history of film funding is a specific case in point, although New York, as a center for culture and the arts in the United States, has had a larger role to play than most. According to the NYSCA final reports, the NYSCA began supporting moving image projects in 1966–1967 with the *Film Project*, which sponsored tours of contemporary art including filmmakers, multimedia artists, and small format video (K. Helmerson, personal interview, Jan. 28, 2016).[8] The *Film Program* became a formal category of funding in 1967 (Silverfine & Earle, 1994). In 1969, this became the *Film & Television Program*. The program continued to adapt to technological developments in the moving image arts, becoming the *Electronic Media & Film Program* (EMF) in

[8]Karen Helmerson, program director of the NYSCA *Electronic Media*, *Film* and *Visual Art* group, kindly accessed these documents.

1990s (K. Helmerson, personal interview, Jan. 28, 2016). The *Program* moved from promoting moving image art to some direct production support for film and media in the 1970s, but in 1984 the NYSCA created the *Individual Artists Program* for direct support of film and video production, and the EMF has focused on organizational support. Narrative, documentary, and experimental forms have received support through it. The *Individual Artists Fund* has focused on artist's vision and point of view and been less concerned with particular medium or type of content (Silverfine & Earle, 1994).

The *Electronic Media & Film* area is defined on the NYSCA website as "dedicated to experimental and creative expression in all genres of time-based and moving image media, including emergent technology" (NYSCA, n.y.). Today, the NYSCA offers the following categories: *Architecture + Design*, *Arts Education*, *Dance*, *Electronic Media & Film*, *Facilities*, *Folk Arts*, *Individual Artists*, *Literature*, *Museum*, *Music*, *Presenting*, *Special Arts Services*, *State & Local Partners*, and *Theater and Visual Arts* (NYSCA, n.y.).

Visual media theorist, Marita Sturken (1994) of *New York University*, has written about the role that the *New York State Council on the Arts* (NYSCA) played in the development of the media installation as a unique form with an established place in the art museum where it did not previously have a format. Although the NYSCA did fund individual artists in the 1970s, she notes that it was the funding for exhibition spaces for media art that led to the establishment of media departments in some of the museums and thus a rooted place for media art in the museum. She argues that this establishment of place in the museum through the installation form allowed media art to move away from the close-captioned medium specificity of 1970s video artists to a much broader field for artists working in media. An example she cites of video's acceptance in the museum world is the well-known 1982 *Whitney Museum* retrospective of Nam June Paik supported by the *New York Council of the Arts* featuring, among other video exhibits, Paik's "TV Garden" exhibit first displayed in the *Guggenheim Museum* in New York in 1974 and seen in Figs. 2 and 3. The exhibition featured TV monitors of different sizes all playing a repeating video of Paik's video *Global Groove*, originally created for TV broadcast, amidst a jungle of plants.

Previously, in the 1960s, media art had existed, or more aptly "happened," in ephemeral one-time showing events. These two images demonstrate the solidification of the moving image art object in the museum and the medium playfulness with the TV screens looping an art work previously made for an ephemeral TV broadcast.

Sturken also noted that the NYSCA funding for "critical, curatorial and educational writing about media arts," which in turn, "fostered critical discourse that defined the field" (Sturken, 1994). She wrote: "Hence, as media arts installations and video art in general are integrated into the art world, their 'mediumness' becomes less important than what they say. That is perhaps the real legacy of NYSCA's funding in the nascent field of the media arts—it helped to render the boundaries between media obsolete" (Sturken, 1994). Tess Takahashi (2012) of the *York University Film Department* has also traced the exhibition of experimental

Fig. 2 Artist Nam June Paik Amidst the Ferns. Source: Rosenstiel, F. (Photographer). Nam June Paik "TV Garden" 1974–78 Solomon R. Guggenheim Museum Exhibit, New York City

film through the screen, examining site and context, and stressed the importance of new display environments as a way to understand the history of experimental film. There are likely other, less well-documented, examples where state or regional art councils funded exhibition and criticism that contributed to the development of the current broad field in which art and experimental moving image artists operate.

3.4 Local-Level Funding

At the local level, towns, cities, or counties may have their own art councils or art commissions. Funding for these organizations may come from a combination of state, county, and private funds. Local arts councils will sometimes provide fiscal sponsorship which allows an individual to apply for grants that require nonprofit organization status. Local art support is often directed toward projects that serve the community. Both Kelly Sears and Geoff Marslett, moving image artists interviewed for this chapter, received funding from local film societies in Austin, Texas, for projects while they were living there. There are pockets of strength in this arena depending on the locality. Big cities as well as large university towns, like Austin,

Fig. 3 TV Garden Exhibit. Source: Nam June Paik Retrospective Exhibit 1982 Whitney Museum of American Art, New York City

tend to have more local resources, as do some tourist towns where arts are an integral part of the tourist attraction.

3.5 Funding Through Academia

The number of visual art programs within US universities has increased fourfold in the past 50 years, according to sociologist Gary Alan Fine, with around 300 programs currently offering MFAs (Parry, 2014). There has been, in the United States, an overall movement toward professionalization in higher education, and with the influx of multimedia and moving images into advertising and marketing with the platform of the Internet and mobile devices, these programs and digital media skills are increasingly viewed as vocational. The United States has a system of public and private universities, with public universities operating on some amount of state money and with lower tuition for students coming from within that state. Geoff Marslett, animator, independent filmmaker, and professor of film at the *University of Colorado* and previously *University of Texas*, notes that well-funded private universities have far more grants for faculty in the moving images than public universities (G. Marslett, personal interview, Jan. 28, 2016).

The movement of digital video art and experimental film production and artists into the more comfortable and institutional realm of academia has been hard to accept by some filmmakers, critics, and fans who experienced what they consider the "heyday" of avant-garde film in urban centers in the 1950s and 1960s when avant-garde film showings would garner large audiences and when filmmakers were solo, unsanctioned, and on the edge of survival. Universities started hiring these artists and developing film and visual art departments in the late 1960s and early 1970s and have supported and sustained art and experimental film and video in the United States since (Yue, 2014). Yue (2014) writes how with the decline in public funding for the arts and no substantial financial support from the art world that the academy primarily sustains art/experimental filmmakers even though they are frequently conflicted about the institutional support. She wrote that unlike novelists and visual artists there is no consumer outside the university in the wider general public to support digital video art and experimental film. In this she likens it to poetry and wrote: "Experimental film must produce, in tuition dollars and cultural capital, its own rationale. The image of its sustained significance is a matter of survival, as experimental film programs must prove their worth and relevance, often to university administrators. This is not to suggest that good films can't be made within this system, because they surely can; few, however, can be made outside of it, at least in the United States" (Yue, 2014). Current students and makers of digital video art and experimental films may have come to grips with this dichotomy. Ramey (2016) had her 2014 *Experimental Media History/Theory* class at *Emerson College* list what they thought experimental/avant-garde meant, and one of the items was: "By nature is in opposition to institutional structures although it is institutionalized."

Before video on the Internet became common, universities and university film clubs comprised the majority of opportunities to view art/experimental films. Universities also provide the majority of rentals that keep art and experimental film co-ops afloat, and therefore, as experimental film scholar Michael Zryd of *York University* points out, academic scholarship on avant-garde film serves as the primary publicity and marketing form (Zryd, 2006). The field of creative writing has been experiencing a similar situation with the rapid multiplication of creative writing programs in universities. The influx of writers into academia has pushed the economic balance to academia as a means of support for writers over direct publishing and created somewhat of an existential crisis among the writing community (Harbach, 2014).

University film and visual arts programs have decreased the regionalization of art and experimental films. Film scholar Lauren Rabinovitz (2003), professor of cinematic arts at the University of Iowa, found that starting in the 1970s with the rise of film schools that the larger role of universities in film culture leads to decentralization of avant-garde film outside of the hubs New York City and San

Francisco. As Yue (2014) wrote, "Schools, as well as festivals, make up the many nodes of an increasingly global network."

3.6 Film Festivals

Other growing sources of funding for art and experimental film and video artists come from film festivals. For example, *Rooftop Films* is a nonprofit organization which shows underground films at outdoor venues. They provide a grant fund for alumni artists as well as equipment resources and professional support. They also have a curated page at *Kickstarter* for alumni looking to raise money through crowdfunding. The *Sundance Institute* and the *Tribeca Film Institute* have become major players in the field with labs and grants. *Tribeca* has particularly reached out to experimental moving image art with five different programs supporting various aspects of nontraditional moving image making. *The Sundance Institute* has a New Frontier program which focuses on new media technologies and innovative forms of storytelling. In conjunction with this, they host a *New Frontier Story Lab*, residency program, and single day workshops. As Gallagher (2018) note in their chapter in this volume, film festivals receive most of their operating expenses from private donations and earned revenue and not from public funding. Without a solid commodity value as an artwork, film festivals can be a way of measuring economic importance of digital video art and experimental film (Seaman, 2011).

3.7 Crowdfunding and Others

As Geoff Marslett teaches his students in independent film, if a filmmaker can overlap with certain specialties or already existing advocacy groups, he or she has more options for accessing funding (G. Marslett, personal interview, January 28, 2016). Michelle Ellsworth, who uses extensive moving images in her performances, some of which exist only as videos and are never publicly performed, exclusively receives grants under dance or performance rubrics (M. Ellsworth, personal interview, Jan. 21, 2016). This type of specialization, of definition through content, can help experimental moving image artists access a wider variety of funding and some that might be more available in other artistic mediums.

"Crowdfunding," a form of direct public funding for production from the small donations of many individuals, is growing as a key means of support for moving image artists. Geoff Marslett, speaking anecdotally of his recent experiences at film festivals, estimates that 75% of projects have included some sort of crowdfunding in their budgets (G. Marslett, personal interview, January 28, 2016). He recommends his students count only on crowdfunding the amount of money that they think they could raise from friends and family. Crowdfunding has reached the point of popularity that it is hard to get attention from pure strangers. As he says, "You are competing with the likes of Zach Braff, Spike Lee and Charlie

Kauffman," all of whom have used crowdfunding (G. Marslett, personal interview, Jan. 28, 2016).[9]

As Ramey (2010) wrote, "Money in the avant-garde film community is hard to come by, and big money is rare." She notes how even the most prestigious grants are equal to 1 year of a junior professor's salary and that these are one-time grants. Other funding sources, she says, provide partial funding for projects but not enough for an entire project and certainly not enough to live on. She writes, "Thus filmmakers must fund their work themselves or find other means to acquire wealth" (*ibid.*).

4 Conclusion: The Silver Lining for Celluloid

The late A. L. Rees of the *Royal College of Art* in London in the standard textbook on the subject, *A History of Experimental Film and Video* (2011), written originally in 1999, described the internal logic and aesthetic discourse that could, at one time, define the art practice of avant-garde, video art, and experimental film. Kathryn Ramey, though, makes a case more appropriate to our current moment when she said: "The avant-garde is not a genre of filmmaking, an institution or simply a set of practices. It is a living, changing community, the boundaries of which are constantly being contested from both within and without" (Ramey, 2002, 2010). Even with the bleeding of many of the styles and defining characteristics of digital video art into the "mainstream," this is a time period when the art form is flourishing in the United States despite a decline in public funding. As Yue (2014) noted there has been an expansion of experimental film festivals, she mentions *Migrating Forms*, the *Images Festival*, the *Ann Arbor Film Festival*, and the new projections at the *New York Film Festival* which are open to early-career artists. She noted that even in the heyday, the field of artists was not as "large, ambitious, or geographically dispersed" as at the current moment (Yue, 2014). Powered by new media and visual arts departments in academia crossing disciplinary boundaries, by DIY movements that popularize but also challenge artists, and by interest in the larger media world in new ways to access audiences in an age of hypermedia overabundance, excitement pervades the field.

Coming back to the New York context, the *New York State Council on the Arts Electronic Media & Film* (EMF) program has had to adapt to changes in technology and artistic practices in moving images. Program director, Karen Helmerson writes, "Over the years, [EMF] has followed developments in technology and the use of analog and digital media by artists, including celluloid, by adapting its guidelines to meet new vernacular, terminology and creative trends" (K. Helmerson, personal

[9]Zach Braff—US$3,105,473 from 46,520 backers in 2013 for *Wish I Were Here*; Charlie Kauffman—US$406,237 from 5770 backers in 2012 for *Anomolisa*, Spike Lee—US$1,418,910 from 6421 backers, in 2013 for *The Newest, Hottest Spike Lee Joint* (eventually *Da Sweet Blood of Jesus*).

communication, Jan. 28, 2016). EMF has centered its focus on technology itself as an art form, with the description on the website including, "*Time*-based and moving image technology must be the core tools of interdisciplinary work, where technology is the predominant focus as a professional art form" (NYSCA, 2016a, 2016b). This definition avoids any commitment to "medium specificity." Using the example of documentary, Helmerson described the evolution, "from traditional film formats and storytelling to contemporary digital and social media, transmedia and interactive storytelling—from celluloid film cameras to digital cameras, to cell phones as image capturing tools and more. Virtual reality and holograms are also in the portfolio" (K. Helmerson, personal interview, Jan. 28, 2016). Instead of drawing the line between mediums, EMF has decided to differentiate on "purpose," separating technology used for the purposes of art from technology used for the purposes of communication. Helmerson noted that they do not support and most frequently have to turn down proposals where "technology is employed solely as a communications medium" (K. Helmerson, personal interview, Jan. 28, 2016). This differentiation will be interesting to consider as the DIY movement has increasingly melded and merged the purposes of art and communication in moving image technology. Drawing and holding that line between art and communication may become increasingly difficult.

This chapter has made the argument that Hollywood, independent, and DIY video have co-opted the aesthetics and styles of the avant-garde, but in fact the avant-garde makes the digital age of media less of a rupture. Interactivity, multiple screens, experimental editing, hybrid images, cat videos, and multimedia—we have been prepared for this world by the avant-garde/digital video artist and experimental filmmaker.[10] What was only available to a few in universities and major cities with art theaters is now mainstream entertainment and even a form of communication. Although this situation tests artists, it also opens up audiences who are ready to be thrilled and challenged and ready to see moving images in different environments and formats.

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Movie Analytics and the Future of Film Finance. Are *Oscars* and Box Office Revenue Predictable?

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1 Introduction: Movie Analytics and Film Finance

This chapter examines to which extent modern analytics techniques help us understand the success of movies. We will describe essential analytics techniques as needed here and discuss them in the context of the prediction of box office revenue and *Oscar* attribution. The work in this chapter lies in the context of the broader issue of film financing. A series of papers published by slated.com (Brown, 2015a, 2015b) makes the case that the industry has now become an attractive investment domain, and the success of the industry in terms of both raw revenue and revenue growth implies that investors must have at least some sense of how to control the risk of investments in that industry. It, however, remains true that predicting the success of a film, even with modern data mining techniques at hand, is a difficult task, as will be detailed further in the chapter (see for example El Assady et al. 2013).

This chapter addresses in detail the problem of predicting box office revenue on the basis of data available *before* the movie is released (Sect. 2). The methodology for data collection and analysis based on state-of-the-art data mining models is described. In all, this discussion draws a sobering lesson: state-of-the-art methods can identify those variables which are important for predicting box office revenue, such as the budget, whether the movie is part of a series, and the "star power" of the distributor, actors, and producer, but it remains difficult to actually predict box office revenue with decent accuracy because of the presence of very strong outliers in the dataset. The chapter then turns to a discussion of the role of "prediction markets," that is, exchange-traded markets created for the purpose of trading the outcome of specific events, in predicting *Oscar* wins (Sect. 3). The performance of the *Intrade* market (now taken off-line for reasons explained below) in predicting the 2013 *Best Picture Award* (attributed to the movie *Argo*) is described, on the basis of data extracted from *Intrade* before it was taken off-line. Finally, the chapter discusses the role of "controversy," as identified by a text mining of movie reviews, in *Oscar* attribution (Sect. 4). The analysis suggests that too many themes underlying the reviews may be too complex for a voting audience to rally on. On the other hand, too few may be too simple. The movie *Argo*, with six underlying themes, may very well have reached a happy medium. Hope may very well lie, both in terms of predicting box office revenue and awards such as *Oscars*, in preproduction analyses of scripts. However, such analyses, as performed, for example, by slated.com, involve human judgment. Parts of this chapter are based on Haughton et al. (2015).

2 Box Office Revenue Prediction

Strong financial stakes are linked to a good box office prediction for a film, both for producers of this film and for cinema managers. The literature in this area is large, but datasets used are often unintentionally biased by their authors who exclude films with a low budget or low success (observed ex post) because information about such films is less reliable.

Managers of cinemas are investors, and as such, minimizing the risk of commercial failure of the films they select is a major issue. To achieve this, several methods are at their disposal. They may, for example, broadcast a film with an actor or a director who is recognized and appreciated by the public, a film adapted from a popular book, or a sequel to a successful film; or they might count on an effective advertising campaign. However, these simple strategies do not guarantee the commercial success of a film. To address this problem, predictive models have been developed for several years to identify factors that help make a movie a success.

Extensive literature exists on the subject with early attempts dating back to the 1990s and new developments each year. In general, models display relatively good predictive rates (with R-squares of more than 70% and relatively low error rates).

Most of these studies, however, have a selection bias inherent in the availability and quality of the information used to construct the models: they base their prediction only on a subsample of films with either a high production budget or, worse as far as bias is concerned, a relatively high box office revenue. The problem is that such information is not available "ex ante" for a cinema wishing to decide whether or not to accept a given film. Typical samples in the literature eliminate a considerable number of "outliers" (up to 46% of the films with total box office revenues under US$1 million). We also note that this 46% is probably an underestimate of the proportion of film with revenues below US$1 million since information related to certain failures was probably not included on the site www.boxofficemojo.com used in this chapter. This explains in large part the good "predictions" in the aforementioned studies (see, e.g., McKenzie (2012) for a review article). These models are however not practical for a film director wishing to identify a potentially successful movie. Determinants of success among films with a relatively high box office revenue are not necessarily the same as those for films "ignored" because of their low visibility.

In this section, we explore to what extent it is possible to predict the financial success of a film before its release, with the goal of potentially helping a cinema manager decide which films to accept to maximize profit. We consider all categories of films such as those that can be found on the US site www.boxofficemojo.com, a website that tracks box office revenue in a systematic, algorithmic way. We will focus on box office revenue for the first week after a film's release, since most profits are realized during this first week. We compare the results of estimates using different statistical methods, more or less recent and more or less complex. Our main finding is that a precise prediction of box office receipts on the basis of prerelease information only is much more difficult than when the selection of the sample is biased by the use of "ex post" information. We will therefore try to predict box office revenue from the available "ex ante" information for the manager whatever the film. More precisely, we will only use information available before the shooting of the movie begins: a good prediction with this information only would allow the manager to position himself/herself earlier on promising films. We will test several forecasting models.

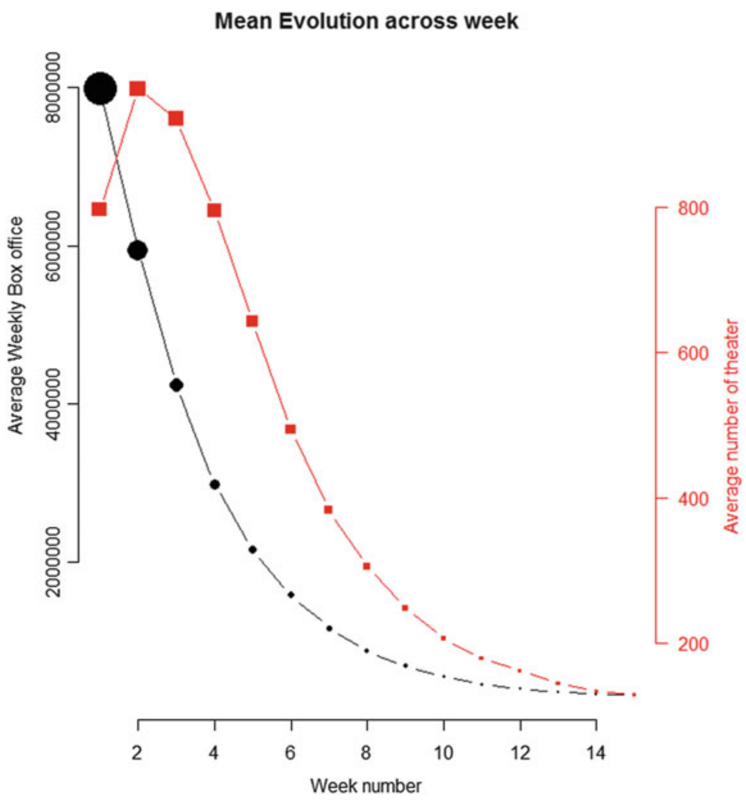


Fig. 1 Average weekly box office performance and average number of movie theaters showing a movie. Source: Computed by the authors

2.1 Methodology

Our forecasts will focus on the box office revenue obtained during the first week after the release of the movie. This is highly relevant to cinema managers since, as illustrated in Fig. 1, the bulk of the revenue from a film is obtained during the first week (40% on average), reflecting the delay in other cinemas deciding to show the movie.

Concerning our predictions, we want to put ourselves in a "real situation," faced by a realistic cinema manager, with the information available to him/her. We will therefore predict the revenues of the films released after the end of 2011 (2166 films), from models built on data available "ex ante": on the basis of films released before January 2012. More specifically, we consider all those films whose first week of broadcasting was over by January 1, 2012. Different time series learning samples will be tested to construct our models:

- The 5874 films released between 2000 and 2012
- The 3392 films released between 2006 and 2012

- The 2193 films released between 2008 and 2012
- The 1090 films released between 2010 and 2012
- The 566 films released in 2012

This temporal distinction offers us the possibility of testing what is most appropriate for predicting box office revenues and of guiding the choice of the most suitable reference sample. This helps control for an unobserved economic conjuncture. We will refer to this process as the choice of an "optimal temporal horizon." We will construct the following predictive models:

- Linear regression
- Decision tree
- Random forest
- Conditional forest
- Gradient boosting

We will also use the so-called stacking method to optimize our results. These different models will finally be applied to the ex ante data on the films released after January 2012, estimated as if we were at the end of 2012. Therefore, it is clear that, in contrast to previous studies, we will not exclude any film. We, finally, compare our predictions with the actual revenues realized by films released in 2013, 2014, and 2015.

In summary, our objective is to identify the optimal time span a manager must observe as a test period to construct his/her estimation model and the modeling technique with the highest predictive power.

2.2 Data

2.2.1 Data Collection: Web-Scraping

The database used in this chapter contains more or less detailed information (total, weekly or even daily) on the box office revenue of 15,459 films in the United States. It also contains "classical" details about the genre of the film, its production budget, distributor, cast members, etc. This information was gathered via web-scraping on the American reference site: www.boxofficemojo.com.

The data collection method (fully implemented via R) proceeded as follows:

- Collection of all the links to the pages referencing the films
- Creation of a "scraping function" to apply to these links

This function must be general enough to be able to retrieve the information available on any type of page, which implies extensive investigative work on the site (discovery of patterns in the coding of pages) and management/anticipation of potential errors. Among other things, the function must be able to determine the granularity of the available information (daily, weekly, etc.). To speed up data collection, and to avoid overloading the server of the query site, we aim for the function to visit the smallest number of links possible. This function returns the results of each page as a frame, with one row for each “period” of box office revenue (e.g., 1 week). Finally, this function is applied to all links gathered in the first stage. Once data collection was completed, a dataset of 107,760 weekly box office revenues was obtained for 11,544 different films. We recall that we focus on first-week revenues in this study.

2.3 Data Processing: Creation of Variables

We now possess a very rich database, but several data transformations were necessary in order to be able to make use of it.

2.3.1 Box Office Revenue Deflation

We choose to measure box office revenues in financial terms rather than in terms of audience (number of viewers) since we are focusing on the financial return of the films. To make the intertemporal comparison possible, we deflated box office revenue by the monthly CPI of the weeks in which they were launched. When that information was not available, we simply deflated the global box office revenue by the CPI of their launch year. Table 1 displays the ten highest revenue films, in both nominal and real terms.

2.3.2 Production Budget

The film production budget is only available for a little less than a quarter of the movies. To retain this 25% of available information, we will split the production budget into two “subvariables”:

- A first binary variable indicating whether or not the information is available.
- A second variable of interaction between the binary availability variable and the production budget. This variable is therefore zero when the information is not available and is equal to the production budget otherwise.

This “dichotomy” is the best way to maintain this variable which is positively correlated with the box office, hereby avoiding a non-negligible bias.

2.3.3 Experience, Quality, and Star Power

The decision to “consume” a film is special because the good is consumed once (with a few exceptions, since a few individuals will see the same film multiple times in a cinema). The individual therefore bases his/her choice of viewing on an implicit estimate of the quality of the film. Watching trailers, reading opinions by experts, or observing the enthusiasm of other better-informed individuals (measured on social networks, e.g., see Mestyán, Yasseri, & Kertész, 2013) can influence this estimate. The observation of these different variables makes it possible to estimate in a very fine way the box office revenue and even its dynamic

Table 1 Ten films with the highest box office revenue: nominal and actual (basis, January 2010)

Rang	Top films (nominal)	Year	BO nominal (in $ millions)	Top films (real)	Year	BO real (in $ millions)
1	Avatar	2009	750	Star Wars 4	1977	1099
2	Avengers	2012	623	Titanic	1997	808
3	Titanic	1997	601	E.T.	1982	805
4	Batman: Dark Knight	2008	533	Avatar	2009	750
5	Batman: DKR	2012	448	Avengers	2012	593
6	Avengers 2	2015	445	Star Wars 1	1999	565
7	Shrek 2	2004	441	Star Wars 6	1983	554
8	Star Wars 1	1999	431	Star Wars 5	1980	552
9	Hunger Games: Catching Fire	2013	425	Jurassic Park	1993	538
10	Pirates of the Caribbean 2	2006	423	Grease	1978	535

Source: Computed by the authors

evolution over time. Without any variables related to the viewing of the film ("after-launch" variables), information on casting (actors, producers, directors) are our only means of obtaining an indication of quality, for three main reasons:

1. The reputation of the actors, their "star power," attracts consumers because it sends, a priori, a positive signal on the quality of the film: an actor who has acted "well" in good films in the past will have a good reputation and will attract more people than less well-known actors, all things being equal.
2. The experience of the director is another indicator of ex ante quality for spectators: the more experienced a director is, the more he/she is likely to attract viewers.
3. The "quality" (judged by specialists) of past performances of actors suggests that quality will be present in the new film.

For example, an Oscar can be perceived as a guarantee of quality for an actor. It is therefore necessary to create a variable summarizing the star power and the experience of the actors, etc. involved in a film. We use the following approach: for a given film, the star power of each actor in the film is estimated by the sum of the box office revenues of the films in which he/she played a major role in the past. The total star power of the actors of the film is then obtained by summing these individual star powers. The star power of the directors, the producers, and the distributors are computed in the same way.

For a given film, the experience of each actor is simply estimated by the number of films in which he/she played a major role in the past. We obtain the total experience of the actors of a film by summing up the individual experiences. The same applies to directors, producers, and studio distributors. For a given film, the recognized reward-based quality of an actor or a director is estimated by the number of nominations he/she had for an *Oscar* in the past. For a producer or distributor, this quality is captured by the number of films in which he/she has intervened and that has been nominated for a *Best Film Oscar*. The total reward-based quality of a given new film is simply estimated by the sum of the individual reward-based qualities of the actors, distributors, producers, and directors.[1]

2.4 Descriptive Statistics

2.4.1 Box Office Revenue

As illustrated in Fig. 2, the distribution of the logarithm of box office revenue in the first week follows a bimodal distribution, with a main mode representing movies with a relatively low (<US$100,000) box office revenue in the first week. The second mode represents movies with an average to high box office revenue. It can be seen here that the box office revenue is clearly not normally distributed, and it is in this bimodality that the problem lies. The usual literature which implicitly excludes low-performing films, actually the majority of films, concentrates only on the "second mode" of the distribution.

Of course, if we do not have an ex ante method of knowing which mode the box office revenue will belong to, working only on higher-revenue films does not inform cinema managers if the model for higher-revenue movies does not apply to lower-revenue movies. In this chapter we will work directly with this bimodal dependent variable.

2.4.2 Production Budget

Table 2 gives summary statistics for the availability and the deflated level of budgets.

[1]Note that all these variables also give us an estimate of the production budget, even when it is not available. They therefore have a useful role to play in our predictions and have the advantage of being available very early in the shooting of the movie and can very easily be obtained since the movies themselves use the information to advertise.

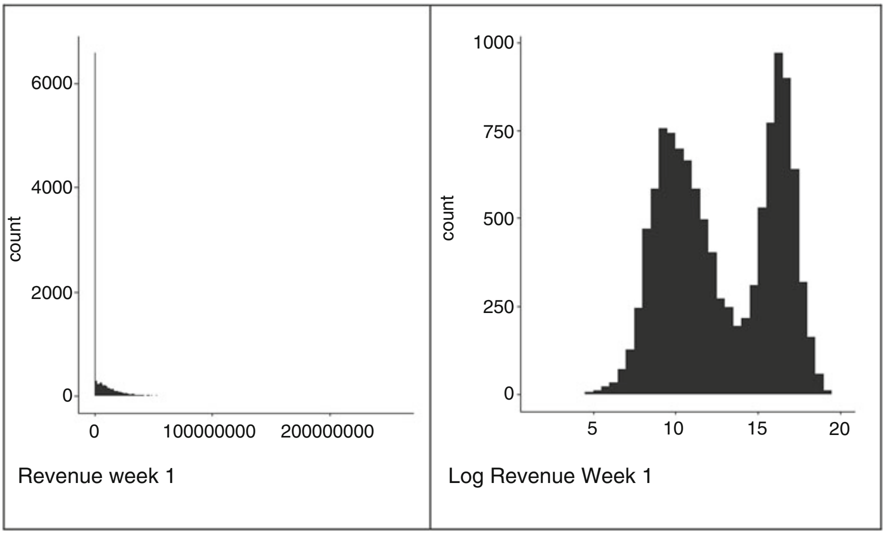


Fig. 2 Distribution of operating revenue in the first week. Source: Computed by the authors

Table 2 Description: production budget

Statistic	Min	Median	Max	Mean	Standard deviation
Production budget available? (0 = no, 1 = yes)		0		0.24	
Deflated production budget	0	0	315,573,505	11,678,181	30,955,336

Source: Computed by the authors

2.4.3 Star Power: Actors, Directors, Producers, and Distributors (Table 3)

2.4.4 Other Explanatory Variables and Controls

The other variables that the manager has ex ante to make his/her predictions are genre and MPAA rating. We also know if the film is a remake, if it is a book adaptation, if it belongs to a series of films, if it is a prequel, if it is broadcast in a foreign language (non-English), and if it received a golden palm at *Cannes* before arriving on US territory. We also add a dummy indicating whether the film has had a limited release before its wide release and a variable with the duration of this limited release. One may also consider the day of the week when the movie was launched. Finally, seasonal effects are captured by the month of release of the film.

All of these variables are described in Tables 4, 5, 6, and 7.

Table 3 Description: star power

Statistic	Median	Mean	Standard deviation
Actors			
Star power of actors in the film	4,274,693	972,238,048	1,888,323,059
Sum of the number of previous films actors have acted in	1	18.97	33.70
Sum of Oscar nominations of actors in the film	0	0.17	0.52
Director			
Star power of the director	0	79,763,117	303,180,322
Number of previous films directed by the director	0	1.37	3.50
Number of nominations to Oscars for the director	0	0.07	0.42
Distributor			
Star power of the distributor of the film	351,598,009	5,786,861,069	9,724,837,497
Number of previous films distributed by the distributor	77	182.86	218.13
Number of films distributed by the distributor nominated for a Best Movie Oscar	0	4.09	6.30
Producers			
Star power of producers of the film	0	463,742,505	1,428,304,802
Sum of the number of previous films produced by the producers	0	7.37	19.86
Sum of the number of previous films produced by the producers which were nominated for a Best Movie Oscar	0	0.26	1.06

Source: Computed by the authors

2.5 Models

We now describe the models we will use to predict box office revenue in terms of ex ante available predictors.

2.5.1 Classification and Regression Tree

A classification and regression tree (CART) decision tree is an improved nonlinear and entirely nonparametric statistical learning technique introduced by Breiman, Friedman, Stone, and Olshen (1984) which allows to classify or predict a dependent variable from independent variables. A decision tree is built intuitively and is easily interpretable, thanks to its graphic appearance. The construction of the tree proceeds as follows: at each node, the algorithm splits the dataset into two subsets, using any possible predictor and any cutoff point for continuous predictors, in such a way that the two subsets are as homogeneous as possible with respect to the dependent variable. This technique has the advantage of being nonparametric, thus

Table 4 Description: genres of films (a movie may have several genres)

Genre	Proportion
Romance	0.05
Adventure	0.03
Family	0.03
Comedy	0.23
Documentary	0.10
Action	0.08
Drama	0.20
Fantasy	0.02
Foreign	0.13
Horror	0.06
Thriller	0.08
Musical	0.02
Crime	0.03
Western	0.005
Science fiction	0.03
War	0.01
Animation	0.03
Sport	0.01
Histoire	0.004
Epic	0.001
Period	0.02

Source: Computed by the authors

Table 5 MPAA rating: proportions

GP	0.0001
NC-17	0.002
PG	0.128
PG-13	0.212
R	0.383
Unrated	0.251

Source: Computed by the authors

Table 6 Description of other controls

Other controls	Mean
Dummy limited release	0.04
Length in weeks of limited release	1.02
Dummy remake	0.02
Dummy book adaptation	0.02
Dummy prequel	0.003
Dummy series	0.05
Dummy foreign language	0.13
Dummy palm at Cannes	0.002

Source: Computed by the authors

Table 7 Control variables: seasonality and day of release

Month of release	Proportion
01	0.067
02	0.076
03	0.094
04	0.094
05	0.082
06	0.074
07	0.075
08	0.092
09	0.094
10	0.103
11	0.080
12	0.070
Day of release	**Proportion**
Sunday	0.001
Thursday	0.009
Monday	0.001
Tuesday	0.004
Wednesday	0.081
Saturday	0.003
Friday	0.900

Source: Computed by the authors

not postulating any a priori assumption on the distribution of the data, being robust to outliers, and supporting all types of variables. In addition, the CART algorithm handles missing values in an effective manner. When the learning sample is large as is the case here for most reference periods, the CART algorithm has properties which are similar to the nearest neighbor algorithm. On the other hand, limitations include the inability to detect combinations of variables as effective predictors and the need for a large sample (which may be problematic for the periods 2010–2012 and 2011–2012).

2.6 Random Forests

Random forest is a powerful statistical learning technique (often considered as the most powerful predictor available) developed by Breiman in 2001 (Breiman, 2001) that adapts decision trees for bootstrap aggregating (bagging). Bagging is a technique used to reduce the variance of an estimated prediction function while maintaining a relatively low bias. Here this technique is particularly well suited since the variance of the box office revenue variable is very large. It is therefore expected that this method will be more efficient than decision trees. On the other hand, as for all models built by aggregation, there is no direct interpretation. The *random forest* algorithm proceeds with a double random selection of both predictors and data (via a bootstrap of the learning sample), and majority vote on the resulting CART trees (hence the name of *random forests*).

2.7 Conditional Forests

The *conditional forest* algorithm developed by Hothorn, Hornik, and Zeileis (2006) makes it possible to remedy the problems faced by random forests such as selection bias or overfitting. It is therefore expected that this technique will perform at least as well as random forests. One of the main disadvantages of this method is that the underlying algorithm takes much longer to run than random forests since it performs tests to select the variables.

2.8 Gradient Boosting

The gradient boosting algorithm introduced by Freund and Schapire (1996) is a prediction method that minimizes several types of loss function with respect to a prediction function. This method can adapt to any type of data even when the number of variables exceeds the number of observations and gives very good results.

2.9 Results

We now present results obtained by each of these methods for predicting box office revenue (Table 8).

In general, whatever the estimation method used, the R-square tends to increase with the number of observations serving as reference. The more films we have to construct our model, the better we can explain the variance. The results are similar when using movies released between 2000 and 2012 or those released between 2006 and 2012 (the best explained variance of 79% is for this latter period). Thus, it would appear that our optimal time range of films to be considered for estimation is 6 years (with a preference for the 2006–2012 range), if we want to maximize the explained variance. Random forests, conditional forests, and gradient boosting seem to be the three methods giving marginally better results. This makes sense given their complexity. However, the difference in performance between the best models and classical linear regression remains marginal.

To obtain higher coefficients of determination, we would need other variables that measure expectations of the quality of the film itself, which we do not have (and which are not so easily obtainable by cinema managers). As far as the *root mean square error* (RMSE) is concerned, it can be seen that it is very large, at US$10 million (January 2010 basis), and the average error rate is also very high (from 596.99% maximum to 22.30% minimum). This is due to the presence of

Table 8 Estimation results for box office revenue in the first week

Reference period	Method	R2 (adjusted)	Root mean square error	Average relative error	Root median square error	Median relative error
2000–2012	OLS	0.74	10,901,374.00	253.91	1,494,037.00	26.99
2000–2012	Decision tree	0.72	11,265,019.00	143.44	743,540.80	21.77
2000–2012	Random forest	0.78	9,986,626.00	36.91	188,348.30	1.56
2000–2012	Conditional forest	0.77	10,218,146.00	43.90	218,966.50	6.86
2000–2012	Gradient boosting	0.76	10,414,030.00	35.92	153,258.20	1.00
2006–2012	OLS	0.74	10,909,403.00	264.01	1,276,029.00	26.29
2006–2012	Decision tree	0.71	11,517,285.00	189.99	943,572.10	28.13
2006–2012	Random forest	0.79	9,867,366.00	27.79	180,777.40	1.41
2006–2012	Conditional forest	0.76	10,507,541.00	47.14	216,554.30	7.97
2006–2012	Gradient boosting	0.76	10,531,481.00	38.15	175,234.30	1.10
2008–2012	OLS	0.73	10,958,782.00	309.64	1,349,485.00	29.10
2008–2012	Decision tree	0.66	12,396,390.00	244.44	1,119,748.00	33.23
2008–2012	Random forest	0.76	10,378,329.00	37.97	168,820.90	1.43
2008–2012	Conditional forest	0.74	10,813,495.00	41.55	190,900.50	6.88
2008–2012	Gradient boosting	0.76	10,486,929.00	42.28	156,116.70	1.23
2010–2012	OLS	0.72	11,344,506.00	382.79	1,749,335.00	28.29
2010–2012	Decision tree	0.31	17,701,598.00	80.72	375,038.40	11.47
2010–2012	Random forest	0.74	10,769,061.00	22.30	113,640.10	1.31
2010–2012	Conditional forest	0.71	11,478,915.00	27.28	126,784.80	4.33

2010–2012	Gradient boosting	0.74	10,835,496.00	34.14	161,450.40	1.73
2011–2012	OLS	0.63	13,014,399.00	596.99	2,007,622.00	40.80
2011–2012	Decision tree	0.58	13,845,035.00	66.04	336,170.90	9.77
2011–2012	Random forest	0.70	11,709,300.00	66.24	156,481.00	1.48
2011–2012	Conditional forest	0.63	12,921,583.00	32.81	156,024.20	5.24
2011–2012	Gradient boosting	0.69	11,891,466.00	31.08	153,910.30	2.01

Source: Computed by the authors

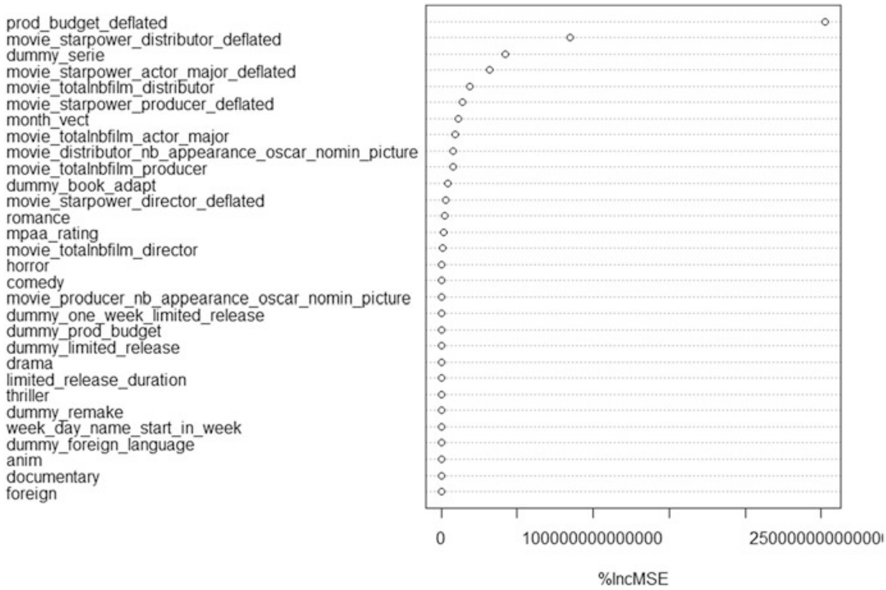


Fig. 3 Importance of variables. Source: Computed by the authors

extreme values and is the reason why we are looking at the root median square error and the median error rate to remedy this issue.

These indicators of predictive power are much more favorable than the previous ones since the *root median square error* fluctuates between 110,000 and US$2,000,000 regardless of the technique used. These indicators clearly identify random forests and gradient boosting as the best models.

Gradient boosting seems to dominate when it has the longest range of data available (2000–2012 or 2006–2012) with a median error rate ranging between 100 and 110%. These rates, however, remain very large. This implies that even the most advanced predictive techniques, with ex ante information only, fail to correctly discriminate between films that will achieve a low box office revenue and those that will achieve such a medium or large revenue. Stronger predictive models would need data from social networks, for example, quite a bit more difficult to extract than the data utilized in this chapter. We can however identify which variables are more important than others in predicting box office revenue, as shown in Fig. 3.

From the graph of the importance of variables in our "best" prediction model (random, based on the period 2006–2012), we find that the production budget is the most important variable. We also find a few binary variables that are of importance, notably belonging to a series of films or being adapted from a book. Seasonality is also an important variable.

3 Predicting *Oscars* from "Prediction Markets"

The *Intrade* market (Intrade.com) was an online predictive betting exchange operated by *Intrade* The Prediction Market Limited. It allowed members to purchase or sell contracts on whether a future event will occur. Popular topics included upcoming elections, movie and music awards, and financial predictions of stock market indexes. *Intrade* did not participate in the buying or selling of contracts directly but instead had a flat monthly fee structure for members regardless of the participation level of that member. Trading was done on a per-unit basis with each unit paying US$10.00 if the event occurs and US$0 if the event does not occur. The contracts traded on a 100-point scale with 100 points representing the full US$10.00 value. For example, a contract might have stated "Mitt Romney will win the U.S. presidential election in 2012," and the contract might have traded at 25 points. Therefore, a member would purchase this contract for the value of US$2.50, and if Mitt Romney was elected, then the member would receive US$10.00. If Mitt Romney was not elected, then the member would lose the US$2.50 to the person who sold the contract.

Intrade received significant media exposure during the 2012 presidential elections with the accurate prediction of nearly all US state electoral contests, but the exposure was overshadowed later in the year with the filing of a civil suit on unregulated trading by the US *Commodity Futures Trading Commission*. On December 23, 2012, *Intrade* ceased allowing US members from participating, resulting in a significant drop in overall participation, and on March 10, 2013, *Intrade* ceased all trading. The prediction market *Paddy Power* (www.paddypower.com) typically hosts best picture bets in *Academy Award* competitions, as does *Bet Victor* (www.betvictor.com). But unlike for *Intrade*, there is no convenient way to get historical pricing information out of *Paddy Power* or *Bet Victor*, and rapid changes in pricing may be difficult to track without employing some form of screen scraping. Researchers in the United States may also be shut out from even looking at international betting sites (such as www.WilliamHill.com).

Scholars have used *Intrade* data to investigate issues such as participation in the Euro currency (Shambaugh, 2012), the probability of a US recession (Leamer, 2008), elections (Saxon, 2010; Rothschild & Wolfers, 2008; Erikson & Wlezien, 2008), and entertainment awards such as the *Grammy Awards* and *Oscars* (Gold, McClarren, & Gaughan, 2013). Prediction market estimates of the probability of a win are considered to be very accurate, at least for events such as *Oscar* wins. Prediction markets were reportedly successful again in predicting the 2015 *Academy Awards* (Leonhardt, 2015). Figure 4 displays the price per contract for each of the nominees winning the *Oscar* for the 2013 Best Picture Award. We can see that up until December, there was no clear front-runner. Then beginning in December, the film *Lincoln* emerged as the clear favorite. However, in late January, the film *Argo* began to gain on *Lincoln*, surpassing *Lincoln* and holding onto that position until the end.

In analyzing the average contract price for each movie, we see that the five serious contenders for the *Best Picture Award* were in alphabetical order *Argo*, *Les Misérables*, *Lincoln*, *Silver Linings Playbook*, and *Zero Dark Thirty*. What

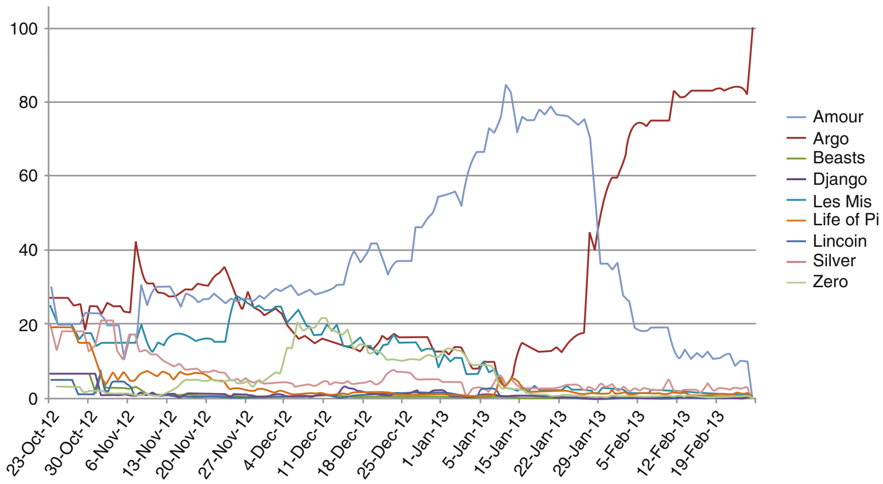


Fig. 4 *Close Intrade* contract prices for each nominated movie to win the 2013 *Best Picture Award*. Source: Extracted by the authors

happened over this time period that could have contributed to the perceptions of which film would win the *Award*? Specifically, what occurred around the time frame of late January that caused such a dramatic change? On January 26, 2013, a *Los Angeles Times* headline read "The Gold Standard; now for real insight into *Oscars* – by the guilds." The article reported that the guilds' awards, beginning with PGAs, had been fairly reliable predictors.

The "PGAs" denote the *Producer Guild of America Awards* (PGAs) which were announced that evening. The headline coming out of the PGAs that evening was that Argo won the top prize of the night, the *Zanuck Award for Outstanding Producer of Theatrical Motion Pictures*.

This awards ceremony was followed the next evening with the 19th *Annual Screen Actors Guild* (SAG) awards. Their top award is the *Outstanding Performance* by a Cast in a Motion Picture which was awarded to *Argo*. So can we simply use those two awards ceremonies to predict the *Oscar*'s *Best Picture Award*? Although we focused only on the 2012 movies, we can take a quick look at the winners over the past decade. Over those 10 years, the PGA and SAG have awarded the same picture five times, and four of those times, the *Oscars* have followed suit and awarded the same film. In the other 5 years where the PGA and SAG have awarded different films, the *Oscars* selected one of the two 4 of those 5 years. Only in 2004 did the PGA, the SAG, and the *Oscars* each give the top award to a different film (Table 9).

Table 9 PGA awards, SAG awards, and *Oscars*

	PGA	SAG	Oscars
2012	Argo	Argo	Argo
2011	The Artist	The Help	The Artist
2010	The King's Speech	The King's Speech	The King's Speech
2009	The Hurt Locker	Inglourious Basterds	The Hurt Locker
2008	Slumdog Millionaire	Slumdog Millionaire	Slumdog Millionaire
2007	No Country for Old Men	No Country for Old Men	No Country for Old Men
2006	Little Miss Sunshine	Little Miss Sunshine	The Departed
2005	Brokeback Mountain	Crash	Crash
2004	The Aviator	Sideways	Million Dollar Baby

4 Predicting Oscars from Movie Review Data

In this section, we focus attention on whether text reviews of movies which are nominated for a *Best Picture Award* carry any sign of the likelihood of a movie winning the Award. We suggest that a measure of how controversial the movie is perceived to be, the value of which could be extracted by a text analysis of the reviews, is a potential predictor of a win, aside from other predictors identified in the past work.

4.1 IMDb Review Data

4.1.1 IMDb Review

In terms of text mining the opinions of movie watchers, IMDb user reviews have several advantages compared to tweets. First, most user reviews on IMDb are much longer than tweets (which are constrained to a maximum of 140 characters). Therefore, a review can contain richer and more complex thoughts than a tweet. Second, some review writers on IMDb are prolific authors, while the quality of tweets is not guaranteed at all. One can filter out reviews by non-prolific authors by choosing the "Prolific Author" filter on the IMDb review page (Fig. 5). Third, IMDb review readers can vote up or down to a review, as in "2 out of 12 people found the following review useful" in the middle part of Fig. 5. We can use it to measure the quality of a review. However, IMDb does not provide any API or structured database for downloading movie reviews. Therefore, we need to crawl the raw HTML webpage to extract review data.

4.1.2 XPath and R XML Library

In this chapter, *XPath* is used to mechanically navigate through elements and attributes in an XML document, such as all IMDb reviews on one webpage. It is easy to read and easy to reuse and is supported by most programming languages and software packages such as *Python* or R. *XPath* expressions such as in Table 10 are

Fig. 5 "Argo" IMDb reviews including prolific authors only. Source: Extracted by the authors

Table 10 Path expressions for *XPath* (http://www.w3schools.com/xpath/xpath_syntax.asp)

Expression	Description
nodename	Selects all nodes with the name *nodename*
/	Selects from the root node
//	Selects nodes in the document from the current node that match the selection no matter where they are
.	Selects the current node
..	Selects the parent of the current node
@	Selects attributes

Source: Extracted by the authors

not difficult to learn. Handy *XPath* tutorials are available at http://www.w3schools.com/xpath/.

We can get the *XPath* of the part of a webpage we are interested in by simply using the Google Chrome web browser. First, we open an IMDb review webpage in Chrome, choose the part we want to crawl, right-click on it, and from the pop-up menu select "Inspect Element." Once that option is selected, we see two windows on the bottom side of the browser, and the part chosen earlier is highlighted in the left-down side HTML code area. We right-click on the highlighted area, and select "Copy XPath" from the pop-up menu and then obtain the raw *XPath* expression for the IMDb review, such as "//*[@id="tn15content"]/p[1]/text()" (Fig. 6).

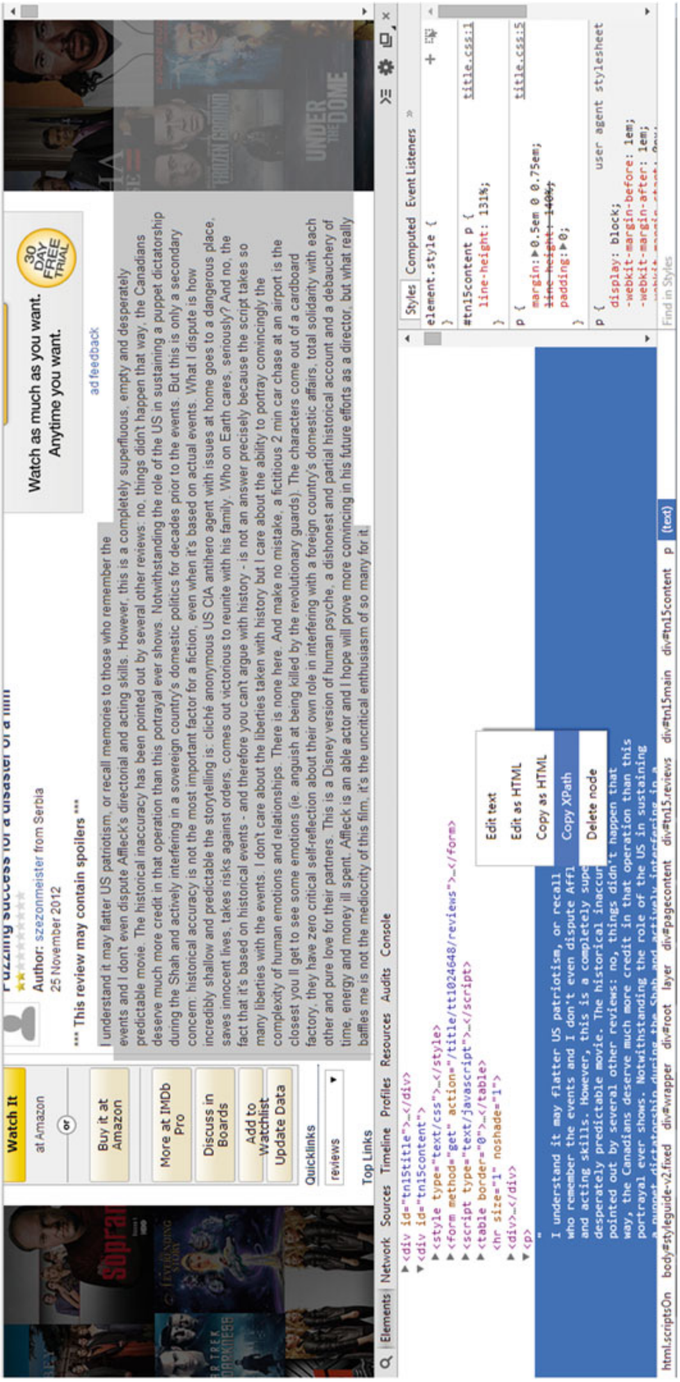


Fig. 6 Obtaining the XPath of review text using *Google Chrome*. Source: Extracted by the authors

```
library(XML)

#Crawling IMDB
doc <-htmlParse("http.//www.imdb.com/title/tt2013293/reviews?count=76&start=0")

#Get Review Quality and Score, and Review
xpath_quality<-xpathSApply(doc, "//*[@id=\"tn15content\"]//div//small[1]",xmlValue)
xpath_score<-xpathSApply(doc, "//*[@id=\"tn15content\"]//div//img[last()]", xmlGetAttr,
"alt")
xpath_text<-xpathSApply(doc, "//*[@id=\"tn15content\"]//p[not(b)]",xmlValue)
xpath_text1 <- gsub("\n"," ",xpath_text[1.length(xpath_text)-1])
xpath_text2 <- gsub("\r"," ",xpath_text1)

# Combine lists to matrix
table<-cbind(xpath_score,xpath_quality,xpath_text2)

# Write matrix to file
write.table(table, file = "Your_file_path.txt",sep="\t")
```

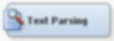
Fig. 7 R code to extract IMDb reviews. Source: Extracted by the authors

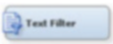
In this chapter, we use R to handle the process of crawling, transforming, and loading IMDb reviews. To handle the *XPath* in R, we need to first install the "XML" package. After installation, we can run the R code in Fig. 7 to crawl and parse movie reviews. The result looks like that in Fig. 8.

4.1.3 Text Mining Using SAS Enterprise Miner

In the next step, we handle the textual dataset using SAS Text Miner, which is a plug-in for the SAS Enterprise Miner environment. The Enterprise Miner interface is displayed in Fig. 9, after we have created a New Project and New Diagram. We can then create a SAS dataset from the IMDb review documents, using the Text Import node 

or File Import node 

. The Text Parsing node 

in SAS Text Miner decomposes the documents into detailed terms or phrases, and the Text Filter node 

automatically detects misspelling in the data and transforms the quantitative representation into a compact and informative format. The Text Cluster node 

clusters documents into disjoint sets of documents, and the Text Topic node 

creates topics for each document, where one document can be associated with more than one topic (Fig. 10).

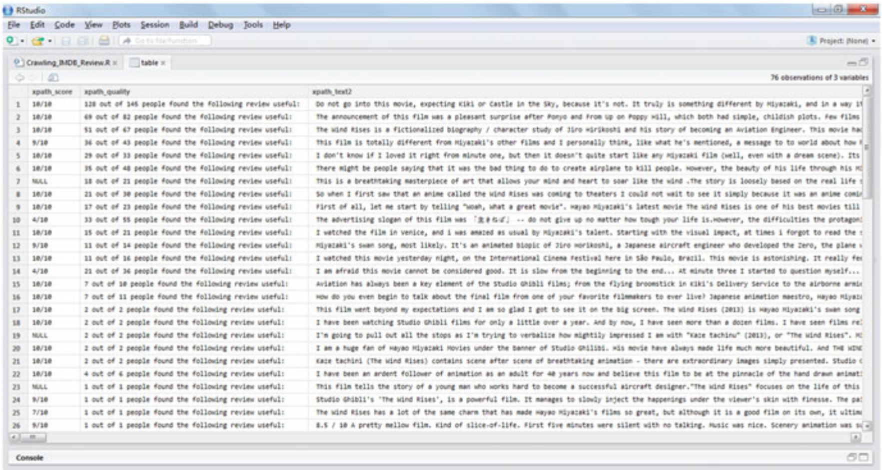


Fig. 8 Extracted IMDb reviews. Source: Extracted by the authors

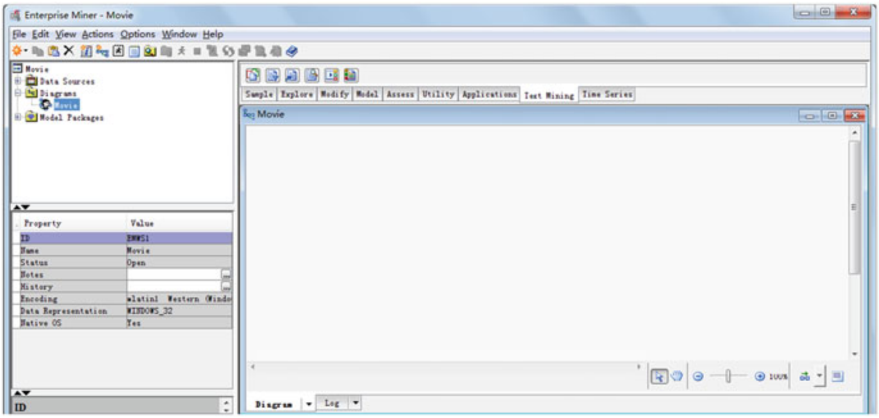


Fig. 9 SAS Enterprise Miner diagram. Source: Extracted by the authors

4.1.4 Review Themes and Oscar Chances

In this section, we discuss how a text mining of the IMDb pre-*Oscars* reviews gives an idea of the numbers of different themes which are perceived by reviewers for each movie and potentially yields a preliminary measure of perceived controversy. The question is then of how much "controversy" is optimal for *Oscar* winning purposes.

Measures of controversy and how they are used in marketing are discussed in Zhang and Li (2010). A quote from this article is very pertinent to our discussion. "From a persuasion point of view, our belief is that a convincing argument is not

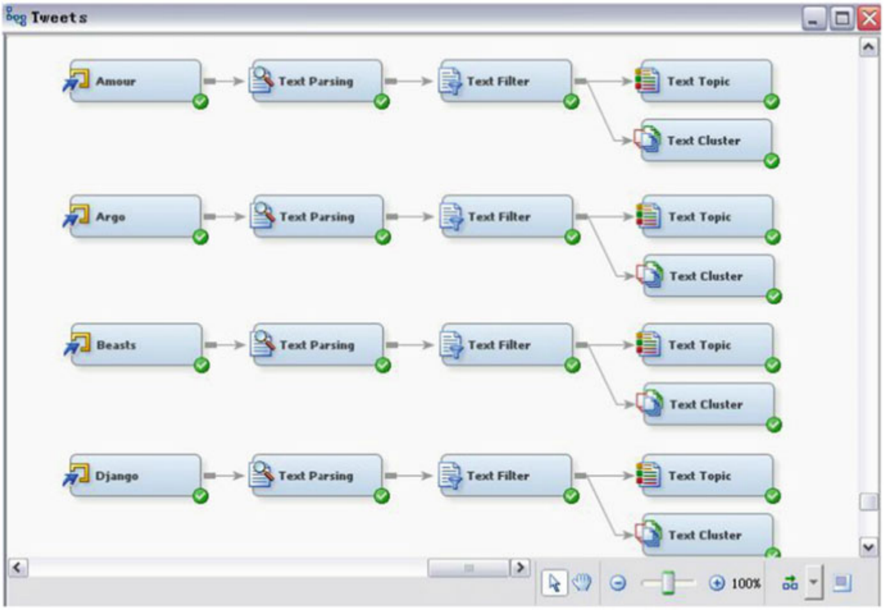


Fig. 10 SAS Enterprise Miner diagram for movie tweets. Source: Extracted by the authors

necessarily a mono-color picture, but instead a meaningful "bag" of positive and negative reflections" (p. 2).

This point of view may very well apply to movie chances for *Oscars* and other measures of success such as profit. Zhang and Li (2010) state that one possible quantitative measure of controversy is simply the standard deviation of the numerical ratings, and we adopt that point of view here as well. To extract themes from movie reviews, we use the text mining algorithms proposed by SAS *Text Miner* within the *Enterprise Miner* platform. Details of the algorithm are published elsewhere, but the algorithms work essentially as follows. Each review is defined to be a document, and a very large but sparse matrix is constructed with documents as rows and all possible terms (words in documents and their grammatical relatives, such as begin, began, beginning, etc.) as columns. *Singular value decomposition* (SVD) techniques are used to reduce the matrix without losing too much information, and a cluster analysis is applied to the reduced matrix, yielding for each set of reviews, a set of clusters of documents. The list of most common terms in these documents is then obtained and gives an idea of the main themes in that cluster.

As an illustration, Table 11 displays the results of this clustering exercise for *Argo*. For example, the main theme in cluster 3 is clearly related to perceived *Oscar* chances for the movie, director, and leading actor (Ben Affleck), and the main theme in cluster 4 is about the thrilling aspects of the movie.

In the case of *Argo*, the text analysis yielded six clusters. Reviews of *Amour*, a movie by a controversial director (Haneke) on a very complex theme, related to

Table 11 Clusters and main terms for *Argo* reviews

Cluster	Main terms	No. of documents
1	tony +ambassador +plan +embassy mendez canadian six +hostage +crisis chambers cia fake john goodman arkin	142
2	+movie people watching +good movies great +world first +end characters +fact +country history historical +time	95
3	best +picture acting +great +oscar well +good affleck +actor +director argo alan ben +film +movie	149
4	+feel +seat +edge characters +little especially few films +know +thriller suspense +end +fact +film fake	22
5	canadians shah airport history iranians americans +country canadian people iranian events historical +fact cia american	72
6	chambers bryan + ambassador cranston +plan +crisis john mendez iranian +actor tony fake +thriller alan especially	44

Source: Computed by the authors

death and euthanasia, yielded 23 clusters. Aside from whether these extracted themes are expressing positive or negative sentiments (and the approach to measuring perceived controversy in Zhang and Li (2010) does use the number of positive and negative sentiments), it is reasonable to surmise that the number of issues such a complex movie rises may be simply too large for a group to rally on.

Our study, based on just nine movies, is still preliminary; we suggest that a very interesting future direction would involve looking at measures of complexity for a much larger number of movies and investigating how correlated such measure would be to, for example, the standard deviation of ratings.

Figure 11 displays a scatter plot of the standard deviation of ratings against the number of clusters extracted by the text analysis for the nine movies.

With a few caveats, first that the standard deviation of ratings is fairly small for all nine movies, and that *Zero* and *Amour* act as outliers, we can see that the standard deviation of ratings shows a propensity to increase with the number of clusters. It is interesting to note that the five serious contenders for the *Best Picture Award* as perceived by the *Intrade* market (*Argo*, *Les Misérables*, *Lincoln*, *Silver Linings Playbook*, and *Zero Dark Thirty*) tend to yield a moderate number of clusters, in other words tend to raise a number of issues which a group can potentially rally on (see Fig. 11 and Table 12).

Further investigations of controversy indices in movie reviews and their role on measures of success would be very interesting. Controversy is highly correlated with word-of-mouth (WOM) activity and WOM marketing. WOM is the process of information exchange, involving in particular recommendations about products and services, between two people in an informal way (O'Leary & Sheehan, 2008). WOM communication could have a strong influence on consumer short-term and long-term purchasing behavior, influencing both short-term and long-term judgments (Bone, 1995). Another advantage of WOM is that cost of WOM marketing is low, for both online and off-line channels.

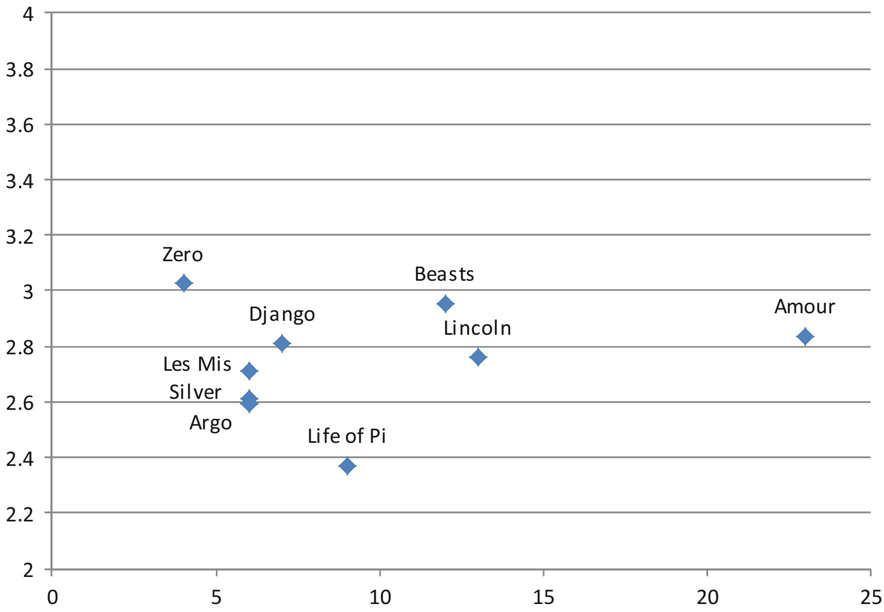


Fig. 11 Standard deviation of ratings and number of clusters for each nominated movie to win the 2013 *Best Picture Award*. Source: Computed by the authors

Table 12 Number of extracted themes and statistics for the nine movies nominated for a *Best Picture Award*

	Mean rating	Number of themes (of clusters)	Mean *Intrade* close	Last *Intrade* close	Standard deviation of ratings	Profit
Amour	7.1	23	0.99	0.4	2.84	$−2.16
Beasts	6.8	12	1.07	0.4	2.96	$10.98
Django	7.4	7	1.22	0.5	2.81	$62.80
Zero	6.3	4	5.53	0.7	3.03	$55.72
Les Mis	7.3	6	11.27	1.2	2.71	$87.78
Life of Pi	7.8	9	3.43	1.5	2.37	$4.98
Silver	7.5	6	6.05	3	2.61	$111.09
Lincoln	7.2	13	36.24	10.3	2.76	$117.20
Argo	7.4	6	32.27	82	2.60	$91.52

Source: Computed by the authors

WOM could be positive or negative. The question is do customers' negative opinions always fall on the bad side of the coin, or is there any advocacy to brand coming from negative WOM or mixed WOM (so-called controversy)? Some research indicates the possibility that controversy arising from consumers' opinion might have a positive impact. Liu (2011) finds that movie box office revenue is correlated with the volume of WOM activity but *not* correlated with the percentage of negative critical reviews. Zhang and Li (2010) observe that controversy can attract market attention and potentially yield strong sales. On the other hand, consider the role of controversy in the 2014 *Best Animated Feature Award*, as pertains to Hayao Miyazaki's *The Wind Rises*. *The Wind Rises* lost the award in large part because of controversy surrounding the theme in the movie. We suggest that getting a better handle on what constitutes controversy, relying on progress in text mining techniques, is likely to illuminate problems which are to date difficult to apprehend.

To conclude, this chapter has discussed a number of approaches to predicting box office revenue using variables available before the release of the movie and has also presented a number of correlates of *Oscar* awards. It is clear that data analysis, coupled with strong human judgment, is likely to be the key combination to investor's risk control. In that respect, investment in the entertainment industry, for all the passion it may entail, shares many common features with those in other areas of business activity.

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An Irish Film Industry or a Film Industry in Ireland? The Paradoxes of State Aid

Roderick Flynn

1 State Film Funding in Ireland: A Historical View

State aid for film in Ireland is largely framed around two approaches: (1) selective funding disbursed by the *Irish Film Board* and (2) a tax credit scheme known as "Section 481". Other forms of aid—for example, use of military personnel as extras and sporadic funding from state-owned broadcasters—have been made available but not on a formalized basis.

In focusing on the *Film Board* and the tax incentive, this chapter asks whether Irish film policy has focused on developing an indigenous production sector as opposed to simply encouraging production activity—regardless of origin—in Ireland. After the failure of a protectionist economic policy in the mid-twentieth century, the late 1950s saw a dramatic reorientation towards encouraging *foreign direct investment* to generate domestic employment. Broadly speaking, that embrace of globalization has remained the guiding principle of Irish economic policy ever since: large-scale transnational players coexist with smaller indigenous firms, the latter often addressing specific outsourced requirements of the former.

This chapter considers how this broader policy orientation was reflected in the film sector by analysing Irish policy documents and grey literature (from the 1940s through to the present). Thus the text adopts a broadly historical structure: it outlines a "prehistory" of state aid in Ireland (covering the period from 1940 till the end of the 1970s), before moving to consider the state aid era in three "eras", namely:

1. 1981–1993 when the *Irish Film Board* was created and an early form of a tax incentive for film-making was introduced

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2. 1993–2005 when the *Film Board* was revived and the tax incentive radically overhauled to encourage investment in film by individuals
3. 2005 to the present when the *Film Board* placed a new emphasis on production activity from outside Ireland and the tax incentive was changed from investor-led to a producer-focused tax credit scheme

This chapter concludes that the design and application of state aid for film production in Ireland has sought to equivocate between attracting large-scale (and thus large-budget) international productions to Ireland and a more culturally inflected strategy to create and maintain a capacity to support the production of content reflecting contemporary Irish society and its concerns. These policies have been designed to operate in a mutually supportive fashion, so that the funding used to support low-budget, indigenous production is indirectly cross-subsidized by the revenues generated for the central exchequer by the larger productions.

2 The "Prehistory" of State Aids in Ireland

In many European nations, the introduction of state aid schemes supporting domestic film production after the Second World War was a pragmatic response to declining commercial (i.e. box office) revenues. In Ireland, however, the picture was somewhat different. Although Irish theatres experienced a similar decline in audiences (of the order of 81% between 1960 and 1992 (Mediasalles, 1994)), this did not engender the introduction of state aid for film because, to all intents and purposes, there was no Irish film production sector to support. Until the 1970s, indigenous production was limited to short film production, newsreels and state-/corporate-sponsored factual output. Although the creation of a national film unit to "initiate and promote the production and distribution of films in the national interest" was mooted in 1954 by then Minister for Industry and Commerce, Sean Lemass, it would have focused on creating a new industry rather than supporting an existing one.

Film production had occurred in Ireland from the 1890s as overseas (especially US-based) companies sporadically used Ireland as a location for relatively large-scale productions (e.g. the *Kalem Company* immediately pre-WWI, Robert Flaherty's filming of *Man of Aran* in the early 1930s and John Ford's whimsical *The Quiet Man* in 1951). This had not prompted a concomitant development of an indigenous sector.

Indeed, as early as 1942, the Irish state had concluded that the small scale of the Irish market made a commercially viable indigenous industry simply impossible. Film policy and thinking about support for film focused instead on enticing overseas productions to film in Ireland to inject foreign investment into the Irish market. This anticipation of what Miller would later characterize as the "International Division of Cultural Labour" (2001) meant that even though the 1954 film unit proposal was not proceeded with, its key tasks would have included investigating and reporting "the possibilities or making, or inducing outside companies to make, feature films in Ireland, and on the possibilities of developing laboratory facilities, studios etc." (Department of Industry and Commerce, 1954). This was reflected in the state's decision to underwrite the building of—notionally private—international-scale film studios at *Ardmore* in Bray, Co. Wicklow, in 1957. *Ardmore Studios* did attract British and US productions but, at least until the 1990s, rarely at an economically sustainable level. Nor was the lack of overseas activity compensated for by local production. A hoped-for "trickle-down" emergence of an indigenous sector stemming from the building of *Ardmore* simply failed to materialize. By the end of the 1960s, another state-commissioned report would propose the creation of an *Irish Film Board* to address this lacuna (Film Industry Committee, 1968). This Board would dispense loans for low-budget Irish-produced feature films, fund short films and provide loans of up to £IR10,000 (12,700 €) to "producers of international repute" to develop "Irish feature films". Though legislation to enact these proposals was drawn up in 1970, it was never passed, and in practice support to *Ardmore Studios* (nationalized by the state in 1973) constituted the main plank of Irish film policy through the 1970s.

Ironically, however, it was precisely the need to maintain *Ardmor*e's viability that led indirectly to the introduction of the first sustained state support for film-making in Ireland. When Ardmore was reconstituted as the state-owned National Film Studios of Ireland (NFSI) in 1975, the new Chairman John Boorman argued that Ireland was almost unique in its failure to provide any kind of production incentives for film-making, hampering the studios' capacity to attract international productions. Another government-commissioned consultancy report in 1977 broadly agreed with this analysis: "…only economic incentives will encourage International film-makers to film in Ireland in cases where their natural inclination would be to go elsewhere. NFSI have no cost or other unique advantages that will ensure the regular flow of business required to make the Studios viable and consequently support the development of an Irish Film Industry" (Arthur D. Little report, cited in Department of Industry and Commerce, 1978, p. 8). Thus the report recommended the creation of a £IR2.8 million (3.6 million €) fund for investment in films wholly or partially made in Ireland using NFSI facilities.

However, the political context of the late 1970s made it difficult to propose a state aid scheme exclusively focused on attracting foreign direct investment. Although operating on shoestring budgets (in part resourced by the *Irish Arts Council* and RTÉ, the public service broadcaster), by the mid-1970s there was a small cadre of indigenous film-makers lobbying for the establishment of a Film Board as had been envisaged at the end of the 1960s. Mindful of this, in 1978 the Minister for Industry and Commerce, Des O'Malley, recommended that in addition to supporting overseas productions at *Ardmore* "… provision should be made to encourage activities aimed at providing conditions for the development of a native Irish film industry, the ultimate form of which would be film-making in which Irish persons would be involved in financing, artistic and technical aspects, producing films which would have an Irish character. The proposed *Film Board* should be concerned, therefore not only in assisting medium to large scale features using NFSI facilities but in encouraging Irish film-makers by providing loans, and in some cases grants, and assisting in the training of Irish personnel" (Department of Industry and Commerce, 1978, p. 10).

Thus, O'Malley proposed creating an *Irish Film Board* which would spend £IR2.8 million (3.6 million €) on attracting activity to NFSI but also a further £1.3 million (1.7 million €) to assist Irish film-makers regardless of whether they used NFSI facilities or not. Legislation to this effect was passed in 1980, and the *Irish Film Board* commenced operations the following year driven by the broad objective to "assist and encourage by any means it considers appropriate the making of films in the State and the development of an industry in the State for the making of films" (Irish Film Board Act, 1980).

3 The First Phase of State Aid in Ireland: 1981–1993

In the event, the NFSI went into receivership in 1982, and the first Board entirely focused its £IR4.1 million (5.3 million €) budget on supporting "socially and formally critical" (Rockett, 1991) domestic productions which represented Ireland in quite a different manner to the pastoral visions characteristic of earlier overseas productions. However, the existence of the first Board proved relatively short-lived. In 1987, its operations were suspended as part of a swathe of public spending cuts introduced by a government facing into an economic recession. Some film-makers felt that the decision was motivated by official discomfort at the critical vision of Ireland offered by *Film Board*-supported activity but the evidence for this is scant: the Chief Executive of the first Board, Michael Algar, reported that, for the most part, the response of the state to the Board's output was, at worst, indifference. Furthermore given that Irish audiences had little access to most of the work supported by the Board, the political cost of its suspension was minimal.

However, a week prior to the Board's suspension, the state had introduced a second state aid measure, a tax break incentivising corporations (and later individuals) to invest in film production in Ireland. As Murphy and O'Brien (2015) observe: "This juxtaposition underscored a shift in film policy away from the encouragement of low-budget, indigenous arts activity and towards a more outward-looking commercial-industrial concept" (p. 225).

The introduction of the tax break followed on a previous initiative known as the *Business Expansion Scheme* (BES) which had been introduced in 1984 to encourage private capital in Ireland to invest in small-scale enterprises. The scheme allowed investors to write off against tax any investment (up to a maximum of £IR25,000 (31,750 € p.a.)). Though not expressly designed for film production, a number of Irish production companies availed of it to fund specific productions. However, the cost of film-making relative to the maximum permissable individual investment made the BES scheme unwieldly. In 1986, *Strongbow Films* had to source 273 separate individuals to raise £IR900,000 (1,143,000 €) for their production of *Eat The Peach*. As a consequence one 1992 report found that between 1987 and 1991, just £IR1.18 million (1.5 million €) was raised for ten projects via the BES (Coopers and Lybrand Report, 1992).

In the 1987 budget, however, a new element in the Finance Act, Section 35, sought to address the weakness of the BES scheme with an investor-led tax incentive specifically (and exclusively) designed for film and television production. As initially framed in 1987, the scheme permitted companies to invest up to £IR100,000 (127,000 €) in qualifying productions (where at least 75% of the shoot took place within Ireland) and to write this investment off against corporation tax. Not more than 60% of the total budget for any given production could be raised through the scheme. Two years later the ceiling on annual investments was raised to £IR200,000 (254,000 €), with a company permitted to invest up to £IR600,000 (762,000 €) in a single production over three tax years.

Although *Section* 35 was used by a number of Irish companies (including those from the then burgeoning animation sector), the incentive was initially relatively ineffectual. Limiting the low maximum investment to corporate investors saw just £IR11.5 million (14.6 million €) raised between 1987 and 1992 using the incentive.

4 Reinventing the Wheel: State Aid from 1993 to 2005

In 1993, after a series of film lobby group reports promoting the employment potential of the audiovisual sector, a package of measures aimed at developing the audiovisual sector in Ireland were introduced. In March 1993, the new Minister for Arts, Michael D. Higgins, revived the *Irish Film Board*, and 3 months later a new Finance Act radically overhauled *Section* 35. The scale of the tax write-off for corporate investors was increased to £IR350,000 (444,500 €), and the requirement that 75% of the production be shot in Ireland was relaxed. Henceforth the percentage of the budget available via *Section* 35 was tied to the percentage of work carried out within the state: thus even films where as little as 10% of the production occurred in Ireland were eligible for such funding (although the 60% maximum budget contribution remained in place). This sliding scale approach facilitated international co-productions where the Irish shoot might constitute a relatively small element of the overall project. However, in the longer term, the most significant change in 1993 was the extension of the tax break to individual investors: from 1993, individuals could write off film investments of up to £IR25,000 (31,750 €) against income tax, a strong incentive to invest at a point when the marginal rate of income tax was 46%.

The impact of these changes was remarkable. Although the Film Board's finances were initially modest (£IR945,000 (1.2 million €) in 1993, £2 million (2.54 million €) in 1994 and £2.6 million (3.3 million €) in 1995), the monies raised via *Section* 35 shot up. More money (£IR11.7 million (14.9 million €)) was raised in 1993 alone than had been in the previous 6 years. Even that figure quadrupled—to £IR42.5 million (54 million €)—in 1994 and increased to an annual average of over £IR65 million (82.6 million €) for the remainder of the 1990s. The impact on production levels was equally remarkable: one analysis of film and major television production levels in 1993 enumerated 16 productions (IBEC, 1995). The same analysis in 2000 included 162 audiovisual productions (IBEC, 2001). As early as 1995, the idea that the Irish film industry's survival depended on *Section* 35 in particular had become an article of faith for the entire Irish film industry. Between 1993 and 1997, the money raised via *Section* 35 was, on average, equivalent to 76% of all nonbroadcaster Irish spending on audiovisual production. Between 1993 and 2003, some 640 million € in private capital was raised through the scheme, and most films shot in Ireland since 1993 have availed of it.

The explosion in activity was spread across a mix of indigenous and overseas projects. Although the former were numerically dominant, overseas productions tended to be far better resourced. Broadly speaking, in its first decade, the Film Board concentrated its production and development resources on indigenous projects. With a limited full-time staff of just three people in its opening year, the project selection process relied on external readers who passed their assessment of applications for development and production funding to the Chief Executive who in turn submitted recommendations to a Board constituted by high-profile figures from across the Irish cinema industry. Between 1993 and 2000, the Board expended £IR21 million (26.7 million €) on feature production loans (its single largest category of expenditure) and a further £3.4 million (4.3 million €) on developing features. This support was gradually augmented by a plethora of smaller projects supporting animation, documentary, short production, etc. (Fig. 1).

The first Chief Executive, Rod Stoneman, embraced a philosophy of a "radical pluralism" aimed at achieving a "judicious equilibrium between the cultural and economic imperatives". As a result the Board supported both highly culturally specific (not to say "avant-garde") material as well as occasionally contributing to more populist Hollywood-funded fare such as Pat O'Connor's 1993 adaptation of Irish novelist Maeve Binchy's *Circle of Friends*.

With regard to *Section* 35 (renamed *Section* 481 after a 1997 consolidation of various *Finance Acts*), the bulk of the revenues raised appear to have gone to overseas (i.e. larger-budget) productions between 1993 and 2003. A reluctance to publish disaggregated by-project breakdowns of exactly how much funding was initially raised via the tax incentive makes it impossible to be definitive on this. Nonetheless, the figures that are available suggest a reasonably close relationship between the annual levels of US-sourced finance for audiovisual production in Ireland and the levels of *Section* 35/481 finance raised. Indeed this raised some concerns that the tax incentive was disproportionately benefitting overseas productions: when Mel Gibson's *Braveheart* moved to Ireland from its initial Scottish location in summer 1994, it was estimated that between 7.5 and £IR10 million (9.5 and 12.7 million €) of the budget (equivalent to between 20 and 25% of the total amount raised via the tax incentive that year) went to that one film. In a bid to both refocus the tax incentive on Irish productions, in 1994 the criteria determining which films could and could not qualify for *Section* 35 was extended to include a requirement that the film make some contribution to "national culture" (although precisely what this meant was left conveniently obscure). Furthermore, in 1995 the scheme was altered to limit to £IR7.5 million (9.5 million €) the amount of *Section* 35 finance which could be raised for any given film. Working on the assumption that Irish pictures were unlikely to have large budgets, 1995 also saw

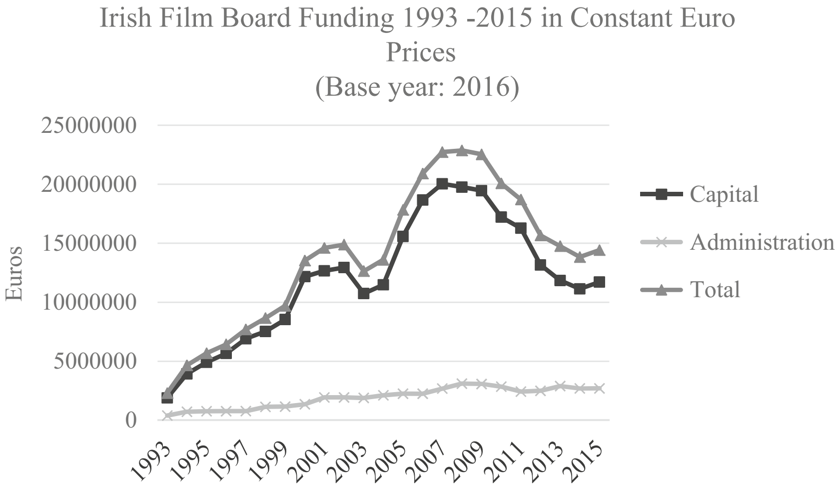

Fig. 1 Funding by the *Irish Film Board*, 1993–2015. Source: *Irish Film Board*, Annual Reports 1993–2015

new limits introduced on the level of *Section* 35 aid available to individual projects: for sub £IR4 million (5.1 million €) budget films, 60% of budget could be raised via *Section* 35, but this fell to 50% for films costing between 5 and £IR15 million (6.35 and 19.1 million €). Furthermore, in a bid to dampen investor recourse to the incentive (which had exceeded all expectations), the level of tax write-off available to corporate and individual investors was reduced from 100 to 80%. However, these restraints proved relatively short-lived: concern that the new strictures had scared off Hollywood producers saw them reversed in 1997 and the maximum sum that could be raised per project was doubled to £IR15 million (19.1 million €), far in excess of the kind of budgets typifying indigenous production.

The maintenance of both direct funding to the Irish Film Board and tolerance of tax revenue forgone by the Irish Revenue Commissioners relied on the argument that such costs were surpassed by the revenues generated from film-related economic activity. From 1995 onwards the Audiovisual Federation of the Irish Business and Employers Confederation (IBEC) published assessments of audiovisual industry-related economic activity which routinely concluded that support for the Film Board and the tax resulted in a net return to the Irish economy. Other bodies—most notably Irish-based independent consultancy Indecon—were less optimistic and questioned the methodology used to arrive at such optimistic conclusions. Nonetheless the emphasis on fiscal discipline reflected the extent to which the decision to both revive the Board and extend *Section* 35 in 1993 was informed by a value-for-money discourse rather than one prioritizing cinema's cultural significance.

As a consequence, the retention of such state aid in Ireland could not be taken for granted. In 1999, an internal committee within the *Department of Finance*—the *Tax Strategy Review Group*—recommended closing the Film Board on the grounds that the "infant industry" rationale was no longer tenable. The Minister for Arts intervened to prevent the Board's closure, but, coincidentally or otherwise, a report commissioned by the same Minister that year recommended reorienting the Board towards strategic business development and marketing, i.e. developing the companies making films rather than the films themselves. The recommendation led to a significant increase in Board funding and staffing levels (from 8 in 1998 to 15 by 2002) but also a marked new emphasis on a more industrial discourse in subsequent annual reports. Even this was insufficient to quell the calls to close the Board however.

In 2002, in the wake of the dotcom crash, the *Irish Department of Finance* appointed an *Independent Estimates Review Committee* to identify scope for achieving 900 million € in public expenditure cuts. The committee expressed view that the continuation of the *Irish Film Board* was "unwarranted" suggesting that the *Section* 481 tax break constituted "sufficient financial incentive ... to the film industry in Ireland". In the event, the Board was again left unmolested, but again the *Department of Finance*'s discourse shaped the Film Board's response: in 2003 a new Chief Executive, Mark Woods, came to the Board from a background in commercial production for *Showtime*. He immediately brought a new emphasis on marketability as a criterion for assessing projects, a shift which alienated elements of the indigenous film-making community. Woods discomfort with the culture/industry discursive equivocation demanded by his role may have accounted for his early departure in 2004, but henceforth there was little doubt regarding the political preference for a more industrially (and, by extension, commercially) oriented Film Board.

5 The Outward Glance: Reorienting State Aid for International Production from 2005

Overseas-originated feature film production activity in Ireland hit a peak in 2003, exemplified by the Jerry Bruckheimer-produced version of *King Arthur*. Thereafter, however, a combination of factors, not least a sudden shift in dollar/euro exchange rates, rendered Ireland a far more expensive place to shoot for Hollywood projects, and bigger international studio projects began to look elsewhere. In 2006, the Irish state increased the proportion of a film's budget that could be sourced from *Section* 481 from 55 to 80% while also increasing the absolute ceiling on qualifying expenditure for any one film from 15 to 35 million €. Two years later this was raised again to 50 million €.

However, the state also overtly expanded the Irish Film Board's focus to include a new role as an international development agency. In October 2006 it opened an office in Los Angeles to promote Ireland directly to Hollywood producers. This followed a 2005 decision by Arts Minister John O'Donoghue to augment the Film Board's funding by creating a new scheme exclusively funding "high-quality international production that can demonstrate a strong connection to Ireland". As Flynn and Tracy (2017) note, the "strong connections" sought by the International

Production Fund were unrelated to subject matter: in supporting projects like Showtime's *The Tudors* (set in sixteenth-century England), the BBC/Amazon production's *Ripper Street* and Showtime's *Penny Dreadful* (the last two set in Victorian England), stress was laid instead upon the involvement of senior Irish crew in incoming productions and their economic impact. The state's contention that the Board needed to "balance" its promotion of indigenous film with support for incoming productions[1] constituted a de facto shift in political emphasis that would become embedded in future years: a belated embrace of the "creative industries" discourse popularized by New Labour in the UK saw screen production in Ireland increasingly supported not for cultural reasons or even because it indirectly supported economic growth but because it was a source of economic activity in itself.

The financial support of projects textually unconnected to Ireland raised potential difficulties with the European Commission which had hitherto routinely acceded to Film Board and *Section* 481 funding. The Commission only tolerates state aid for film and television if it demonstrably supports culturally relevant activity. In Ireland, this forced the Department of Arts to argue that Board-funded *international* projects were made culturally relevant by dint of their use of Irish cast and crew: skilling up on large-budget productions would allow Irish crews to bring those skills to bear on indigenous work. The Commission's acceptance of this logic encouraged Simon Perry, Mark Woods' successor as Film Board Chief Executive, to explore deeper integration with the European co-production scene. Though co-productions had long been a crucial element of production in Ireland, previous Board-supported projects were usually Irish-initiated and overtly Irish in content. However a new Creative Co-Production Fund in the late 2000s saw the Board increasingly invest—modest—sums in projects where Irish involvement might be limited to a single Head of Department. Events towards the end of Perry's tenure at the Board intensified the pressure to become involved in such co-productions as the 2008 economic crash made it clear that the Board would face declining budgets. Indeed, in 2008, the Board once again narrowly evaded being consigned to history. On this occasion the *Special Group on Public Service Numbers and Expenditure Programmes* identified potential savings of 38 million € in the Department of Arts, half of which would be achieved by transferring the Board's activities to Enterprise Ireland, the state commercial/industrial development body. Another rearguard action from the Department of Arts thwarted the move, but Board funding levels subsequently collapsed: by 2013 they had fallen to just over 50% of their 2008 peak. Capital expenditure (the money directly spent on funding production and development) in 2016 was 11.2 million €, well short of the 20 million € spent in 2008. As funding for the Film Board fell, the international co-production strategy expanded, with the Board making relatively small (circa 200,000 €) investments in a variety of projects from and set in eastern Europe, Scandinavia and even further

[1]Speech by John O'Donoghue, TD, Minister for Arts, Sport and Tourism at Cannes Film Festival, May 21, 2006

afield. The strategy was clearly to reduce the reliance of the Board on diminishing local resources, but it also diluted the cultural specificity of the body of films supported. Between 2009 and 2011 therefore, the Board supported at least 16 films with no discernible textual connection to Ireland.

Furthermore, as the "Culture 2025" discussion document published by the Department of Arts, Heritage and the Gaeltacht in late 2015 demonstrated, the state increasingly regards the Film Board as an industrial development body. That document makes no reference at all to the Board's cultural function: "The Irish Film Board is the national development agency for the Irish film industry. It supports writers, directors and producers by providing investment loans for the development, production and distribution of film, television and animation projects. The Board also supports the Irish screen industries in international markets and festivals and promotes inward investment, including through the promotion of Ireland as a location for film production. The IFB incorporates Screen Training Ireland through which it provides a strategic vision for industry training" (Department of Arts, Heritage and the Gaeltacht, 2015, p. 21).

Irish producers appear to have followed the official cues offered by the emphasis on a more market-driven and actively outward-looking perspective in contemporary screen production policy. In this regard they have enjoyed remarkable international commercial and critical success with a slew of recent Academy Award and Cannes award nominations. However, this success is often associated with projects which are not recognizably Irish: Lenny Abrahamson's US-set *Room*, Yorgos Lanthimos's *The Lobster* or Paddy Breathnach's Cuba-set, Spanish-language drama *Viva*.

The recent history of the *Section* 481 tax incentive parallels that of the *Film Board*. It too has faced existential threats not least in December 2002, when the then Minister for Finance, Charlie McCreevy, announced a decision to end the tax break with effect from 2004. His thinking was shaped by the earlier deliberations of the *Tax Strategy Group* within his Department which from 1999 had dismissed the infant industry rationale for retaining *Section* 481. The Minister's announcement prompted a year-long campaign coordinated by lobby group Screen Producers Ireland (with the support of the Department of Arts, Sports and Tourism), which argued that *Section* 481 was a key element of the Irish audiovisual financial infrastructure without which large-budget overseas productions in particular would have little incentive to contemplate shooting in Ireland. Even the MPAA Head, Jack Valenti, when visiting Ireland in October 2003, was pressed into service to call for the retention of the tax break: "I do not pretend to give advice to prime ministers but in this modern world not to have a film tax incentive is to leave a country impotent ... If you repeal this you leave Ireland barren" (Flynn, 2013, p. 213).

Duly impressed, in December 2003, the Minister not merely reversed his decision but extended *Section* 481's operation until 2008 while increasing the ceiling for *Section* 481 investments in individual projects. However, as the recession persisted and the cost to the state of tax of *Section* 481 relief grew (to "almost 50 million €" by 2011), the tax incentive was subjected to further scrutiny.

A May 2012 Department of Finance consultation was of particular concern to the local production sector. While inviting submissions from interested parties as to the retention or otherwise of *Section* 481 after 2015, the consultation noted a 2007 *Indecon* finding that "the benefits of the scheme to the Irish economy were . . . low and declining". More pointedly the consultation pointed to *Indecon*'s finding that, on average, "for every €100 raised under *Section* 481, the exchequer cost was €34 but that only €19 accrued as a subsidy to the producers with the balance being returned to investors or accounted for in administration costs" (Department of Finance, 2012a). These figures were altered somewhat—to the benefit of producers—by the 2007 decision to allow investors to write off 100% of their investment at the marginal rate of tax relief as opposed to the 80% hitherto permitted. Thus by 2012, for every 100 € of a *Section* 481 investment made by an individual, the state lost 41 € (given that the marginal rate of tax was then 41%) in income tax, yet the production company only benefitted to the tune of 28 €.

The difference between the 100 € nominally raised under the incentive and the amount actually accruing to the production as a net benefit owed much to the fact that *Section* 481 investors typically sought security—typically in the form of presales—for the bulk of their investment. Thus although investors might risk the 41 € which would otherwise be lost to the central exchequer through income tax, they were less casual about the fate of the remaining 59 €. In most *Section* 481 arrangements then, *Section* 481 investors were typically at the head of recoupment queue, and, once presales were paid, they were more than compensated for the 59 € they had actually placed at risk. As a result although Fig. 2 accurately reflects the amount of money raised via *Section* 35/481, it nonetheless hugely overstates the actual net contribution of the tax break to production.

Thus although in 2010 158 million € was raised (expressed in 2016 values—in fact just over 150 million € was raised in 2010) via *Section* 481, at a cost of 64 million € (again, 62 million € in 2010 values) to the state, the actual net contribution to the funding of film production in that year is more likely to have been of the order of 30–40 million €.

By 2012, the state was unwilling to accept the leakage of 13 € out of every 100 € raised to *Section* 481 investors and their financial intermediaries (typically banks and accountancy firms). That it was costing the state 41 € in tax forgone to confer a 28 € benefit on a film or television production seemed absurd. Ominously for those who asserted that *Section* 481's presence was crucial to the very existence of the industry, the May 2012 consultation concluded by suggesting that: "Alternative forms of intervention by the State, either through a lower tax relief, or the use of a credit based system may achieve the same outcome for the production company but at a lower cost to the State" (Department of Finance, 2012a, p. 11).

The Department was further encouraged to explore a tax credit system as a replacement for the existing *Section* 481 mechanism by the manifestly nonprogressive nature of the scheme. In 2009 the Commission on Taxation had questioned whether access to *Section* 481 investment was fairly distributed amongst those on lower incomes. As the Department of Finance would point out in December 2012,

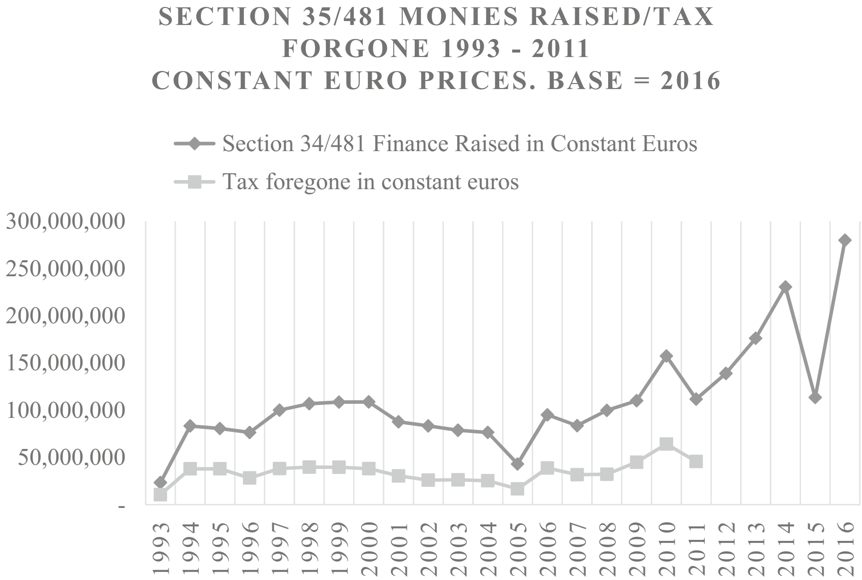

Fig. 2 *Section* 35/481 Funding 1993–2016. Sources: IBEC (1993–2011) and *Irish Film Board* (2012–2016)

Section 481 was effectively skewed towards benefitting "high-income individuals". Seventy-four percent of those who availed of the scheme in 2010 had incomes in excess of 100,000 €, and the structure of the tax break effectively limited it to individuals who had "a substantial portion of their income at the higher rate of income tax" (*Department of Finance*, 2012b).

Thus in their assessment of *Section* 481, the *Department* recommended moving towards "a producer led tax credit model based on the net benefit to producers under the current scheme" which would both end the leakage of *Section* 481 monies away from producers and "remove high income individuals from the funding model, thereby improving equity". Most damningly, the *Department* concluded that had such a model been in place in 2011, it would have resulted in a "32 percent exchequer saving" reducing costs from 46.5 million € in tax foregone to 32 million € (*Department of Finance*, 2012b).

The recommendation clearly ran in the face of the expressed wishes of the film industry which argued that the loss of *Section* 481 would see both locally originated and international project production levels collapse. Of the 1.4 billion € raised via *Section* 481 for animation, film and television drama production between 2007 and 2016, 72% went to incoming productions (*Irish Film Board*, 2016). Most felt that a tax credit would not seamlessly replace *Section* 481. The primary reason for this is related to cash flow: the investor-led form of *Section* 481 finance was particularly appealing for producers because it was available on day 1 of principal photography. The value of a typical tax credit, by contrast, would only become available at the end of the tax year in which the production was shot. In Ireland in 2012, the obvious model for a tax credit system was the producer-led *Film Tax Relief* system which had been adopted in the UK in 2007, superceding the older investor-led *Film Partnership Relief* system. The UK *Film Tax Relief* was explicitly crafted as a repayable tax credit: thus investment in film-making could only be claimed as a deduction at the end of the tax year when film production companies come to calculate their taxable profits.

Irish producers acknowledged that the delay in realizing the benefit of a tax credit was less problematic for international productions which, being typically financed by companies with the capacity to self-fund, could afford to wait for the benefit of the tax credit to become available. However Irish producers also stressed that the delay is potentially critical for indigenous productions, especially in a changing banking context. Banks which, pre-2008, had been heavily engaged in film finance were far less interested in cash-flowing production finance in the dramatically changed financial context of 2012.

Nonetheless, brushing film-maker protestations aside, in 2012 the Minister for Finance went with the advice of his officials. “I propose to extend the film tax relief scheme to 2020; reform the operation of the scheme by moving to a tax credit model in 2016 so as to ensure better value for taxpayers’ money and eliminate the need for high income investors to provide the funding for the scheme; and enhance the scheme so as to make Ireland even more attractive for foreign film and TV productions. These changes will rectify the anomaly by which investors received a disproportionate amount of the tax relief as opposed to the funds going to production” (Michael Noonan, Minister for Finance, introducing the 2013 Budget on December 5, 2012).

The industry response was pragmatic, welcoming the retention of some form of tax relief even if the precise structure of it initially remained opaque. When the details of the new scheme finally emerged in 2015, producers appeared to adopt it with relatively little pain. The tax credit approach allowed production companies to claim relief against their corporation tax bill. The scale of the per project relief is equivalent to 32% of the lowest of the following figures:

(a) The amount of “eligible” (see below) expenditure
(b) 80% of the total production cost of the film
(c) 70 million €

In the (likely) event that this 32% figure exceeds the corporation tax bill faced by individual production companies, the Revenue Commissioners make a direct payment to the production company to cover this excess. Thus if a project spends 70 million € of eligible expenditure in Ireland, the production company is entitled to write off 22.4 million € (32% of 70 million €) against their corporation tax bill. In the event that tax bill was only 4 million €, the Revenue Commissioners would further compensate the production company to the tune of 18.4 million € (22.4 – 4 million €). In this regard early concerns about cash flow were largely mollified by the *Irish Revenue Commissioner* decision to allow production companies to claim up to 90% of the credit in advance of production.

In addition to assessing the creative and technical capacities of the production and the likely contribution to offering quality employment and training to local crew, the *Minister for Arts, Heritage and the Gaeltacht* must certify that a project-seeking *Section* 481 funding meets at least three of the following criteria:

- The project is an effective stimulus to film-making in Ireland and is of importance to the promotion, development and enhancement of creativity and the national culture through the medium of film, including, where applicable, the dialogue/narration is wholly or partly in the Irish language or the production of a full Irish-language version of the film is included as part of the total budget for the film.
- The screenplay (or, in the case of a documentary film, the textual basis) from which the film is derived is mainly set in Ireland or elsewhere in the European Economic Area [the 28 EU plus 3 EFTA states].
- At least one of the principal characters (or documentary subjects) is connected with Irish or European culture.
- The storyline or underlying material of the film is a part of, or derived from, Irish or European culture and/or heritage; or, in the case of an animation film, the storyline clearly connects with the sensibilities of children in Ireland or elsewhere in the EEA.
- The screenplay (or textual basis) from which the film is derived is an adaptation of an original literary work.
- The storyline or underlying material of the film concerns art and/or an artist/artists.
- The storyline or underlying material of the film concerns historical figures or events.
- The storyline or underlying material of the film addresses actual, cultural, social or political issues relevant to the people of Ireland or elsewhere in the EEA or, in the case of an animation film, addresses educational or social issues relevant to children in Ireland or elsewhere in the EEA (Revenue Commissioners, 2016).

These criteria are clearly informed both by the need to avoid discriminating against productions from other European countries and by a desire to allow productions from beyond the European Economic Area access to *Section* 481 funding. Although overseas producers availing of the tax break must use a special purpose production company "incorporated and resident in the State" (i.e. a local production partner), the criteria do not require a qualifying production to have anything to do with either Ireland or even Europe at a textual level. Virtually any film shot in Ireland would meet the first criteria of promoting, developing or enhancing creativity, while the emphasis on literary adaptations, "concern" with art and artists and/or historical figures, seems broad enough to encompass a wide variety of works.

However, perhaps the key shift in the move to a tax credit approach is the manner in which it appears to embrace extra-EEA productions to a greater extent than hitherto. The introduction of the International and Creative Co-Production Funds by the *Film Board* in the 2000s had already diluted the territorial restrictions limiting what the Board could and could not support. However, such restrictions are further weakened by the decision to expand the definition of expenditure eligible for *Section* 481 funding to include the cost of *all* cast and crew working in Ireland, regardless of nationality. Hitherto only payments to goods and service providers with the European Extended Economic Area (EEA) could attract *Section* 481 support. Under the new mechanism, payments to any individual count towards eligible costs as long as those payments relate to work carried while working within the state. In the case of high-profile international stars associated with precisely the kind of large scale productions the Irish state is seeking to attract to Irish shores, such salary costs could be very substantial. Reflecting this, Irish newspapers immediately labelled the change the “Tom Cruise clause”. However, though it may well encourage production with high-profile cast to Ireland—*The Force Awakens* and *The Last Jedi* sequels in the *Star Wars* series both completed extensive location shoots in 2015 and 2016 though neither appears to have availed of the tax break—the removal of any territorial specificity clearly weakens the position of below-the-line cast and crew in Ireland since their inclusion on shoots in Ireland is no longer essential to avail of the tax break.

To date, there seems little evidence that either local or international productions have encountered significant difficulties in using the new mechanism. Furthermore, it appears that the cost of the tax break to the exchequer may have been substantially reduced from the 46.5 million € foregone in 2011 to the 17.5 million € raised via the tax credit by 43 projects in 2015. Of these, perhaps 11 (accounting for 7.7 million € of the total raised) can be regarded as international projects, though they remain partnered with local production companies for production purposes. Although published figures for 2016 are coy as to exactly how much *Section* 481 funding was availed of for particular projects, it is apparent that *Showtime*’s (in partnership with local production company *Metropolitan Films*) third series of *Penny Dreadful* secured comfortably in excess of 10 million € in 2016, far more than any other single production. A second *Metropolitan* co-production—the fourth series of the History Channel’s *Vikings*—secured another 2–5 million € in the same year.

6 Conclusion

In sum then, in name at least, the two core instances of state aid for film production in Ireland—the *Film Board* and *Section* 35/481—have remained in situ since the 1980s. However, both have undergone, to a greater or lesser extent (substantial in the case of the tax break, less significant in the case of the *Film Board*), a succession of transformations which have reoriented them to address the needs of overseas producers (while remaining accessible to indigenous companies). This is clearly in keeping with the recent wider policy instrumentalization of the Irish audiovisual sector as a key creative industry in an economy which, rhetorically at least, has long sought to present itself as based on both a capacity to generate (if not necessarily retain rights to) artistic content and, more broadly, knowledge-based activity.

The introduction of state aids for film production in Ireland has transformed the conditions for production activity in Ireland over the past 25 years. In 1991 and 1992, there were fewer than five feature films shot in the country and less than 1000 full-time equivalent jobs were created in the sector. Flash forward to 2016 and the picture is very different. *Irish Film Board* figures point to 17 feature film projects (11 indigenous and 6 incoming) in that year alongside 15 major animation projects and, though they lie beyond the scope of this chapter, 19 significant TV drama productions, of which 10 were originated overseas. Nonbroadcaster funding of audiovisual activity in Ireland hit 637 million € in 2016 and—excluding extras—*Irish Film Board*-supported activity generated 2281 jobs amongst cast, crew and trainees (all figures: *Irish Film Board*, 2016).

This introductory question remains, however: to what extent has Irish State Aid policy emphasized the development of a self-sustaining indigenous sector as opposed to facilitating Ireland's competition for "runaway" productions from other film-producing centres, most notably Hollywood. There is little doubt as to which element of the industry has had the greater impact on film policy formation in the past decade: if the *Film Board* is still regarded as oriented towards indigenous production, the decision to halve its funding since 2008 while increasing the percentage of production budgets which can be raised through *Section* 481 clearly suggests that retaining a slice of the international market is the pre-eminent concern of policy-makers. Although the increased availability of *Section* 481 notionally aids indigenous producers in the same manner as it does to international players, the fact that Irish productions are low (typically sub 2 million €) clearly suggests that the absolute cap on per project *Section* 481 of 22.4 million € primarily relates to large-budget (and therefore overseas) productions.

Nonetheless, as noted above, despite repeated pressures to simply shut the *Film Board* down, policy-makers have persisted in funding it. Even if some of the highest-profile indigenous output in recent years is increasingly disconnected from Ireland at a textual level, the production of locally specific, culturally engaged cinema facilitated by *Film Board* has also continued. The Board's support was vital for critically and commercially popular local fare in 2016 such *as Sing Street, A Date for Mad Mary* and, the single biggest indigenous box office hit in recent years, *The Young Offenders*. That such films often find it hard to access audiences outside Ireland (limiting their prospects of making a commercial return) is disappointing, but difficulties in accessing international distribution are hardly unique to the Irish film industry. For now the compromise whereby international production provides large-scale revenue and employment while indigenous work allows local audiences to see their lives reflected (and thus legitimated) on the big screen seems likely to continue.

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Tax Incentive Schemes for Film Production: A Pivotal Tool of Film Policy?

Oliver Castendyk

1 Introduction: Tax Incentives for Film Production

In 2014, the US State of California decided to triple the amount of funding to film and television production, from USD 100 million to 330 million per year. Why does California, the birthplace and home of Hollywood, spend that vast amount of money on a well-established industry, why in a country which lives the spirit of free enterprise and is not known as an advocate of public funding for the arts?

The first and short answer is because film productions began to move elsewhere. Of course, some Hollywood productions were always shot outside the United States, for example in the United Kingdom back in the 1950s, but these were few and initiated mainly because special locations were needed or British actors did not want to travel. These "runaway productions," a term used by the American film industry to describe filmmaking and television productions that are intended for initial release/exhibition or television broadcast in the United States, but are actually filmed in another country, began in the 1980s, gained momentum in the 1990s, and has shaped the world's film industry ever more since 2001 (LAO, 2016; *The Monitor Group*, 1999). The reason for productions going abroad was mostly motivated by financial considerations. With the costs of film production continuing to rise, studios started to hunt for ways to reduce or balance their budgets. But not only major production companies such as *Warner Bros*., *Paramount*, or *Universal* also big and medium-sized television production companies based in Los Angeles were increasingly migrating their locations to other countries such as Canada, Australia, or the UK (Freeman, Kyser, Sidhu, Huang, & Montoya, 2005; McNary, 2014; *The Monitor Group*, 1999).

Since various observers in the film industry state that tax incentives contributed to this migration (LAO, 2016; *The Monitor Group*, 1999), critical studies were

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undertaken that advocate the wiser and more effective use of these incentives in both the United States and Europe (e.g., *Berger*, 2014; Ernst & Young, 2012; *Oxford Economics*, 2012; Olsberg & Barnes, 2014; *Scott*, 2015). Still, other scholars, in contrast, rigidly oppose such interventionist measures in all its forms (Tannenwald, 2010; Thom, 2016).

In the United States, the issue of tax incentives for film is a subject of ongoing and intense political debate. There, the film industry has ever since argued with a strong "multiplier effect" of film production incentives and their potential to diversify and expand the economic base of the respective region. Critics, on the other hand, have repeatedly pointed out that the costs would exceed the benefits (Maddens, 2017).

In contrast, in Germany the debate on film funding does not focus on incentives at all (e.g., Boeser, 2014; Castendyk, 2008; Daamen, 2008; Duvvuri, 2007; Jansen, 2005; Knorr & Schulz, 2009; Posener, 2014; Zwirner, 2012). There, film funding—for various historical, cultural, and legal reasons—has largely been regarded as state aid for the promotion of film as culture but not as an industry (Castendyk, 2008; Jansen, 2005). Notably, the merits of film funding are compared to other support systems to culture, and their efficacy is sought within Germany and not in relation to international competition.

In this chapter, tax incentives are first defined as a special means of public film funding, their historical development in Europe and the United States is reviewed, and finally the rationale behind film production incentives and the different types which exist on both continents is explained.

The main purpose is to ask whether film production incentives are a pivotal tool of public film funding and have hence achieved the goals for which they were devised.

2 Tax Incentives Defined

Tax incentives for film productions are a prominent form of support intended to ensure the production of films taking place in the country offering them. Recipients are (a) foreign production company (also termed "inbound productions"), which are encouraged to produce or post-produce in the respective country, and (b) domestic production companies which are incentivized to realizing their films in their own country rather than abroad (Burgdorf & Coletti, 2009; Grand, 2006). Since many types of incentives were tax based in the past, they have been traditionally termed "tax incentives," "tax credits," "tax rebates," or "tax-based incentive systems" (Olsberg & Barnes, 2014).

2.1 Classic Types of Film Funding

As will be shown further below, however, most of the current incentive schemes are no longer tax based. Incentives for film production represent a major model in the film funding landscape but not the only one. And there is a tendency of incentives to be contrasted to “classic” or traditional types of film funding (Goldmedia/HMS/DIW, 2017; Talavera-Milla, Fontaine, & Kanzler, 2016). This type of film funding is called “classic” as it was already established in the 1930s and early 1940s (Germany, Italy, Spain, later in France by the Vichy Government) and has since then been introduced in almost every European country (Newman-Baudais, 2011). These traditional funding schemes have one major goal: the encouragement of *local* film production. The motivation is primarily cultural and not economical as film is seen as a vital part of each country’s national culture and heritage (Talavera-Milla et al., 2016).

Typical conditions to obtain classic film funding are based on nationality, for example on whether the director, the main actors, or the script writers are citizens of the respective country. These classic schemes have requirements such as nationality of the major artistic contributors or language in which the film is shot, while “modern” incentive film funding schemes care for the amount of money the film production spends within the country (see below in more detail). Classic film funding is considered as successful if the films funded gain critical acclaim world-wide and perform well at the domestic box office. Incentive funding, by contrast, counts a production as successful if the production spends a high proportion of the production budget in the country of the funding institution. Whether the film is later successful with audiences or critics does not matter at all.

Although the main objectives of traditional and incentive film funding differ, it is nevertheless difficult to categorize a specific film fund into one of these two categories. This is because classic film funding schemes have developed economic objectives too. Hence, the regional film funding schemes which originated in Germany (Berlin, Bavaria) in the 1970s, followed by other German *Länder* (North Rhine-Westphalia, Hamburg, Lower Saxony, etc.), regions in Belgium, France, and Spain in the 1990s, “territorialized” their schemes. “Territorialization” means that film funding is granted on condition that all the aid is spent in the region. Since this territorialization clause contravenes the concept of a *Single Market* in European film production, it is only legally permissible when certain conditions are met (European Commission, 2013).

Alongside territorialization, there are other elements of incentive film funding that can be found in classic film funding schemes, for example, automatic funding (in contrast to selective funding), cultural tests, and long-term film industry goals. All of these film funding schemes, be they classic aid or incentive based, support and therefore target film production. The main difference between them is their objective: classic film funding tries to achieve successful national films made by a prosperous national film industry; incentive film funding institutions predominantly aim for films being produced in their territory with as much economic effect as possible.

2.2 Tax Credits, Grants, and Rebates

At present, three different kinds of film production incentives are offered in Europe as well as in the United States (Olsberg & Barnes, 2014): *tax credits*, *grants*, and *tax rebates*.

Tax credits are a form of investment that reduces the amount of the investor's taxable income. In other words, the loss during the year of the film's production offsets the investor's profits in this year. If the film makes profits from exploitation in subsequent years, the investment is recouped by the revenues from exploitation. Since these revenues are taxed, tax credits often only lead to a deferral of tax payments. Credits of this nature are not refundable and are only triggered when there is a tax liability. Production companies without tax liability cannot benefit from it. In order to benefit such a production company, the incentive system has to find a way to transfer the tax credit to an entity that owes state taxes. There are different ways to extend the tax credit in form of a profit reducing loss of a film producer to a potential investor. Some incentive systems transform the investor into the film (co)producer; others allow for a sale of the profit reducing loss to the investor. The latter type of transfer is often handled by a tax credit broker and is always sold for an amount below the face value of the credit, due to broker and lender fees. Up to 40% of the subsidy could flow into these services and not into the local film industry itself. This made it politically difficult to justify tax credits (Olsberg & Barnes, 2014).

Whereas tax credits were often used in the 1990s, they went out of fashion in the last ten years. The last countries to abolish this form of film production incentive were Luxemburg, Ireland, Belgium, the UK, and the Netherlands (Olsberg & Barnes, 2014). Complexity involved in the tax credit models, resulting in costs for tax consultants, attorneys, agents, and banks, led to their abolishment.

Grants are based on the film's production costs and not on the amount of a third-party investment into a film production. The grant is calculated as a share of the production costs. The payments are normally disbursed after the expenditures for production have been made and examined. For example, a movie is shot in South Carolina which offers a tax credit of 30%, if the production spends a minimum of US$100,000 in South Carolina. The production would then file a return and receive US$30,000 in return as a grant check.

The third type of incentive, the *tax rebate*, which is similar to the grant model, is one that offers a tax *refund* based on qualified production expenses incurred during the filming of the TV show. Productions awarded this kind of aid can expect a tax refund at the end of filming, which matches the percentage of expenses accrued in the state. The value of this credit lies in the fact that productions can either use it to reduce their tax liability to zero or—in the frequent case that they have no taxable revenue—receive money back from the state. In practice, most of the production companies receive a payment (such as in the grant model), the only difference being that such payments are not handled by film subsidy bodies but by tax authorities. Therefore, the terms "tax credit" and "tax rebate" are often misleading because they give the impression that production companies get lowered tax rates, while they actually get a payment. A study about the New York film production incentive by Rubin and Boyd (Rubin & Boyd, 2014) shows that the tax rebate system is not based on reducing taxes for production companies. This is simply because the revenues of film production companies are not big enough to be based on rebates. The authors wryly observe: "It is a misnomer to call film tax credits refundable: payment will be made to the qualifying business even if it never paid any taxes and never will. The credit is essentially a spending program subsidizing the costs of producing films in New York. In 2008, the latest year for which detailed data are available, the motion picture and sound recording industries had New York corporate franchise tax liability of US$6.7 million after credits. Of the US$137 million in film credits available to firms that year, US$10.3 million were used to reduce tax liability directly. The remaining USD 127 million of credits were taken as refunds." (p. 79). To put it in the simple terms used by Louisiana's head economist Greg Albrecht, chief economist for the *Legislative Fiscal Office* (quoted in Russel, 2014, p. 2): "It's called tax credit or tax rebate, but it's got nothing to do with tax. We're just using the tax-filing process and the Department of Revenue as the paying agent for a spending program. That's what we're doing."

3 Reviewing the Historical Development

3.1 Humble Beginnings

As mentioned, film funding in Europe was initially designed to financially help out the production (and later development and distribution) of national films, the objective of which was more cultural than economic, more national than regional.

However, this traditional framework changed in the 1970s. A first scheme was introduced in two German *Länder* (Bavaria and Berlin) and another one abroad in Canada. The two German funds added territorialization requirements for the first time. In Germany, the territorialization paragraph was a result of fierce competition between Munich and Berlin as the major hubs for German feature film production (Castendyk, 2008).

Further, in 1984, Ireland made itself attractive as a film shooting location for film projects from abroad, although the scheme was capped to a low volume (Pettitt, 2000). The incentive did only have considerable effects after 1993 when the cap was lifted. In 1994, the number of productions rose from 5 to 43, and the volume of investment continuously grew to approximately 50 million euros annually until 2000 (U.S. *Department of Commerce, International Trade Administration*, 2001).

In Canada, the first fund that attracted foreign production companies was created in 1974. The *capital cost allowance* (CCA) permitted investors in Canadian films to deduct 100% of their investment from their taxable income. Since this scheme was tax based, the CCA is considered as the first real "tax incentive" scheme for film production worldwide. Within five years, it resulted in an increase in the number of full-length cinema film productions in Canada from 3 to 77 (Morris, Madger, & Handling, 2012). However, in contrast to the Irish fund, the CCA was initially not conceived as an incentive to attract foreign (or nonregional) productions. In order to benefit from the CCA, a production company and 2/3 of the "above-the-line" creatives (film director, screenwriter, actors, etc.) had to be Canadian nationals. At first, only a few productions intended for the US market were able to satisfy these requirements.

3.2 Gaining Momentum

After the requirement of Canadian nationality was liberalized in 1987 and eliminated in 1993 major creative positions no longer had to be filled by Canadian nationals, Canada became very interesting for production of US motion pictures and television series.

There are other factors contributing to the rise of Canada as second important production site of the US film industry next to Los Angeles. Firstly, the production capacities in personnel and equipment in the form of well-trained crews and infrastructure had been increased continuously since the 1970s. Secondly, the square-meter volume of sound stage and studio complexes in Ontario and British Columbia grew larger than the one in New York in 2001 (*The Monitor Group*, 1999) and is now bigger than that in California (LAO, 2016). And finally, in the 1990s, the Canadian dollar lost approximately 20% of its value and salaries of most crew members in Canada were ca. 15% lower than in the United States. The advantages of Canada seemed to convince a large number of film production companies as a consequence of which the turnover with foreign productions realized in Canada rose fivefold from 1993 to 1999 (U.S. *Department of Commerce's Report*, 2001).

In Europe, Luxemburg invented a film funding system which combined traditional elements with measures of incentive film funding in 1990. The state aid monies were territorialized (i.e., had to be spent in Luxemburg), and as in many other classic film subsidy schemes, the applicant had to be a film production company from Luxemburg and the workforce had to be mostly domiciled in the country. Like Canada and Ireland, the Luxemburg scheme was a system based on tax.

The UK was the fourth country to offer incentive funding for film (Redfern, 2009). After the Thatcher government drastically cut classic film funding in the mid-1980s, a tax-based funding scheme was introduced in 1992. It was designed as a purely economic film funding scheme. Since the funding was to be handed out after the tax assessment note and therefore long after production start, the scheme became attractive for production companies only after the brokerage company *Pinder Fry and Benjamin* discovered a way to prefinance it. In 1997, Blair's Labour government opened this tax incentive to foreign productions. The consequences became obvious a few years later. In 2000 and 2001, about one billion Pounds Sterling were generated by each of the sale and leaseback companies, i.e., by the companies that organize the financial transaction in which one sells an asset and leases it back for the long term. Until 1997, primarily British independent films such as *Last Orders* and *Enigma* were financed with relatively small budgets compared to US productions. Later, these were replaced by large-scale US projects with production budgets of over 50 million dollars on average. A comparable development at that time can be found in Australia (with large-scale productions such as *The Matrix*, *The Thin Red Line*, etc.).

At the same time (1992–2002), the German regional film funds became a relevant force in European film production. Although they still belonged to the traditional film funding models, they were the first state film aids which were territorialized, i.e., they (still) require that the production aid is spent in the respective region; and they do not require that the creative participants are from that region. Compared to tax credit models, they suffer from (a) selective (and therefore unpredictable) funding decisions and (b) capped funding volumes.

3.3 US Responses

In 1998, two US guilds (*Directors Guild of America* and *Screen Actors Guild*) commissioned a study on the phenomenon of runaway productions (*The Monitor Group*, 1999). This study claimed that the production value of US productions realized abroad summed up to a total volume of four billion dollars, mainly in Canada, the UK, and Australia, all in 1998 alone. Two years later, the U.S. *Department for Commerce* followed with its own report on the issue. It concluded that runaway productions for film began at modest levels but since then had increased in volume and more substantially affected thousands of jobs in certain segments of the film and television production industry, such as for sound engineers, lighting technicians, assistant directors, unit production managers, supporting actors, costume designers, and set designers (U.S. *Department of Commerce's Report*, 2001, p. 2).

At that point in time, some first US states became aware of the financial potential for film production and the possibilities of getting a portion of it. A year later, a "subsidy race" began in Louisiana, the first and only state to offer a tax credit scheme before the year 2000. In 2002, it raised the funding rate significantly to 20% for salaries of "above-the-line" crew members who resided in Louisiana. New Mexico and New York followed suit in 2004, as did Pennsylvania one year later. In 2009, 44 US states had established incentive funding schemes and now 36 states remain. States running incentive schemes in 2016 can be found in Fig. 1.

In all, the total volume of the US incentive programs rose from a moderate two million dollars (offered by four States in 2004) to an all-time high of USD 1.4 billion in 2010.

3.4 "Stupid German Money"

The German film funds which were based on a tax credit scheme represent a special case in point. There, the scheme was not meant as an incentive to shoot or post-produce a film in Germany. Rather, it came as a by-product of a special rule in German commercial law and tax law regarding the financial accounting of self-produced intellectual property. This rule prohibited the activation of film rights

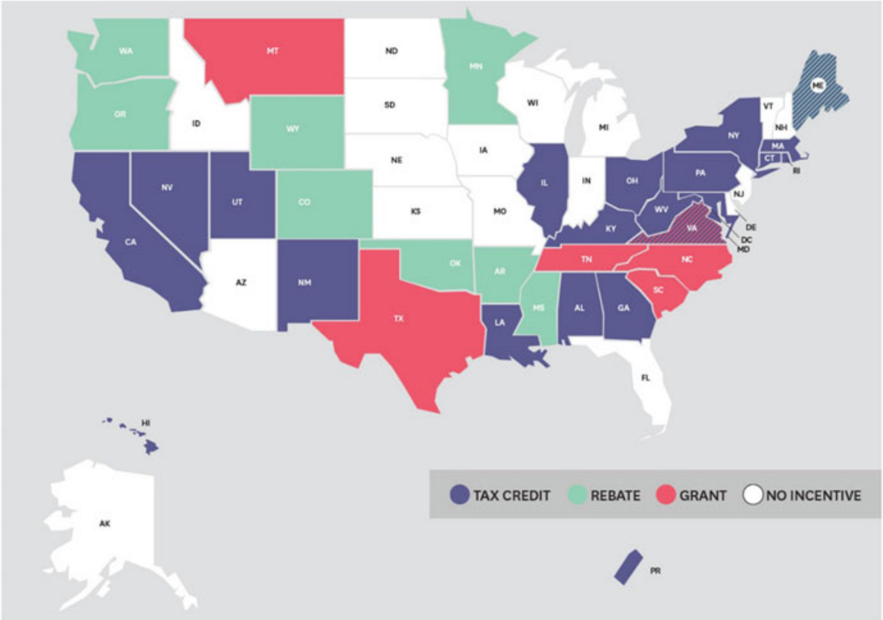

Fig. 1 Film production incentives in the USA—a landscape. Source: Sandberg (2016)

produced by a film production company which were not already sold to third parties on the assets side of the balance sheet (Eigler, 2008).

On this basis, limited companies were established that would (co)produce domestic *and* foreign film projects. Germans were able to offset losses on these investments in film, making the film funds attractive to thousands of private investors. In the years between 1999 and 2005, several billion dollars were invested by German film funds in any kind of foreign production. For example, a large part of the *Lord of the Rings* trilogy was financed by German investors, although it was shot in New Zealand and post-produced in the United States.

The German film funding model was similar to the tax credit model, but it lacked one essential ingredient: it was not territorialized. The money invested could help to produce films anywhere in the world, whereas tax credits in the other countries described above always required that the tax credit monies were to be spent in the respective state or region. Unfortunately, German film funds were inclined to invest in commercially unsuccessful movies. These funds did not have any positive economic effect on the German film industry. Hence, critics demeaned the fund by calling it "stupid German money."[1] The German government only closed this tax loophole in 2006 and thereby ended this type of German film funding.

[1]Kniebe, T. (2007). Schluss mit "Stupid German Money." *Süddeutsche Zeitung*, 24. Juli 2007, S. 14.

3.5 European Developments After 2000

In 2000, Luxemburg, Ireland, and the UK were the only countries with functioning film production incentive schemes. As described, Germany had a tax credit without territorialization which was never meant to be an incentive. Hungary joined in 2004. The studio facilities in Hungary could compete with their competitors in London, Berlin, Dublin, and Prague, because of well-trained crews, lower wages, and its tax incentive scheme.

When the German Federal Government realized that the German film funds led to a misallocation of tax monies and changed the tax rules in 2006, it pacified the industry with introducing a new scheme called the "German Federal Film Fund" (*Deutscher FilmFörderFonds*, DFFF). DFFF is based on the grant model with a volume capped at 60 million euros per year. The grant is disbursed and controlled by the Federal Film Board ("*Filmförderungsanstalt*") on behalf of the German Federal Government.

The rise in film production in the UK, Germany, Hungary, and Ireland led other countries to follow suit. In the past decade, many more film production incentives were introduced in Europe, a development similar to that of the United States. In late 2014, *Olsberg* SPI identified a total of 26 incentive systems in 17 EU countries, including France, the UK, and Italy. In 2014 alone, tax incentives were introduced in four other European countries: Lithuania, the former Yugoslavian Republic of Macedonia, the Netherlands, and Slovakia. In 2015 and 2016, programs in Serbia, Estonia, and Norway followed. A tax incentive program that should become effective in 2018 is planned in Poland (Fig. 2).

Since 2005, incentive models for film production in Europe have more than doubled in size, and the trend is continuing. However, many of these new aid schemes tend toward the grant model. Of the 12 systems introduced in Europe between 2010 and 2014, eight are based on grants, three on tax credits, and one on tax rebates. In addition, various existing models were expanded (e.g., video games, as with tax relief in the UK) or altered fundamentally in terms of their systems (such as in Ireland where existing tax rebates were replaced by a grant model by late 2014).

France now has its own system, the C2i (*crédit d'impot international*), for international inbound productions. The former limit of 4 million euros per production was raised to 20 million euros for productions shot in English, which are normally financed from abroad and which are unable to claim French origin. The competitive pressure involving funding incentives has thereby led to a complete turnaround in French film policy, which until 2014 was oriented toward classic film funding of French or French-language productions.

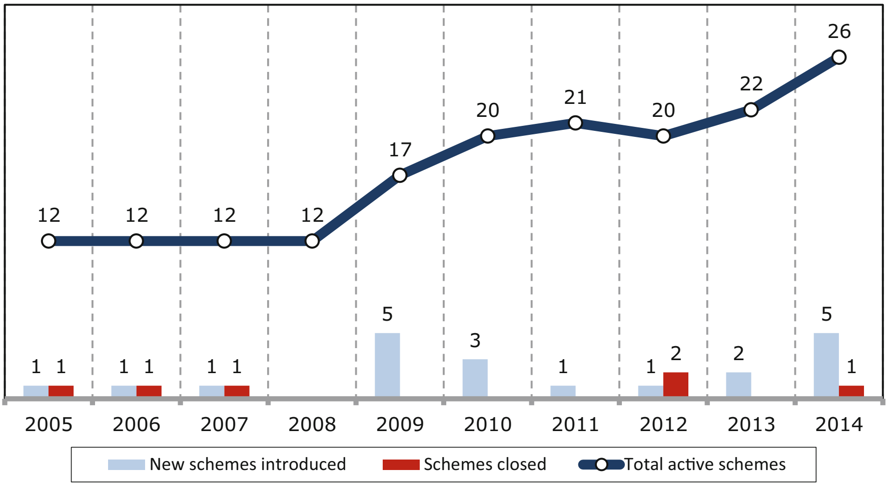

Fig. 2 Tax incentive schemes for audiovisual production in Europe, 2005–2014. Source: Talavera-Milla et al. (2016)

4 Debating Elements and Parameters

Film production incentives are based on the idea that film production firms are highly mobile. Principally, films today can be shot and post-produced anywhere. This is true for both outdoor and studio shooting, as high-quality studios can now be found in many countries. Since films are often shot "on location" (and not only in the sound stage), actors and film crews have been accustomed to travel from one location to another for decades. For this reason, all productions are potential "runaway productions" (U.S. Dept. of Commerce, International Trade Administration, 2001; Ulich & Simmons, 2001) in contrast to a large number of other industrial or craft productions involving plants and facilities for which the potential of them "running away" is much smaller.

Whereas the global competition for industrial locations is focused on supporting the building of production sites (plants or factories) in which products such as cars or mobile phones can be produced, film production incentives are focused on a project basis and go out to single productions. Although there has been state aid for film production sites such as film studios (sound stages), this state aid is the exception to the rule of film funding. The rule is production-oriented funding, because the decision where a film is to be produced and post-produced is taken anew with every new film (Goldmedia/HMS&DIW, 2017). The major film production companies such as *Warner Bros*, *Universal*, *Paramount*, and *Disney* have departments who are only responsible for preparing this decision. They collect data and experiences on each possible country and studio in order to detect wages, currency rates, and last but not least, film production incentives (Goldmedia/HMS&DIW, 2017).

4.1 Elements of Incentives

Since almost all film productions can be realized anywhere, each incentive system potentially competes with other systems around the world (Rubin & Boyd, 2014). Certainly, other criteria are significant for the decision to where a film will be shot and post-produced. These are suitable locations, currency differences, quality of the labor force, payroll expenses, infrastructure, or air traffic connections to Los Angeles, respectively. Yet, film production incentives come as significant magnet (Freeman et al. 2005).

To serve as an incentive for film production companies, funding models need to have several specific qualities (Goldmedia/HMS/DIW, 2017): *territorialization*, *predictability*, and *parity*. As explained above, funding is "territorialized" in that the amount of funding is based on the expenditures made in the country or region where it is provided.

Funding is *predictable* when it is provided automatically. In other words, funding must be provided if the productions meet the relevant conditions of the respective film production incentive scheme. Selective funding schemes work the opposite way: a subsidizing body can make an autonomous decision concerning whether and, if so, how much funding a certain project will receive. This decision cannot be determined beforehand and cannot be the basis of a decision made by the production company who selects the country in which they will shoot and/or post-produce their film. *Parity* means that the amount of funding going out via incentives has to be as high as that of competing film production subsidy schemes. Hence, international competition for big budget runaway productions has led to rising percentages of film production incentives.

4.2 Parameters

Three important parameters determine the attractiveness of incentive funding: (1) the expenditures within the territory that qualify for being included in funding, (2) the amount of funding, and (3) a threshold for these qualified expenditures. All factors vary according to the respective film production incentive.

Ad (1) *Qualified expenditures*: The amounts of grants or tax credits in incentive funding are based on the so-called qualified spend, the amount of money that the production company as a funding recipient has spent for the subsidized production in the territory of the grant or credit source. In this case, only certain types of "spend" qualify rather than all types of expenditures.

In most film production incentives in the United States, qualified expenditures concentrate on "below-the-line" costs (LAO, 2016; Rubin & Boyd, 2014; Scott, 2015). These costs relate to technical expenses and labor (other than above-the-line) involved in producing a film, i.e., relating to mechanical, crew, extras, art, sets, camera, electrical, wardrobe, transportation, color grading, VFX, and post-production. Below-the-line staff includes the production manager, cinematographer, set designer, special effects persons, wardrobe person, and makeup artist. The phrase “below-the-line” refers to the location of the specific expense items on the budget. For example, salaries and fees for equipment such as cameras, lighting, decoration, and carpentry work are qualifying items, while expenditures for direction, script, and lead actors are not included. The reason is that these persons are normally not domiciled in a state such as Maryland or Louisiana. Arguably, only few will be convinced by an incentive to move there. In Germany, on the other hand, the DFFF fund also accepts above-the-line costs, because according to German tax law, artists can be taxed in Germany, even if they are in Germany only for a day.

Furthermore, US and European incentives accept only film-related transactions and services as qualifying expenses. For example, rental fees for camera equipment qualify, not expenditures for hotel accommodation. The reason for this restriction is that the film production incentives aim to establish a film infrastructure, not to subsidize capacities of local hotels or car rental companies. These indirect economic consequences to non-film- industries are regarded as positive but not as the core objective of the incentives.

Ad (2) *Amount of funding in relation to the qualified spend*: In the United States, the amount of funding (based on the percentage of the expenditures in a certain territory) that a production company may receive ranges from 10% in Connecticut to 42% in Alaska. In Europe, these differences are smaller and range from 20 to 30% of all qualified expenditures eligible for the subsidy. In general, funding is based on “spend” in the territory and does not vary according to other factors. One exception to the rule, for example, is the Californian funding: “Independent” production companies receive 30% for spending production expenses in California, while production companies that belong to bigger corporations get only between 20 and 25% (LAO, 2016). The political goal was to provide more help to small and medium-sized production companies (McNary, 2014).

Ad (3) *Minimum spend*: The third criterion of a typical incentive funding scheme is the minimum amount of qualified expenditures (“minimum spend”) which has to be spend in the respective region. For example, the state of Michigan requires US$100,000, while Georgia calls for five times as much. The differences between the two German incentive funds, the *Deutscher Filmförderfonds* (DFFF) and the *German Motion Picture Fund* (GMPF), are even larger. The DFFF’s minimum threshold is one million euros for fiction films, 200,000 € for documentaries, and two million euros for animation films (DFFF *Richtlinie*, 2012). On the other hand, the GMPF guideline requires that the total production costs amount to at least 25 million euros and the share of the German production costs totals at least 40% of overall production costs. This means that the GMPF’s minimum threshold amounts to 10 million euros. Such a high minimum spend is intended to attract primarily large-scale productions. This was successful with such series as *Berlin Station*, *Babylon Berlin*, *Wanted*, and *Dark*. In addition, both funds, DFFF and GMPF, ask for another threshold of at least 20% of the film’s budget that has to be spent in Germany. These incentives are not available, if a production company decides to shoot in Germany only for a day. The objective of all European film production incentives is a longer stay in the respective country.

5 Conclusion: Are Incentives Effective?

5.1 Are Tax Incentives Creating Jobs?

When the State of California started its first film production incentive in 2009, reactions in Los Angeles were all positive. People working in the film industry were happy that they would work closer to their homes (Verrier, 2014). In fact, California had lost jobs in audiovisual production in the last ten years before 2013, while other US States, such as New York, Louisiana, and Georgia, saw considerable increases in the same time period (Legislative Analyst Office, 2016; Ernst & Young, 2009). Two years later, a report by the *Californian Film Commission* mentioned "encouraging results" of the scheme (California Film Commission, 2016) and listed some concrete examples, such as the return of TV series to Los Angeles: *Mistresses von Vancouver*, *Scream Queens*, and *American Horror Story* from Louisiana, *Veep* from Maryland, *Secrets and Lies* from North Carolina, and *American Crime* from Texas. It was claimed that these six series alone would produce more than US$328 million in expenditures for productions in California over the next two years (California Film Commission, 2016).

While the *Film Commission* praised the positive effects and employees at such companies as *Universal*, *Disney*, *Warner Bros*., and *20th Century Fox* were pleased, the *Legislative Analyst Office* (LAO), an independent think-tank that has advised Parliament and the Government of California in matters concerning taxes and budget since 1941, was rather skeptical about the incentive (LAO, 2016): "We generally view company-specific or industry-specific tax breaks such as film tax credits to be inappropriate public policy because they (1) give some businesses an unequal advantage at the expense of others and (2) promote unhealthy competition among states in a way that does not benefit the nation as a whole." (p. 7).

5.2 Biases in Methods and Results

A number of studies have been performed around the world on the potential economic effects (for Europe, see Olsberg & Barnes, 2014; for the United States, see Tannenwald, 2010). For the UK, there are four reports by *Oxford Economics* (2012) based on the comprehensive statistics compiled by the *Film Council* and the *British Film Institute*. Many of the US states has had its own incentive funding evaluated.

In their evaluations of the funding models, the experts at *Olsberg* SPI, commissioned by the *European Council*'s *European Audiovisual Information Office*, came to the conclusion that in the case of almost all incentive funding models, revenues in the form of taxes exceed the state's expenditures for the systems and that there were positive side effects for the entire economy, particularly in the areas of tourism and exports (Olsberg & Barnes, 2014). *Olsberg* SPI stressed that most studies found positive results in Europe. Furthermore, Olsberg employed a "difference in difference" method, according to which countries are divided into two groups: one with incentive funding and another one without. Then, economic effects are compared on the basis of certain indicators (the number of employees in the film industry, the industry's economic output, the value of investments, tax payments, etc.). This method was also used to examine the effect of abolishing or altering existing incentive funding programs. However, *Olsberg* SPI admitted that results and validity of the study were limited due to a lack of comparable data.

US author Tannenwald (2010), however, reached other conclusions: (a) productions that would be shot and post-produced in the state anyway also benefited from the subsidies; (b) the majority of jobs were created in the area of relatively low-paid, unspecialized positions, such as set construction; (c) the jobs created with the funding were not sustainable; (d) the funding and the related increase in revenue were brought by budget cuts in other areas of the state's budget; (e) the worldwide competition for funding resulted in increasingly larger subsidies; and (f) the studies commissioned by the MPAA, the trade association of the US film industry, and by certain government agencies, e.g., funding institutions, were biased. In fact, it is notoriously difficult to evaluate the economic effects of incentive systems (on details of arriving at a scientifically justifiable method, see Burgdorf & Coletti, 2009). Supporters and critics of incentive funding agree solely that these subsidies result in more productions in the territories where they are provided (Tannenwald, 2010).

5.3 Windfall Effects

Tax incentives create "economic windfall effects": First, some credits can end up going to film and television production that would have happened locally without added financial incentives. Second, even though tax credits can lead to more local production work, the financial incentives may be larger than needed to attract producers (Henchman, 2012; LAO, 2016; Rubin & Boyd, 2014; Tannenwald, 2010). Arguably, these windfalls neither play a big role in the United States (Tannenwald, 2010) nor in Europe (Goldmedia/HMS/DIW Econ, 2017).

The LAO report on California's first tax credit program estimates that one-third of all productions made after California's first incentive program was implemented were windfall productions (LAO, 2016). In countries such as France, Italy, and Germany, where productions are not as mobile and cannot, as those in the United States, be realized in a different European state with a different language, population, and locations without significant economic and cultural losses, the share of domestic windfall productions realized in the relevant territory independently of the incentive system is probably higher.

An example of a small windfall effect would be the US state of Maryland, which had no film industry at all before incentive funding was introduced. With the aid of a film production tax credit totaling US$61 million per year, the first four seasons of the series *Veep* and the first three seasons of *House of Cards* were produced in Maryland between 2010 and 2014 with a production volume of US$274 million. The windfall effect is not considerable in this state because the incentive system represented the decisive factor for the production company to shoot the series in Maryland. This was demonstrated by the fact that the tax incentive was reduced and the fourth season of *House of Cards* was shot in a different state.

The windfall effect can be influenced, for example, by implementing a condition according to which funding is limited to inbound productions. “Inbound” means that a production is financed and produced by companies outside the territory; for example, a big Hollywood production would be an inbound production for France and its fund C2i. Inbound productions are less susceptible to windfall effects because they would not be produced in the territory without the fund. If a legislator did not want to restrict the funding to “foreign” (i.e., “inbound”) productions out of political reasons, it is possible to find similar conditions which amount to the same end result, for example, a minimum spend threshold which is so high, that the incentive only applies to high budget films which are mostly financed in the United States or in the UK.

5.4 Measuring Indirect Effects

Studies agree that direct effects (changes in the size of film productions in the various territories) add to indirect and induced effects (Correa, Andres, & Borja-Vega, 2013). These additional effects are calculated on the basis of different economic models, the most accepted being the calculation on the basis of “gross added value” (Goldmedia/HMS/DIW Econ, 2017).

More complicated still is to calculate multiplier effects used to illustrate economic effects per euro or dollar of funding. Studies differ in definitions and statistical calculation of such effects. The simplest method of defining an incentive’s multiplier is to calculate the factor of the production costs (DFFF, 2016; PWC, 2016). However, since the film production incentive provided by the DFFF, which according to its guidelines, can only amount to 20 of 80% of the qualifying costs (or approximately 16%) of the spend in Germany, the multiplier effect is between 5.93 and 6.1. This is not surprising as the result merely reflects the fact that about six times the production costs are spent within the territory, which amounts to 100%. Simpler multiplier models must work with certain assumptions in light of the difficulty in proving causal explanations, for example, the effects on tourism (Tannenwald, 2010).

Even more difficult is calculating the effects on taxation (Rubin & Boyd, 2014). Studies performed by the consulting firms *Ernst & Young* (E&Y, 2009) and HR & R *Advisors* came to conclude that the state of New York’s incentive funding scheme generated 1.13 or 1.09 per incentive dollar. The studies concluded that the State of New York could finance the incentive by the additional tax revenue generated by the surplus turnover in the New York film business. The problematic aspect of these studies was that they failed to take the windfall effect into account and that it was not made clear in the methodology which average tax rates for salaries and other types of income would have to be employed. Rubin and Boyd (2014) measured the tax revenue coming from film production companies, and this revenue was very small. However, Rubin and Boyd conceded that film service providers and salaries of film crews generate more tax revenue than film production companies.

In the study for the *Motion Picture Association of America* (MPAA), *Ernst & Young* argued that the question of whether film production incentives have a fiscal added value is too narrow. Instead, the overall benefit should be calculated (E&Y, 2012).

5.5 Long-Term Effects

An additional aspect that should not be underestimated is the sustainability of the effects of film production incentives. The nature of film production as a potential "runaway" makes it more difficult to establish a film industry on a permanent basis. As shown by some examples of incentive funding in the United States, the effects ended after a few years in states that did not have a film industry previously. The situation was different in states with a traditionally strong film sector (LAO, 2016). The long-term effects are also determined by the development of competing film production incentives. For example, the effects in US states that were the first to introduce incentive systems were greater and longer term than in states that did this at a later date (Scott, 2015).

The following three conclusions can be drawn: (1) The evaluation of economic effects depends on the concrete design of the incentive under conditions of yearly changing international environments; while a film production incentive may be relatively successful in one country, it may well fail in another; (2) Fiscal effects have not been properly analyzed yet; in Europe, an investigation into the complex economic effects of film production incentives is still missing (Kumb, 2014; Olsberg & Barnes, 2014; Schuster, 2006).

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TV Film Financing in the Era of "Connected TV": How Do "Legacy" Broadcasters Respond to Market Changes?

Sven-Ove Horst, Paul Clemens Murschetz, David N. Brennan, and Mike Friedrichsen

1 Introduction: Television in a State of Flux

TV film financing is a growing and relevant topic of academic, public, and industry-wide debate, because of the changes produced through convergence that are further multiplied by the rise of new digital technologies (Bonini & Pais, 2017; Freeman, 2017; FutureScape, 2011; Herzog & Karppinen, 2014; Ladson & Lee, 2017; Lange, 2015; Loriguillo-López, 2017; Lowe & Berg, 2013; Papadimitriou, 2017). Essentially, digital technology changes broadcast media—particularly through its impact on production capabilities, distribution platforms, and funding models—and yet, surprisingly, the effect of these changes is taking time and the traditional TV industry is proving to be quite resilient towards change. But why is this the case?

On a general level, the impact is weathered because change has become a constant for media organizations and the media industry (Picard, 2009). For example, the cinema has withstood a range of disruptive technologies during the last century. In hindsight, the greatest threat to the film industry came in the form of broadcast television. The two decades following WWII saw the rapid adoption

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of television, first in the United States and then throughout Europe. This period coincided with a systemic decline in cinema audiences and revenues as theatrical release was overshadowed by network premiere (i.e. the first broadcast of a film on network TV).

Until the 1990s, cinema was considered to be at risk from a range of technologies that increased the appeal of broadcast television. The adoption of colour television sets in the 1970s, the emergence of VCR technology in the early 1980s, the increase in pay TV penetration in the early 1990s, and even the launch of the remote control (cited by director Peter Greenaway as the harbinger of the end of cinema in 1983) have all been accused of sounding the "death bell" for the film industry (Epstein, 2010).

Once the potential impact of digital technologies became clearer, the prospects for cinema's future were considered bleaker still. In 1995, acclaimed academic and digital pioneer Nicholas Negroponte analysed the threat that cinema faced from the ubiquity, speed, convenience, and lower entry costs which digital online media would exploit to offer a better consumer proposition. The idea of "going to the movies" would become a twentieth-century anachronism and "film" would become just another part of the "content" mass that would shift seamlessly between platforms and screens. The power of *Hollywood*, in terms of distribution, monetization, and artistic control of its output, would be severely diminished. Negroponte's view also applied to all other established media platforms, in particular broadcast television. This is why noted US academic George Gilder predicted in 1992 that television would be finished—as a platform and as a business—by the end of the 1990s. In contrast, Negroponte held a more optimistic outlook for television's future. While he did not predict its deterioration, he foresaw a shift in thinking: "the key to the future of television is to stop thinking of television as television" (see also Flichy, 1999; Negroponte, 1996, p. 48).

Today, the television broadcasting industry is reaching another tipping point. Driven by new developments in digital technology, transformations provoked by the convergence between television broadcast and Internet broadband allows for the boundaries between television broadcasting and the Internet to disappear. Furthermore, the Internet and the "online video revolution" has substantially changed how we watch TV. This is due to the likes of *Netflix*, an American provider of on-demand Internet streaming media services, and other big-name providers such as *Google*'s video-sharing platform *YouTube* or *Amazon*'s *Prime Instant Video*, who are leading the raft of new and innovative TV services. In addition, TV consumers are seen to experience a variety of changes in usage and engagement modes from:

- Lean-back passive to lean-forward active viewing (or a combination of both)
- The use of the remote control to the use of keyboard, infrared, voice, and gesture control
- Consuming live broadcasts to time-shifted, catch-up, and on-demand TV modes
- Single-screen to multi-screen usage

- From single-person viewing (in the child's room) back to multi-person family viewing in the living room (where virtual co-viewers may be part of viewing experience by means of online social networks).

However, while the majority of viewing is said to stay with the traditional broadcasting networks and their "big event TV" (such as prime-time event TV and big sporting events broadcasts), the seeds of change for TV broadcasting are planted by the changes above.

At the same time connected TV can be associated not only with technology but also with industrial and institutional structures, as well as with new social and cultural norms that shape and are shaped by converging media. For example, the latest global privacy policy announcement of *Samsung*, the leading provider of so-called Smart TV services, states that personal conversations of users will be recorded by the device's microphone and transmitted to third parties. This brings forth criticism for privacy issues and highlights that developments in the markets significantly impact—or intrude—on the social sphere and influence the development of culture in ways that cannot be entirely foreseen.

Yet, the issues surrounding the structural changes in television broadcasting are far from straightforward. The underlying economic relations and forces are highly complex, but their importance to all stakeholders is evident. The question of who will own the television audience and control the user interface remains open, and one important consideration therein will be the role of legacy broadcasters that are facing new competitors from outside the traditional media industry, mainly by companies such as *Samsung*, *Apple*, and *Google*.

Nevertheless, at this stage we can posit that "legacy" broadcasting is rather immune to the current challenges for change. While it is experimenting with different kinds of television-like and online video news and entertainment services to reach audiences, especially younger people, it has managed to survive the turmoil rather bravely and has remained in a strong market position.

This is due to the following six reasons: First, while television has had to "stop thinking of television as television" and manage fragmentation of audiences across devices, platforms, and providers, its key market asset remains quality journalism and the production and syndication of quality audiovisual news and entertainment content in all its forms and across all platforms; if it is available and of high enough quality, the audience will consume it. That is why every new technology, which threatens to disrupt TV, has so far only contributed to increases in the total TV audience (currently still defined as viewing to broadcast content on the TV set) and, ultimately, the revenue flow.

Second, it is TV's *analogue* strengths (sharing, connection, storytelling, the power of now and fame in particular) that have helped turn TV into a digital super-medium. Those predicting its early demise assumed new technologies would replace television; instead, they have primarily been adopted by consumers to enhance it.

Third, television's success still revolves around the broadcast schedule. For example, viewing broadcast programmes still accounts for more than 90% of all

TV viewing in the UK (BARB, 2015) and a programme's success in the TV schedules also correlates highly with its viewing figures for time shift and catch-up. There are a number of reasons for this, including shared viewing, appointments to view, the accessibility of the EPG (Electronic Programme Guide), an increase in live and event programming, and—as is often forgotten—the schedules' ability to reflect the needs of audiences at different times of day. Consequently, the audience does not *migrate* to other platforms or screens but merely visits them from time to time, primarily driven by the linear broadcast schedule.

Fourth, similarly, the channel and programme brands are becoming more important, not less important. In a choice-filled environment, viewers make instinctive decisions based on emotional prompts and cues, and strong branding helps to simplify those choices (Malmelin & Moisander, 2014; Siegert, Förster, Chan-Olmsted, & Ots, 2015).

Fifth, digital technology does not offer a replacement for broadcast television; it offers enhancement for the viewer and an opportunity for TV companies themselves. So far, the focus has been on online and competitive digital media, but, in fact, online media offers a distribution benefit for broadcasters (maintaining TV's position as a mass reach medium) and social media has been TV's most effective promotional channel. It could be argued, however, that the main benefit of digital technology may be in the improved production capabilities; TV's core product—programming content—becomes of higher quality, more flexible, and more engaging.

Sixth, finally and consequently, television revenues across all sectors have grown significantly ever since the dawn of the digital revolution. Although traditional sources such as advertising have delivered impressive growth performance, newer forms of revenue (subscriptions, pay-per-view, non-spot advertising, online viewing, data monetization) are contributing to increase profitability and expand the market, hence the emergence of OTT television (currently dominated by *Netflix* and *Amazon*) which is basically delivering more television.

This unexpected twist in the narrative around television's inevitable decline has important implications for the future funding of the TV film industry at many levels. Particularly, the issue of "mandatory transfers", defined as compulsory inter-branch financial transfers related mainly to the financing of film and other audiovisual works, plays a vital role in refunding film for TV. These transfers are seen as a vital tool in refunding film production. Organized by public authorities through binding legal agreements, they ensure a transfer of financial resources from one branch of the audiovisual industry to another. Being indirect by nature, these transfers are mandated by law and can be implemented either by (a) a specific tax or of a levy financing a national film fund or (b) by an obligation to invest directly in the production of film. Transfers may be compulsory for one or several of the various stakeholders of film distribution: exhibitors, broadcasters, distributors of home video and audiovisual services, and/or providers of VoD services. As shown by a report by the *European Audiovisual Observatory* regarding the volume of capitalizing film funds in Europe for the period 2010–2015, taxes and levies accounted for by 1 billion euros per year, while direct funding by federal, national, regional, or local governments represented only 4% in comparison (Talavera Milla, Fontaine, & Kanzler, 2016). Unfortunately, however, no full data is available for Europe, neither on the total volume of taxes and levies collected, nor on the mandatory investments spent in production, co-productions, and pre-sales of films and TV programmes. In 2013, they are estimated to have summed up to some 4 billion euros (Lange, 2015).

This chapter is organized as follows: In the next section, we will be exploring the issue of private film financing strategies as applied by "legacy broadcasters" by showcasing finance practices for connected TV in Germany. In the following section, we shall look at public financing of the UK's film industry and the current and potential roles for public service broadcasting within the current media mix. The final section will draw some conclusions from this wide array of issues and expert opinion.

2 New Business Model Strategies: The Case of "Connected TV" in Germany

"Connected TV", sometimes referred to as "Smart TV" or "Hybrid TV", is a good example of the merging of previously distinct media technologies and media forms resulting from digitization and computer networking and an economic strategy in which TV companies diversify and "attack" the Internet domain (or, alternatively, defend their old territories).

Connected TV is the industry's new buzzword in home entertainment, which includes a wide range of technical solutions that bring linear TV and the Internet together. This is exemplified by TV sets with added Internet connectivity, set-top boxes delivering audiovisual content "over-the-top," connections to social media and networking services, and the ability to control and interact with gestures and voice commands, and so forth; connected TV may bring these services to large flat-screen TVs that have the processing power to display HDTV or 3DTV.

However, the challenges of ubiquitous content and connectivity to TV create strategic problems for traditional broadcasters that currently seek to refine or update their business strategy or trying to establish a new business model. Fundamentally, technology-driven convergence processes facilitate business model innovation, which means that the organizations need to reconfigure and reinvent how to create value in this new domain (Küng, 2013; Picard, 2011). However, industry insiders have been quick to grasp that commercial mass media would be struggling to find new revenue streams for the converged-media future. They have proposed different strategy perspectives for organizations (Geser, 2012; Kaufmanns, 2013). On this basis, the executives, supported by a fleet of experts, proposed that the broadcasting industry's future can only be safeguarded by large-scale experiments in product innovation, market development, monetization, business-model venturing, and strategic customer interaction (Accenture, 2011, 2012; FutureScape, 2011; Picard, 2009). For most traditional media companies, this represents a major adaptive challenge. Media companies whose primary business models are based on advertising revenues, like television, find it increasingly difficult to reach a mass audience (Landers & Chan-Olmsted, 2004; Maijanen, 2015; Manovich, 2009; Pavlik & McIntosh, 2013).

In particular, challenges such as cooperating with productive audiences and developing ideas for co-production contradict existing business logics and traditions (Lundin & Norbäck, 2009; Wikström, 2014). Therefore, in this changing market environment, organizations need strategic responses for developing new practices for changing circumstances (Joseph, 2011), such as harnessing innovation (Baumann, 2013) and working with contradicting organizational logics that reflect the complex developments of the market (Horst & Moisander, 2015; Virta & Malmelin, 2017). Furthermore, the market changes entail significant strategic organizational questions such as "How do we best describe the terrain on which we work? or What is the strategy we should use?" (Horst & Järventie-Thesleff, 2016) or actor-centred questions, such as "Are you thinking about the technology or the customer? Will your digital media strategy deliver against your corporate or business level strategy? or Is your creativity coming from the technology or the idea" (North & Oliver, 2014). Together, these questions are important for driving new ideas and strategic responses.

So far, the industry's responses have fallen into three categories: horizontal integration, vertical integration, and the search for new revenue sources (Küng, 2017; Vukanović, 2016).

The strategic rationale behind horizontal and vertical integration is that in a fragmenting market, media companies can only reach a mass audience with a broad portfolio of media assets, each targeted at a different group that can be exploited along the distribution windows. In sum, media companies are trying to re-aggregate audiences by diversifying across types of media and by taking a portfolio approach to content. Moreover, the traditional rights windows, which gave broadcasters almost a monopoly over quality content, have multiplied, and business-to-business revenue models are now being questioned by potentially superior business models which are based on a deeper and more direct relationship with the end consumer.

In the sections that follow, we shall introduce some selected best-practice models of corporate financing strategies in connected TV in Germany that may be representative of how particular organizations respond to the current strategic challenges they are facing.

2.1 The "TVplus" Strategy

In Germany, the age of connected TV started at the *International Broadcasting Exhibition* in Berlin (*IFA*) in 2010. Since then, all four major German "FreeTV" networks—ARD, ZDF, RTL, and ProSiebenSat1—have offered "HbbTV" services (Hybrid Broadcasting Broadband TV). This is essentially a combination of hybrid broadcasting and broadband Internet, which makes it possible to deliver new information and services at the TV device. With this new feature the public broadcasters focus on so-called Mediathek services: free, 7-day catch-up video library services, provided by ARD, ZDF, *Arte*, "Das Erste", RBB, *Radio Bremen*, and the "Tagesschau" [the television news service produced by *Norddeutscher Rundfunk* (NDR) on behalf of the German public-service television network ARD]. While public broadcasters wish to secure their competitive prominence in the era of connected TV, the web portals of the private TV broadcasters have ventured into building up commercial video-on-demand portals, from where TV programmes can exclusively be downloaded in advance of the live broadcast on linear TV (e.g. RTL *Now*, *Pro7 Connect*). Both public-service broadcasting (ARD, ZDF, regional PSBs) and private free-to-air (RTL, *ProSiebenSat1*) and pay TV (*Sky*) networks are seeking to position themselves in the connected TV world in order to leverage their trusted brand names and their portfolio of (premium) content rights. The prime focus is on extending reach with their properties, a business model which industry consultant IDATE called the "TVplus" positioning model, whereby classic broadcast TV is enhanced with VOD and OTT services.

Likewise, Germany's largest pay TV operator, *Sky Deutschland*, expanded its platform in order to offer additional benefits to its customers in terms of interactivity and multi-platform experience. In 2007, *Sky* launched *Sky Anytime*, a (catch-up) video-on-demand service that provides instant access to the best premium programming and is free to *Sky*+ customers. *Sky*+ is a HD receiver and has recording functionalities through the hard disk recorder and the integrated *Sky Guide*. In September 2012, *Sky* announced that *Sky Anytime* and Sky+ would be merged and rebranded as On Demand. The service offers around 1000 h of content featuring 350 movies, 500 series episodes, 150 documentaries, and 400 kids' programmes. On Demand is offered free of charge to all Sky customers with Sky+ HD boxes, although access to premium content depends on the subscriber's package. *Sky*+ customers doubled to 929,000 in 2012, meaning that 27.6% of all Sky subscribers already use *Sky*+.

In July 2011, *Sky Player* and *Sky Mobile TV* were integrated and rebranded as *Sky Go*. The new platform allows customers to stream live channels depending on the *Sky* TV subscription at no additional cost, limited to two simultaneous devices (online, *iPad*, *iPhone*, *Xbox* 360). *Sky Go* is *Sky*'s answer to the "over-the-top" (OTT) threat, whereby video is delivered over the Internet without a multiple-system operator being involved in the control or distribution of the content, thus ensuring greater flexibility and convenience for its customers. Integrating *Sky Guide* into *Sky Go* enables a whole host of new functions, such as remote programming for Sky+. With 33.3 million customer sessions in 2012, *Sky Go* seems to be part of a successful convergence strategy. In January 2013, download service *Sky Go Extra* was launched, allowing up to four users to download their programming to their laptop, smartphones, or tablet to view offline for an additional 5 € per month.

All in all, *Sky Deutschland* is facing hard times. Germany's pay TV market is strongly underdeveloped and, compared to France and the UK, only has a market penetration rate of 15% (as opposed to ca. 50% in France and the UK). In addition, Internet streaming services such as *LoveFilm*, *Maxdome*, and *Watchever* are directly competing for customers. *Netflix*, the largest player in streaming services, has entered the German market as well, which creates even stronger competition. Snap is Sky's response to these threats. Launched at the end of 2013, the online video library offers 4000 films and TV series to *Sky* (4.90 € per month) and non-*Sky* customers (9.90 € per month).

2.2 The "Paid-Owned-Earned" Advertising Revenue Strategy

Until now, the TV business has been a fairly linear process: Journalists would gather facts and observations and turn them into stories, which were then committed to be broadcast over the air or via cable/satellite and finally consumed by the audience. This "pipeline model" is the simplest metaphor for that process, wherein content distribution was organized around the broadcast tower. Now, at the confluence of industry convergence and the increasing penetration of consumers with connected TV devices and their properties, a new business model is emerging: the "paid-owned-earned advertising" revenue strategy model.

If we believe in the boundary-spanning nature of business models by emphasizing that organizations interact with their environments, which, fundamentally, create requirements for organizations that their managers address in part by adopting their business models (Amit & Zott, 2012), then business models that used to support traditional media companies in the past appear not to work in the digital age. Addressing this business-model innovation gap (Chesbrough, 2010) raises the fundamental question of how commercial broadcast media will manage to survive as traditional sources of revenue (paid display ads, subscriptions, and transaction sales) shrink. Solving this issue is vital, as the legacy revenue model through "paid" (i.e. all forms of advertising for which a media purchase is necessary) and "owned" (i.e. all content assets that a brand either owns or wholly controls) media is failing. Paid advertising has found many outlets, atomized into thousands of blogs, *Facebook* pages, and specialized television and radio stations, so that return on investment is becoming difficult to trace due to audience fragmentation. Social media enhancements are the best drivers of opportunity to complement paid and owned media revenue models. The latter are so-called earned media revenue-generation activities and are gained through user-generated content created and/or shared by users. Still, earned media are the most elusive of the three marketing channels (Altimeter, 2012).

The examples of RTLII's *Berlin—Tag & Nacht* and ProSiebenSat.1's *Dirty Dancing Double Date* suggest that social media enhances the television viewing experience and reconnects the medium with the typically hard-to-reach younger segment that can be monetized by advertising forms. In that context, earned and shared media support the traditional revenue models (advertising and viewer payments) which are still crucial in financing platform development.

Broadcasters that are able to secure a key position in commercial models for connected TV, or even lead the development of such commercial models, could potentially become the dominant power in the next television revolution as connected TV gradually replaces traditional television. Broadcasters may still mainly operate as value chain companies following the pipeline model, but enduring innovation in digital technology will have an impact on the distribution and consumption of television content. Along with digital television technology, platform operators have started packaging channels in their platforms and providing enhanced interactivity and enriched customer services such as electronic programme guides, video on demand, games, and information and transaction applications.

2.3 The "Platform" Strategy

German consumer electronics manufacturers such as *Samsung*, LG *Electronics*, *Sony*, *Sharp*, *Panasonic*, and *Grundig* are the strongest opponents to traditional broadcasting in the connected TV era. They position themselves as downstream players and pursue backward integration strategies by slipping into the role of portals and aggregators of content and services. Scholars in Internet and media economics call this model the "platform" model (Rochet & Tirole, 2003; Rysman, 2009). Likewise do IPTV and cable TV operators such as *Deutsche Telekom*, *Kabel Deutschland*, *Unity Media*, and *Vodafone*. Similarly, DVB-T (through Germany's largest distributor of audiovisual media *Media Broadcast*) and the satellite network operator ASTRA *Germany*, a subsidiary of SES, a world-leading satellite operator with a fleet of 49 geostationary satellites, also create portal offerings, hoping to exploit the market of web content on the TV set. *Sky Deutschland has secured the German rights to the second season of Netflix's original drama series House of Cards and will show it exclusively on its Sky Go mobile TV and Sky Anytime on-demand services*. *Sky* has been broadcasting the complete second season of 13 episodes from February 14 on *Sky Go* and a day later on *Sky Anytim*e, parallel to the US launch on Netflix. *Sky Go* subscribers have been able to view the show on the web, iPad iPhone, iPod touch, and the Xbox 360, while *Sky Anytime* has been making the show available via the *Sky*+ HD DVR on demand. Sky has also been making the first season of *House of Cards* available on *Sky Go* and *Sky Anytime*. Additionally, the consumer electronics giant *Apple*, very much a technology pioneer, leverages its competencies and market experience in order to establish a connected TV innovation platform aimed at complementary products and services.

In general, for players who have adopted a market position devoted to seamless access to all content across devices, television remains the central entertainment-delivery screen in the home and is therefore the unified point of access for all digital content, regardless of provenance (broadcast stream, VoD, catch-up TV, Web, etc.). *Google TV* is a prime example of this strategy.

2.4 The "TV App Store" Strategy

Overall, there is a growing consensus that apps will replace TV channels as part of a natural evolution, as they will provide coherent branding and smooth user interface across the different associated services and companion devices. Adopted by *Yahoo!* connected TV and *Samsung* Apps, the "TV app store" positioning model seeks to carry apps as substitutes to TV channels over to the TV set for the distribution of Internet services. TV sets and STB manufacturers such as Samsung which manufacture end-user devices to display, store, and manage content also offer connected TV portals. They aim at monetizing the TV viewing by integrating more interactivity (gaming, social media) into the viewing experience (which IDATE named "TV app store model"); in all, this cluster is much challenged by a multiplication of standards and inexperience in the content market.

Parallel to its main competitor LG *Electronics*, *Samsung* launched its first connected TV system (named "Smart TV") in 2007, integrating the Internet and social media into television sets and set-top boxes. Initially, the service was rolled out under the name Power *Infolink*—an RSS feed service with content supplied by *USA Today*. *Samsung*'s "Smart TV" service enabled the viewer to receive information from the Internet while at the same time watching linear television programming. *Samsung* later launched its Internet@TV and unveiled the upgraded version including 3D technology.

Samsung's "Smart TV" service offers free (or for-fee) download of applications from its Samsung Apps Store, in addition to existing services such as news, weather, stock market, *YouTube* videos, and movies. In addition to social media services like *Facebook*, *Twitter*, *Skype*, and *Spotify*, *Samsung Deutschland* has closed partnerships with local content providers including *Die Welt*, *Bild*, *Audi*, *Maxdome*, and the *Berliner Philharmoniker*. By the end of 2012, *Samsung* announced a multi-year partnership with Yahoo to add an interactive layer to the television experience. By means of widgets, *Yahoo!* connected TV now provides interactive content like trivia, additional show insights, commerce, or playable games to turn passive consumers into engaged viewers. This partnership also opens up opportunities for new forms of advertising by extending traditional 30-s commercials into immediate actions. With the *Yahoo*-enabled commercials, advertisers can embed calls to action for downloading apps or digital media, providing coupons, ordering samples, reading reviews, or viewing product information via their connected TV. In return, *Yahoo* provides detailed insights and statistics to track and measure the performance of TV campaigns. The strategies described above are summarized in Table 1.

In summary, this research demonstrated that the demand for video entertainment has helped producing a more diverse and resistant market for film content.

Table 1 Strategies for connected TV in Germany

Strategy	TVplus	Paid-owned-earned advertising	Platform	TV app store model
Focus	The prime focus on extending the reach with the properties	Combination of three kinds of advertising in a mixed strategy	Acting as aggregators of content/services or providing portals for others	Using apps as substitutes to TV channels over to the TV set for the distribution of Internet services

Source: The authors

Moreover, and in consequence, it offers plenty of opportunities for independent filmmakers and other service providers to get a foot into the digital domain.

3 The Role of PSBs in Supporting Film: The Case of the UK

Knowingly, public service broadcasting (PSB) is an important source for film funding. In Germany, for example, the national and the regional governments equally share the costs of film support (Milla, 2010). Further, Milla (2010) explained that the regions have created different regional cinema boards fostered by their respective regional broadcasters and local governments. At the national level, two main institutions [the *Federal Cinema Board* (FFA) and *the Federal Commissioner for Culture and Media* (BKM)] support film development. Importantly, the TV channels also need to make "mandatory investments", which are regulated by the Agreement on Broadcasting among the German regions ("Rundfunkstaatsvertrag").

Although statistics indicate a stable future for the film industry in the UK, with a more diverse business model and a potential increase in demand from the new platforms, there is still a need for public funding to ensure that UK producers can maintain their share of voice in an increasingly crowded marketplace. The *British Film Institute's Statistical Yearbook for 2015* identifies the leading public funding sources for British Film production, development, and education (Table 2).

Although the combined amounts are only a tiny fraction of the size of the UK film industry as a whole, overall public investment in UK film production has shown healthy increases in recent years. In 2014/2015, the latest period for which we have data, an estimated £413.8 million of public funding was made available, of which 69% went directly to production financing and the rest predominantly to education and distribution support. This was 7% up on the previous year.

The principal source of public funding was film tax relief (valued at 56% of the total) which is set to increase even further as a result of new tax breaks announced in the UK Government's Spring 2015 budget and approved by the EU in August 2015. It offers to provide tax relief of 25% for UK films of all budget levels and has the potential to increase the value from film tax relief beyond 56%, which could have a knock-on effect on the other principal sources of public funding. According to the UK government figures (https://www.gov.uk/government/news/record-year-for-uk-film-industry-tax-relief), the 2015 calendar year saw a record number of £251 million tax relief value delivered and that lead to investments into the UK's film industry in the value of £1.5 billion (the second highest amount since records began in 1994, according to the *BFI—Statistical Yearbook* 2016). More than 80% of that investment was attracted from overseas, and, significantly, platforms such as *Netflix* and *Amazon Prime* were cited as major investors. British Film Institute figures show that the majority of this growth (£728 million) was based on high-end TV productions in the UK in the year to the end of June. This is indicative of a greater blurring of the lines between film and television in terms of content.

Table 2 Public funding for UK film by source: 2011/2012–2014/2015

	2011/2012		2012/2013		2013/2014		2014/2015	
	£ million	%	£ million	%	£ million	%	£ million	%
National Lottery	51.6	14.1	65.4	18.0	71.7	18.4	62.8	15.2
DCMS Grant to BFI, ACE, and NFTS	41.7	11.4	27.9	7.7	30.6	7.8	33.0	8.0
National Broadcasters	27.7	7.6	30.8	8.8	26.1	6.7	25.6	6.2
Development Agencies	11.1	3.0	9.4	2.6	9.2	2.4	12.7	3.1
European Union	6.6	1.8	6.8	1.8	10.0	2.6	8.7	2.1
Wales, NI, and Scotland Governments	4.9	1.3	6.7	1.8	10.1	2.6	8.1	2.0
Arts Council England	1.3	0.4	4.4	1.2	7.2	1.8	6.8	1.6
Central UK Government	7.4	2.0	5.8	1.5	4.8	1.2	3.6	1.3
Total public sector selective investment	152.2	41.6	157.3	41.3	169.9	43.6	162.5	39.3
UK firm tax relief	214.0	58.5	206.0	56.7	220	56.4	251.3	60.7
Total public sector funding	366.2	100.0	363.3	100.0	389.9	100.0	413.8	100.0

Source: BFI Statistical Yearbook (2015).

In 2015, the UK independent production sector's revenues hit an all-time high of £2.8 billion, boosted by £851 million of foreign investment, including money from *Netflix, Amazon*, HBO, and other broadcasters. The future of the independent sector appears to be inextricably linked with television, and public funding is helping generate record investment levels.

The other key sources of funding include the *National Lottery* (18%) and government via grants from the *Departure of Culture, Media and Sports* (DCMS) to the *British Film Institute*, the *Arts Council England* (ACE), and the *National Film and Television School* (NFTS).

The *National Lottery* is a good example of television's indirect influence on UK film funding; without the peak-time draw on the main BBC channel and the high-profile promotion and advertising on the commercial TV channels, it is doubtful that the National Lottery would have been quite so successful (and therefore as generous in its contributions to the arts in general and film in particular). That contribution amounts to more than £640 million helping to fund 190 UK-originated films in the last 9 years alone.

Television also plays its part via more direct financial contributions to public financing, not least because of the strong public service broadcasting tradition in the UK. The two UK public service broadcasters contributed a combined £26 million in public funding over the course of 2013–2014, although this was 15% down on the previous year and even slightly below the total for the year before that.

The future of such funding will depend on a number of factors. The potential privatization of *Channel* 4 (and eventual fate of *Film 4*) and the *BBC* charter renewal (creating budgetary constraints) are the two most salient threats. Indeed, the whole debate around the role of public service media institutions when the commercial market for (broadcast) television can provide an increasing array of channel and programme choices may also spread to the need for public funding of all forms of video content, including film. However, that appears to be a threat for the medium to the longer term; the current infrastructure supporting public funding of UK film is keeping pace with the increasing size of the industry itself. What is unlikely to happen is that television will seriously diminish as a revenue source and distribution channel for film content (however that is defined). When we look at overall investment in the production of UK film for the commercial market the public service broadcasters play a very important part, mainly via their commercial arms of BBC *World* and *Film4*.

Both *BBC World* and *Film 4* have invested in a wide range of UK-based film productions in recent years and have appeared to have benefitted both the UK's film industry and their own financial performance as a result. In the case of *Film 4*, an occasional break-out success (such as *Slumdog Millionaire*, *The In-Betweeners* franchise, and *Four Weddings and a Funeral*) has helped to sustain a raft of lesser-known, lower budget but cutting-edge productions over the years, such as *Shame*, *Tyrannosaurus*, and *Under The Skin*. Across 2012–2014, *Film 4* has claimed to invest in 50 British productions with an estimated budget of £189 million overall. Key examples include The *Duke of Burgundy*, *The Inbetweeners* 2 (based on the *Channel* 4 comedy series), and *Jimmy's Hall* (Table 3).

Across the same 2-year period, BBC Films—or the BBC channels—invested in 85 productions, with an estimated total budget of £272 million and including *The Lady In The Van*, *Philomena*, and *Testament of Youth*. Combined, public service broadcaster investment in British film production is higher in volume (135 films) and estimated budgetary totals (£596 million) than the *British Film Institute*, combined European agencies, or the aggregate investments from the UK's regional/national development boards.

Of course, the examples above refer only to the funding and investment revenues emanating from the public service television institutions. Commercial broadcasters—notably ITV and *Sky*—also invest in original UK film production in a variety of ways and the emerging OTT operators such as *Netflix*, *Amazon Prime*, and new player *We Are Colony* (focusing on lesser-known independent films) are all beginning to create content specifically for the UK market. In particular, the battle for viewers and revenues between the pay TV giants (*Sky*, *Virgin Media*, and *BT Vision*) and the emerging OTT challengers is likely to increase the value placed for original film content across their combined platforms.

Table 3 Leading public investors in UK film funding 2013–2015

Public Funder	Number	Budgets, est. (in £ million)	Examples
British Film Institute	102	264	2000 Days on Earth, 45 Years, Suffragette, A United Kingdom
BBC Films/BBC	85	272	The Lady In The Van, Philomena, A Testament of Youth
European Agencies	58	323	Only Lovers Left Alive, The Salvation, The Danish Girl
Film 4/Channel 4	50	189	American Honey, Dark Horse, Macbeth
Scottish Agencies	25	28	What We Did. . ., Una, The Sunset Song
Creative England	24	28	Spooks, Norfolk, Adult Life Skills
Welsh Agencies/ S4C	23	37	Ethel and Ernest, The Canal, Under Milk Wood
Irish Film Board	23	47	Brooklyn, The Lobster, Serial Killer
Northern Ireland Screen	18	33	I Am Belfast, High Rise, The Survivalist
English Regional Agencies	26	90	A Royal Night Out, '71, Await Further Instructions
Creative Europe	15	23	City of Tiny Lights, The Beautiful Fantastic

Source: BFI Statistical Yearbook (2015).

Meanwhile, we are already witnessing some interesting cases showing how the traditional film and television silos are merging together and how new funding opportunities are arising. For example, Shane Meadows' *This Is England* production, funded by *Film 4*, went on to get a three-series commission for *Channel* 4 following the lives of the main characters over the next decade. Taking a different approach, *Sky* commissioned a series of short films called "Christmas Crackers" produced by first-time directors, which was designed to offer viewers different on-demand, one-off short stories around nostalgic themes. In addition, we see movies such as *Northern Soul*, appealing to a very specific community (in this case, followers of underground soul music in the 1970s), which was financed via crowd-funding and then went on to receive distribution deal on the *Sky* platform. Furthermore, we are seeing more investment from commercial brands as they seek to move away from traditional advertising towards a content marketing approach. All of these examples are demonstrating new opportunities for UK filmmakers, away from the traditional sources of traditional routes to theatrical release via commercial or public funding.

4 Discussion and Conclusion: Where Do We Stand Now?

As legacy medium, TV film broadcasting was expected to face strong declines in revenues through the emergence of digital online technologies in the 1990s, but, two decades into the digital revolution, revenues at a macro and micro level are remaining stable. The theatrical release, which is the mainstay of the film industry, is showing steady revenues and audience numbers. However, the emerging digital video revenues cannot yet outbalance the decline in physical format sales. At the same time, new funding and investment opportunities are offering more independent producers a way into the market, as evidenced by the increasing number of businesses making up the UK film industry.

The resilience of the television industry parallels the development of the film industry, as digital technologies offer enhancement of production standards, more effective distribution channels, and a more diverse funding model for business. The challenge for the AV industry will be to stop thinking of film as part of a silo and start looking at it as part of a wider content proposition.

The continuing strength of television has been a major element supporting film during these challenging times, both as a distribution channel and increasingly a commercial investor and source of public funding.

According to the *European Audiovisual Observatory*, however, the income from levies and taxes through legally binding transfers from public funds to TV broadcasting has constantly decreased since 2011, by almost 120 million euros by 2014, down to 952 million euros. This has mainly been due to the sharp drop in contributions from broadcasters (790 million euros in 2011 compared to 682 million in 2014). While being of lower importance, video industry contributions still shrunk even more dramatically, to 46 million euros in 2014, a 32.6% decrease in 2010 (Talavera Milla et al., 2016). While the legal legitimacy of these transfers now seems well established, the efficiency of the financing of funds by taxes or levy seems to be suffering from the overall stagnation of the sector and mainly those of the television revenues in France and in Germany.

In the UK, the established free-to-air TV networks were joined by the pay TV providers in the early 1990s and, more recently, by the emergence of OTT platforms such as *Netflix* and *Amazon Prime*. In both periods of competitive disruption in the television industry, we have seen film content become a prime battleground, increasing investment in UK film (and television) production. This is blurring the lines between these two traditional silo businesses, although the latest production investment data compiled by the BFI suggests this is benefitting the UK's production sector, especially at the high-end level.

Although it is expected that public funding levels will be subject to uncertainty in the medium to longer term, all evidence suggests this will be compensated by an increase in the investment and funding commitment from the increasingly competitive private sector. Towards this end, the tax incentives announced by the UK government in April 2015 are already having an impact on the overall investment in UK film production. In addition, UK's strong public service broadcasters are playing a significant supporting role.

The stability shown by the current TV film market can also be explained by the openness and increasing variety of funding models (Bonini & Pais, 2017; Freeman, 2017; Ladson & Lee, 2017; Loriguillo-López, 2017; Papadimitriou, 2017). From this research, we learn that greater participation of the audience in possible funding opportunities strengthens the market and produces greater interest in the content

(Freeman, 2017). This research shows that different forms of funding may be on the rise (see e.g. Ladson & Lee, 2017; Loriguillo-López, 2017; Papadimitriou, 2017), which will, in turn, lead to new organizational management strategies down the road.

Further research can expand on several important aspects concerning TV film funding. For example, research could look into differences across contexts, cultures, or organizations. We may well find different organizational strategies of successful implementation across countries and organization-specific ways of reacting towards ongoing market changes. Furthermore, as the level of digitization differs across contexts, we may find a multitude of successful strategies or—in contrast—rather few successful moves that could be similar across contexts. Furthermore, we may want to investigate if there are different stages through which organizations move and possibly different solutions for the actors concerned. Overall, this highlights the need for future research and the growing importance of the topic, also for comparative international studies.

In conclusion, the study shows that the demand for video entertainment has helped producing a more diverse and resistant market for film content. Moreover, it identifies four strategies that are employed by actors to respond to market changes. These are (1) "TVplus" approach, in which you extend reach with existing properties; (2) "Paid-Owned-Earned" Advertising that is a combination of three advertising income streams into a mixed strategy; (3) "Platform" approach, where the actor functions as aggregator or portal provider; and (4) "TV App Store" model, where apps are used to substitute TV channels for accessing Internet services and content. Overall, this shows the varied responses of the established actors and highlights that there are significant opportunities for independent filmmakers and other service providers to get a foot into the digital domain. Nevertheless, corporate strategies and business models will require permanent review for the foreseeable future to address the current processes of media convergence and its effects on market structures and competitive dynamics, because the ecosystem for connected TV services is continuously emerging and providers are trying out different business models for refunding film production. What is not in doubt is that the production of high-quality, filmed entertainment is showing increasing returns overall, as video becomes the predominant form of media consumption in a digitizing and networked media reality.

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Crowdfunding Movies: A Business Model Analysis from Strategic Management Studies

Olivier Braet, Sander Spek, and Caroline Pauwels

1 Crowdfunding Is Multidimensional

Filmmakers face many problems when trying to successfully fund their projects, be it short-film formats, animation, documentaries, or long movies. In this chapter, we aim at applying theories that emerge from thinking about private financing models of a movie production. We analyse a specific funding methodology that combines several streams of funding for film, including sourcing the Internet community to gather small private donations through a revenue stream which is typically called "crowdfunding" (Bennett, Chin, & Jones, 2015). In general, crowdfunding is a novel business model that can provide a new source of revenue for movie production.

Crowdfunding is multidimensional. Organized as a "platform", it should take into account the institutional pressures surrounding this initiative, the technical requirements inherent to this service, and adopt realistic assumptions concerning the possibility of crowdfunding movie production in a small geographical market. This exercise should prove fruitful for similar initiatives in the European cultural context with its fragmented cultural markets.

However, it is not proven that crowdfunding film will provide adequate funding. Hence, we argue that a value assessment of a crowdfunding platform should not only take into account financial dimensions but also include a description of the technical design, the business value network, and the service design directed

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towards different potential user groups. We aim at describing several industry cases based on these multiple dimensions, before moving on to the questions whether such a crowdfunding platform would (1) be able to sustain itself through self-collected revenues and (2) be able to collect sufficient funds for the production of movies.

As for methodology, after having conducted a literature review of existing business cases that are relevant platforms for crowdfunding, we selected based on movie expert interviews sufficiently varying cases portraying instances of Internet-based crowdfunding initiatives from the industrial domain of movie production. Subsequently, exploratory questionnaires were provided to all company partners of the project. The answers that were supplied served as a first input in the formulation of the business requirements, critical resources, and actor interactions. Subsequently, individual interviews were organized with representatives from the movie production industry in Flanders. Next we described the identified actors, roles and requirements, and the potential business services that might be fulfilled by this platform (Braet, 2009). Finally, we constructed a business model scenario that takes into account the previous insights, in order to assess whether such a platform would be economically viable as a private initiative or whether additional subsidies would be needed to fill possible income gaps (Braet et al., 2010).

In the next section, we will start by describing the industry context of content producers in general and independent moviemakers in particular, giving special attention to the relevance of Internet-based mechanisms for funding and distribution. Section 3 introduces the business modelling methodology used in the remaining sections. This leads to a benchmark of existing cases in Sect. 4 and subsequently a business model proposal in Sect. 5. Finally, conclusions and suggestions for extension of the model are presented.[1]

2 Crowdfunding Movies: Business Model Theory

The movie industry demands high upfront investments. In the USA, a major studio movie costs on average \$100.3 million, of which \$65.8 million is accounted for the actual production costs and \$34.5 million incurred by marketing expenses (Young, Gong, & Van der Stede, 2008). The production costs for movies are much lower in Europe but still amount to millions of Euros (see Table 5). In order to curtail the economic risk inherent in movie production, studios typically form temporary alliances to pool the risk, while other large firms vertically integrate value chain processes from production to distribution (Schatz, 2008; De Vinck & Pauwels, 2008). Horizontal integration implies co-operations or mergers between similar companies from the same link in the value chain, e.g. the integration of independent producers or integration of movie distributors (McDonald & Wasko, 2008). Further, large studios employ a portfolio strategy, where the risk is spread by producing a wide variety of movies in a different number of genres (Alberstat, 2004).

[1]The earlier version of this paper was published with the *Journal of Media Business Studies* (see Braet & Spek, 2013).

Filmmakers (be they documentary makers, long- or short-format producers, or animation film producers) employ a number of business strategies to obtain the needed funds. Often they finance the production costs by presales of their movie's exploitation rights to distributors or broadcasters, although the inherent risk of this tactic is that since a growing fraction of revenues are realized in after-theatre activity (e.g. TV rebroadcast or merchandise sales), selling all rights upfront could lead to losing the majority of the revenues (Schatz, 2008). Additionally, independent filmmakers are much more dependent on attention generated by festivals and movie critics.

Because of the disruptive effects of the Internet, the traditional movie production and distribution value chain has been transforming from a linear value chain to a more modular value network. The traditional movie production value chain has four main characteristics:

1. The production cost of content is high enough to avoid non-professionals entering the industry.
2. Content is delivered in a chronological fashion alongside a vertical distribution chain.
3. Content is consumed in specialized points of sale (broadcast TV, movie theatres).
4. Content is sold in a single package (one cannot choose to snack from different movies simultaneously).

These characteristics were valid both for the consumer in a theatre and for distributors who must obtain full movies, often bundled in packages with other movies. All four characteristics are being undermined by the disruptive innovations brought about by the Internet.

Since the rise of the "Web 2.0", the Internet has gained importance as a tool for mobilizing large audiences for the provision of information and marketing purposes or for collecting funding. This process has been described by Surowiecki (2004) and Shirky (2008) as "crowdsourcing", whereby services, ideas, and content are obtained by soliciting contributions from a large group of people, especially an online community.

Financial revenues can now also be more easily collected in a similar multipoint-to-multipoint fashion. In the case of collecting funding from the broader population instead of merely making use of the communicative efforts of a large crowd of website visitors, the term "crowdfunding" is used (Howe, 2008). One example of crowdfunding for music is *Sellaband* (www.sellaband.com), where so-called believers can make small donations to help unsigned music groups finance the recording of an album.

Since we explore the business opportunities for such a model for the production of movies in the small geographical region of Flanders, Belgium, it is important to take into account the smallness of this specific market. First, the Belgian market for all video content (short fiction, documentaries, large feature films) does not consist of the total Belgian population of nearly 11 million inhabitants but is split between a

French-speaking market of 4 million people (mainly in the regions of Wallonia and Brussels) and a Dutch-speaking market of Flanders of nearly 6 million people. And second, although Flanders and the Netherlands officially share a language, because the countries have been independent for 170 years, they have evolved in separate ways in terms of pronunciation and cultural tastes. This causes movies from the Netherlands and from Flanders being distinctly different products, rarely achieving commercial success across the national borders. Therefore, the Flemish market can be compared with similar-sized, relatively isolated language regions such as the Danish and Finnish market.

Research conducted by the *Vlaams Audiovisueel Fonds* VAF (*Flemish Audiovisual Fund*) identified only 29 local firms involved in the production of long feature films and 28 firms that produce long-format TV fiction, respectively, employing 740 and 430 people (both salaried and independent) (Idea Consult & Vlerick School, 2010). In 2011, these companies produced 20 short- and medium-length films plus five long animation movies, 16 medium and 34 long documentaries, and 11 short fiction and 21 long feature fiction movies (VAF, Annual Report, 2011, pp. 172–177). In terms of financial success, no precise figures are available for the entire market. In terms of theatre attendance, the *Flemish Audiovisual Fund* counts a yearly average of 1.9 million visitors to Flemish movies (VAF, 2011, p. 135). In the entire history of the Flemish movie industry, only two movies have sold more than 1 million theatre tickets (the comedy *Koko Flanel* in 1990 and the thriller *Loft* in 2008).

Theorizing on business models is complicated as these are multidimensional and strategic in nature. Most generally, "modelling" a business is a strategic management practice which looks into a broad variety of factors that impact on the performance of an organization in the mid to long term (Osterwalder & Pigneur, 2010). In theory, business model analysis is multilayered, complex, and at times elusive. Theoretical considerations are assisted by the "balanced scorecard" concept (Kaplan & Norton, 1996), the "market-based" (Porter, 1985) and the "resource-based view" of strategy (Barney, 1986, 1991, 1997), and the insights from strategic management scholarship in general (Hamel, 2000). Following Barney, we define "resources" as stocks of available factors that are owned or controlled by an organization. "Capabilities" are defined as an organization's capacity to deploy these resources.

In simple terms, the strategic options for media firms are related to the institutional setting in which they operated (Loube, 1991), to their resources (Wernerfelt, 1984), and to their capabilities (Eisenhardt & Martin, 2000) and competencies (Barney, 1991; Prahalad & Hamel, 1990). Thus, strategy needs to be individually constructed and regularly reappraised. Next, those products/services that create customer value create a certain financial value that can be reinvested back into the capabilities of the firm (Hunt & Morgan, 1997; North, 1990).

Here, we adapt Barney's concept of "resources and capabilities" and integrate it into our "four-phase model" consisting of (1) the *organization design* phase for crowdfunding, (2) Barney's "products and services" category into the *technology design* phase, (3) his "customer value" construct into our *service design* phase,

(4) and his "financial value" into the *financial design* phase of building up a potential crowdfunding service. These four business modelling design phases are defined as follows:

(1) *Organization design*. The basic analysis tool employed in this phase is a "value network" analysis. Christensen (1997) used value networks from a single firm's perspective to analyse "the context within which a firm identifies and responds to customers' needs, solves problems, procures input, reacts to competitors, and strives for profit" (ibid. p. 32). Our method is based on Ballon's work (2007) which expands the value chain by taking the broader ecosystem of an industry into account, going beyond the boundaries of the firm. The value network consists of three main building blocks: (1) "business actors", (2) "business roles", and (3) "relationships". Business actors can be physical persons or corporations that participate in the creation of economic value, through the mobilization of tangible or intangible resources within a business value network. Business roles are logical groups of business processes that are fulfilled by one or more actors. The concept of "roles" is basically synonymous with Barney's "capabilities". Roles are defined as the bundle of business actions undertaken by corporate actors, with the aim of creating customer and shareholder value. Business actors provide value to or derive value from the business roles they play. Finally, business relationships are the contractual exchanges of products or services for financial payments or other resources.

(2) *Technology design*. The technology design involves defining the technology scope (what technical design are we trying to develop and how), identifying the systemic competences that will contribute to the business strategies, and deciding on the IT governance (how will we develop or acquire the needed technical competences).

(3) *Service design*. The service design involves choosing a specific value proposition towards the user, which implies choosing for a specific strategic scope. This usually involves a trade-off between conflicting value disciplines (Treacy & Wiersema, 1993).

(4) *Financial design*. In the final phase, the financial modalities are formalized in binding contracts that clearly describe each partner's responsibilities and the financial or other benefits they will receive in return.

3 Business Model Design: Some Cases

This section gives a benchmark of identified business cases, structuring their characteristics along the four dimensions of business modelling, i.e. organization design, technology design, service design, and financial design. The cases were selected on the sole criterion that it had to be a platform that was used for the support of movie production. Although similar initiatives exist in other content industries (e.g. *Sellaband* for music albums) which also could have been included, the examples from other industries were too similar in fundamental characteristics—e.g. how their value network was constructed—while being completely different on specific characteristics, since the production and financing of content categories such as music, movies, or literature are strongly different. The specific incomparability because of content characteristics and the overly strong similarity in terms of general characteristics forced us to avoid these cases.

The cases included in our benchmark are *IndieShares*, *IndieMaverick*, *Indiegogo*, and *IndieVest*. The first three cases are pure business-to-consumer cases (directed towards the widest possible audience), while the last case *IndieVest* is a pure business-to-business case which exclusively caters for professional moviemakers and investors. A detailed description of these cases is found in Vermeir and Braet (2008).

3.1 Organization Design

When considering an optimal organization design for crowdfunding movies, the focus lies on the ways in which business actors interact with one another in a business ecosystem or value network. In Fig. 1, the white rectangles represent the identified business roles. These roles are performed in each case by business actors, represented by grey rectangles. Arrows represent flows of money (bold arrow) or content (dashed). Thin arrows represent small commissions appropriated by the actor that fulfils the role of platform provision. These commissions could come in the form of a fixed amount or a percentage of the financing collected during fund collection (during the production phase) or content distribution (i.e. sale of the final product).

All cases exhibited the same value network illustrated in Fig. 1. The only variation was whether the actor provided (part of) the distribution of the end product. In all cases, moviemakers advertise their movie plans on a platform, which acts as a collector of small private funds, in return for a commission. If a projected amount of funds was collected (which does not necessarily represent the entire cost of the film project but often only a fraction of the total amount of funds needed), the movie went into production. When the movie was finished (be it a documentary, short, animation, or long feature movie), either the platform or a dedicated distributor provided the content to the retail market. When customers paid to see the movie, money flowed back via the role of content distribution to the filmmaker and the investors.

3.2 Technology Design

In terms of technical design characteristics (Table 1), only one case allowed the downloading of full movies, showing that the inclusion of the role of content distribution was the least popular functionality. Half of the cases provided for an uploading functionality, but this was mostly restricted to the uploading of trailers, not the final end product. The usage of a user profile system was the most popular

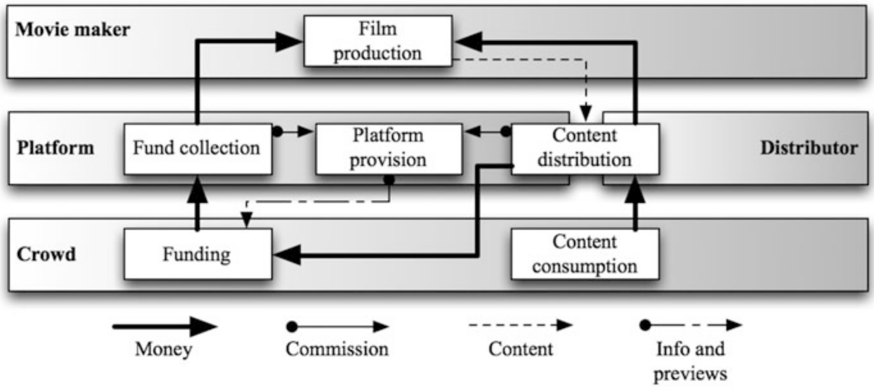

Fig. 1 Business value network for a crowdfunding platform. Source: The authors

technical design characteristic. Allowing end-users to vote or comment on submitted projects differed from case to case.

3.3 Service Design

In terms of service design characteristics, a distinction can be made between features that enable services towards individual visitors to the platform (Table 2) and services that are proposed to the (professional) filmmakers (Table 3).

Concerning service design characteristics towards individual visitors (Table 2), all cases offered some form of reward system in exchange for small funding. This ranged from allowing the visitors to be more closely involved with the project (e.g. additional background project information), the provision of a free DVD once the movie is distributed, or diverse rewards depending on the amount given (ranging from tickets to premiere nights to the possibility of appearing on the credits as a contributor or even as an extra in a movie). In all business-to-consumer cases, registration for the end-users was free and open to all; the business-to-business case *IndieVest* built in a membership fee hurdle and the obligation to prove that one is a professional within the movie industry. Sharing in future profits was usually possible, except in one business-to-consumer case *Indiegogo*.

Concerning the services proposed to the filmmakers (Table 3), registration was most open with *IndieMaverick* and *Indiegogo*. But if online registration was open, additional requirements were demanded from the filmmakers in terms of having to pay a visit to the platform owner's offices or having to submit a sound financial plan. *IndieShares* selected appropriate projects themselves and only presented these to the public for funding. *IndieVest* did not allow for online registration. Two cases used funding collection deadlines. If the project did not collect a projected amount by the end of this period, the project was not carried through.

Table 1 Technical design characteristics

	Uploading of films	Downloading of films	User profile system	Voting comments
IndieShares	No	No	✓	✓/No
IndieMaverick	✓	✓	✓	No/✓
Indiegogo	✓	No	✓	✓
IndieVest	No	No	No	No

Source: The authors

Table 2 Service design characteristics towards visitors

	Rewards	Registration	Profit sharing
IndieShares	Involvement	Free	Yes—varies per project
IndieMaverick	DVD	Free	Yes—varies per project
Indiegogo	Diverse rewards	Free	No
IndieVest	VIP exclusive	Paying	Yes—varies per project

Source: The authors

Table 3 Service design characteristics towards the filmmakers

	Online registration	Fund collection restricted in time?	Requirements
IndieShares	Not possible	Yes—90 days	N/A
IndieMaverick	Free	No	Face-to-face meeting site owners
Indiegogo	Free	Yes—45 days	Submit financial plan
IndieVest	Not possible	No	N/A

Source: The authors

3.4 Financial Design

Of all the business model design dimensions, the cases exhibited the most variation in terms of how the platform was financially designed (Table 4). Half of the cases withheld the interests of money that was deposited on the platform's bank account, awaiting release to the filmmaker. Half of the cases ran advertisements, while the others did not. There was great variation on whether and how much commission the platform withheld on funds collected from individual or corporate investors. With most cases however this commission was a fixed fee, while one case charged a percentage profit commission on collected funding.

In conclusion, the business cases showed that three groups of services can be offered through the use of a crowdfunding platform, each with their respective technical requirements or respective financial design options. These three groups are (1) *basic services*, (2) *registered services*, and (3) *valuable services*. Each of these services could be directed towards the moviemakers, the individual visitors, or the potential advertisers.

Table 4 Financial design characteristics for the platform owner

	Interests on bank accounts	Advertising	Profit commission	% on collected funding
IndieShares	No	No	On case-by-case basis	No
IndieMaverick	✓	✓	30% on download profits	No
Indiegogo	✓	✓	No	No
IndieVest	No	No	9%	✓

Source: The authors

Basic services are services that can be offered without the need to register and are provided free of charge: overview of the project pages and access to trailers, production stills, and/or movie synopsis.

Registered services are only offered to visitors that made a user account but also remain free of charge: commenting on project pages, scoring other visitors' reviews and comments, and scoring movie projects. Both the basic and the registered services are usually offered to the platform visitors and the filmmakers free of charge.

Valuable services are valuable enough for specific stakeholders that they allow to imply a financial design decision. These valuable services can be divided in services towards the visitors (individuals or institutions), the filmmakers, and the advertisers. First, one can distinguish the possibility of getting some reward in exchange for payments or other forms of gifts by individual visitors to the filmmakers via the platform: writing movie reviews, being mentioned on the website as sympathizer, tickets for a screening, DVD of the production, possibility of appearing as an extra in a movie, mentioning on movie credits, mentioning on DVD jewel case, and profit sharing (Türridl & Kamleitner, 2016). Institutional investors could foresee profit sharing, depending on their investment.

Second, the following valuable services can be offered to the filmmakers: collection of private funding, knowledge collection, project management tools, marketing space, portfolio, digital CV, hosting/storage, distribution, and quality branding.

Third, *advertising services* can give business parties the opportunity to be mentioned on parts of the website in exchange for a fee: being mentioned as (main) sponsor of a project, product placement within a movie project, and general advertising.

Based on the case analysis, expert interviews, and business workshops (both in prompted format, but with room for unprompted reflections) with industry actors, three stylized value network constellations were drawn that illustrate the different potential revenue and service streams between the identified business roles and actors. The following illustrations describe the possible revenues that could be collected by diverse actors and how these revenues can then be redistributed towards the supplying actors in the beginning of the value network.

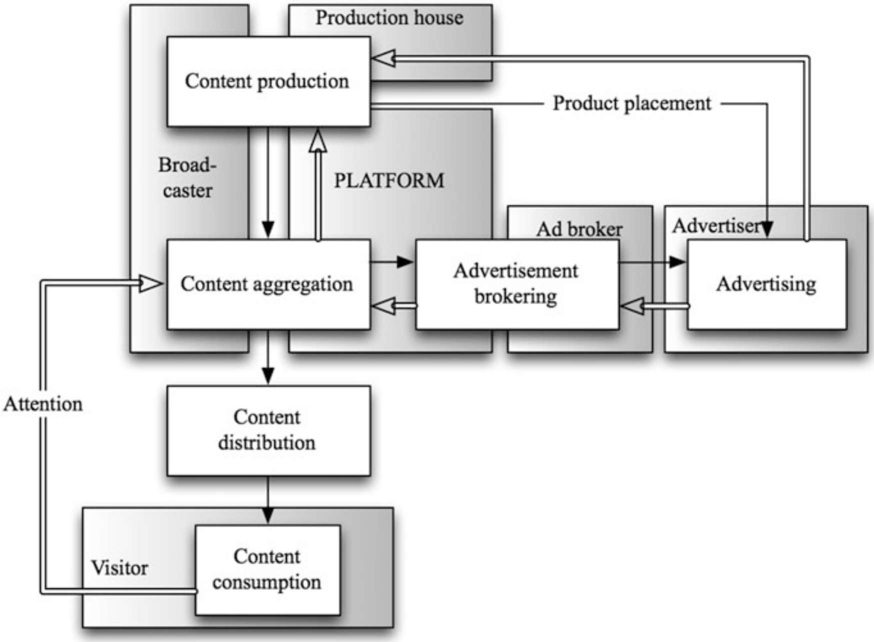

Fig. 2 Advertising service and revenue value streams. Source: The authors

Following the three identified forms of valuable services, three main forms of revenue streams for the platform can be distinguished: income from advertising (Fig. 2), income through distribution (Fig. 3), and income from funds provided by individual or institutional investors (Fig. 4).

Firstly, Fig. 2 gives a stylized overview of the value network connections that were identified when focusing on the potential streams of services (black arrows) and revenues (white arrows) from advertising income. Below we focus on a number of critical upward revenue value chain connections (represented by white arrows) within this value network.

(*Upward*) *revenue value chain*:

[Content consumption] ⇒ [Content aggregation]

The visitor of the platform creates the trigger for advertisement fees. His visit, measurable as "attention", can create value in terms of (unique) visits (CPM, i.e. cost per thousand (unique) visits) and the number of actions (PPC, i.e. pay per click) and of time spent on the platform (cost based on the stickiness of the site).

The advertiser pays for his ads to appear where the content is aggregated. The business role of "advertisement brokerage" implies the buying and placement of advertisements. In traditional media this role has usually been performed internally by the actor that controls the medium (e.g. the newspaper publisher prints ads on

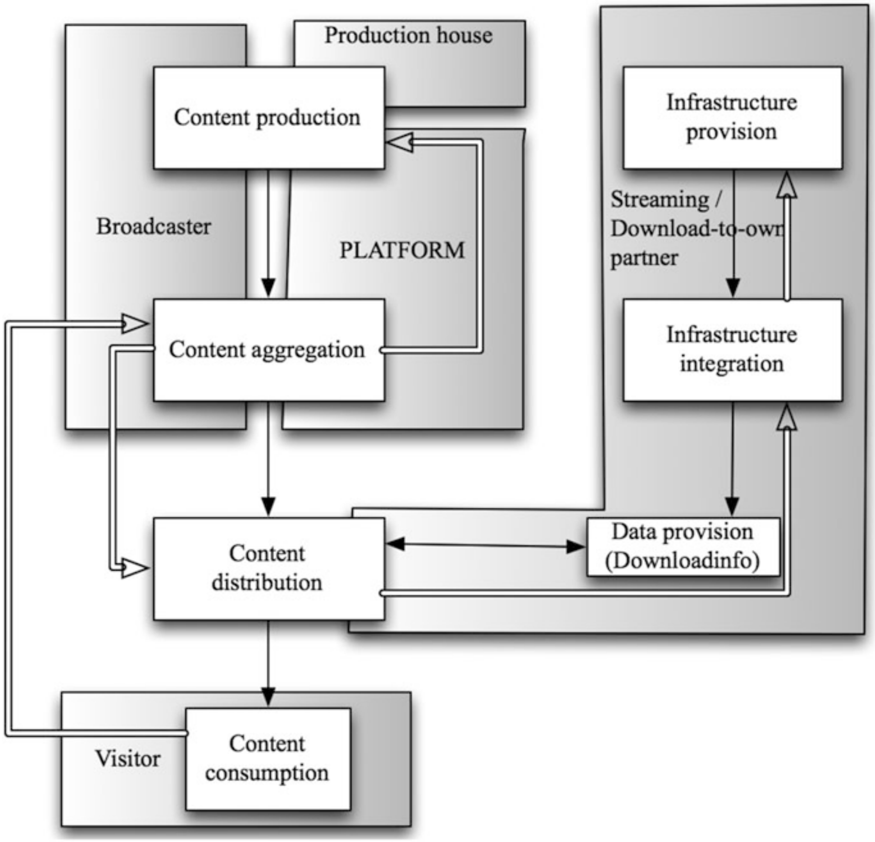

Fig. 3 Distribution service and revenue value streams. Source: The authors

specific pages, the TV broadcaster decides on the position and length of the advertisement slots). On the Internet this role is often outsourced to a separate "advertisement broker" that operates independently of the website where the advertising message appears. For example, in the case of Google Ads, Google sells the guarantee that an advertising link will appear on the most relevant web pages. The website owner only decides whether Google Ads are placed on their pages, but the role of advertisement brokering and the associated customer ownership of the advertiser remain under the control of Google. Nothing stops a website of also conducting its own advertisement brokerage alongside a player such as Google (with banners or other forms of advertising).

Revenue value chain:

[Advertising] ⇒ [Advertisement brokering] ⇒ [Content aggregation]

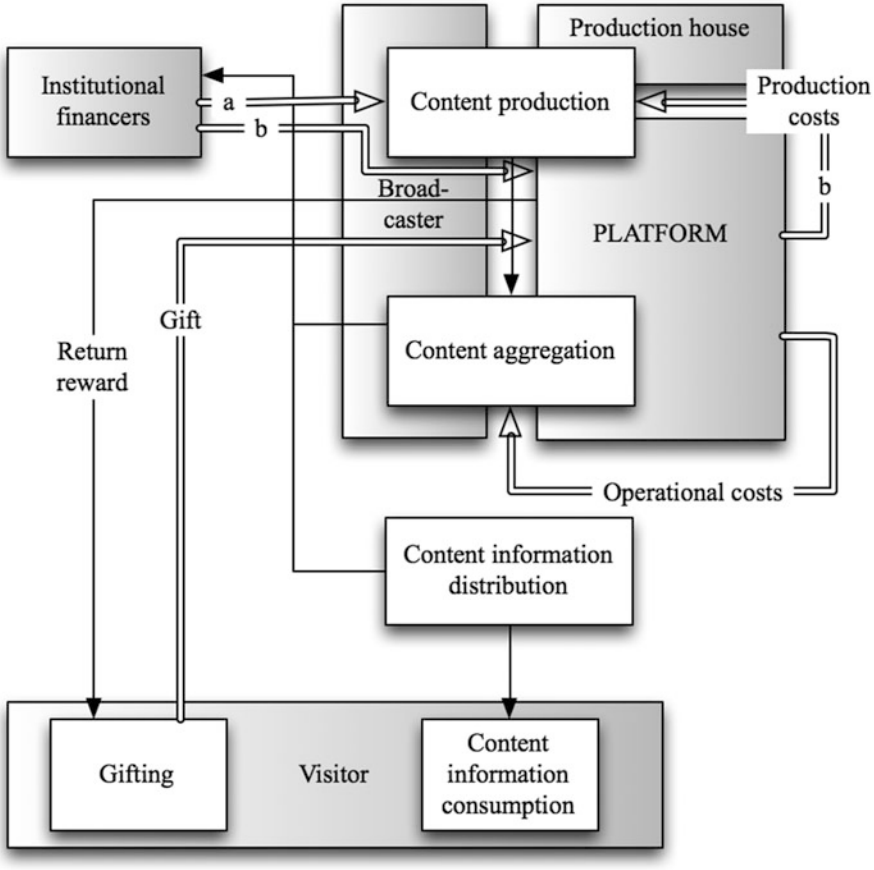

Fig. 4 Gift/funding service and revenue value streams. Source: The authors

Revenue value chain:

[Content aggregation] ⇒ [Content production]

A part of the advertisement income could be distributed towards the content producer, if contractually agreed, in exchange for product placement or as a form of sponsoring.

Secondly, Fig. 3 gives a stylized overview of the value network connections that are relevant for revenues associated with content distribution, where the finished movie product is sold to consumers. Within this value network, we can focus on a number of critical upward revenue value chain connections (white arrows).

Revenue value chains:

[Content consumption] ⇒ [Content aggregation] ⇒ [Content production]
[Content aggregation] ⇒ [Content distribution]

The visitor could purchase the finished content product directly from the platform (in which case the platform performs the role of content aggregation), and/or the content could be distributed via TV broadcasters, in which case the broadcaster performs the role of content aggregation. In both cases the content aggregator pays the content producer for its content and pays the bill for the physical content distribution.

Revenue value chain:

[Content aggregation] ⇒ [Content distribution] ⇒ [Infrastructure integration] ⇒ [Infrastructure provision]

The content aggregator (platform or broadcaster) pays the physical distributor for his service of delivering the video content to the consumer. With these proceeds this distributor can finance its internal role of infrastructure integration and pay its external suppliers of networking gear. Streaming is certainly positive as an advertising presence, but download to own should continue to have a prominent place in each content aggregator's service portfolio, especially with rich content such as movies.

Thirdly, Fig. 4 gives a stylized overview of the value network connections that arise during the process where individual or institutional investors provide funding to a movie project. In this figure, we can focus on three upward (white arrows) revenue value chains: the flow originating from the institutional investors, the flow originating from the role of "gifting", and the flows from the platform to the role of content aggregation.

Revenue value chains:

[Institutional financers] ⇒ [Content production] (arrow a)
[Institutional financers] ⇒ [PLATFORM] (arrow b)

Arrow (a) concerns the institutional financer who wishes to provide financial resources (e.g. under the tax shelter regime in Flanders, whereby the government organization *Screen Flanders* provides reduced taxable income incentives to investors in movie productions). This actor can learn about suitable investing opportunities via the platform. The only remaining, but important, question is then whether the movie can receive funding from a party that found out about the specific project via the platform website, without giving the platform any kind of commission or "finder's fee". This issue of exclusivity versus multi-homing has been investigated by other authors such as Hagiu and Lee (2009).

Arrow (b) concerns projects for which the platform has obtained restricted exclusivity (in time or in geographical space); it could be agreed that institutional investors' funds can only run via the platform. The platform then wires the majority part of these funds to the producer, after subtraction of a fee for the platform's operational costs.

Revenue value chain:

[Gifting] ⇒ [Platform] ⇒ [Content production]

Gifts of individual investors collected by the platform for the benefit for specific productions can be awarded with return rewards such as detailed access to the project pages, (signed) DVDs of the final movie, tickets for a (premiere) screening, etc.

Revenue value chain:

[Platform] ⇒ [Content aggregation]

The revenues obtained by the platform can be reinvested to perform the daily operational costs needed for the management of a content aggregation platform (e.g. hosting, website upkeep, administration) or be used to let a TV broadcaster aggregate the movie content.

The revenues of the platform can be any combination of revenues obtained from the above-described fund collection, advertising income, or direct sales. While the revenues collected from individual gifts and institutional financing have to be kept separate, since these are promised to specific projects, these cannot be directly used for operational costs. The advertising revenues and sales revenues however can directly be used for covering these infrastructural costs or other expenses such as additional ad campaigns, with the important caveat that revenues from advertising can start growing in the first year of existence of the platform, while sales from finished movie products can only kick in after a few years, when finished projects reach their distribution phase.

4 Business Model Proposal

In this section, we will propose a business model for an independent platform that could use crowdfunding and other means to fund movies that are of interest to a limited geographical region. Not many movies from small countries find an audience outside its own borders, partly because of language issues. For music, this is less of a problem as bands could have fans all over the world. The geographical small market, in our case Flanders, provides serious complications as it limits both the amount of possible funders as well as the revenue options. We present a financial design that models costs and revenues.

Information on the typical production costs of movie projects within a Belgian context has been gathered by expert interviews. The results can be found in Table 5. It shows indications for low-, medium-, and high-budget film projects in three different genres, namely, short fiction, documentary films, and theatrical fiction.

The projected budget caps above mainly consist of production costs, i.e. the logistic and operational costs required while making the movie production. This includes among others human resource costs, equipment, sets, and attributes. In this

Table 5 Budget caps for typical Belgian movie projects

Budget in €	Short fiction	Documentary	Theatrical fiction
Low	0–60,000	80,000–120,000	500,000–1,000,000
Medium	80,000–100,000	180,000–200,000	1,500,000–2,000,000
High	100,000–120,000	500,000–750,000	2,500,000–4,000,000

Source: The authors

case however, the operations will face two additional forms of costs that will have to be covered by some form of income stream: platform costs and distribution costs. Marketing costs were not taken into account since the public broadcaster said it would supply free advertising support on their different media platforms (TV, radio, and VRT website), as part of its role as cultural ambassador.

The platform or aggregation costs comprise all costs related to the development and operationalization of the funding platform. This includes web hosting but also administrative overhead and costs for possible advertisement sales in case the platform opts for this method to create additional revenues.

The distribution costs are the costs that are being made by the platform after the production of the movie. These primarily consist of the movie-distribution services provided by the platform. Next to promotional costs, these include production and logistics in case of physical products and hosting, bandwidth, and an online payment service in the case of digital distribution.

For the business model, we propose a 3 fold approach, consisting of separate business cases for the platform itself, plus business cases for the production phase and distribution phase of each movie project.

The platform itself can be financed by six different income streams: company sponsorship, not-for-profit support (gifts), public-private partnerships for investments in the infrastructure, non-profit support by professional companies, employment subsidies for routine tasks, and advertisement income. Some of these income streams are limited in time and will only serve as stimulation subsidies for the development of the platform, so it is important to expand the sustainable streams to a sufficient level to provide for the platform as such. The advertisement revenues can be exerted solely to cover the costs for the platform, or they can (party) be used to fund movie projects, possibly in a model in which advertisement revenues go directly to the movie on whose project page they have been displayed.

In the phase of movie production (including pre-production, production, and post-production), four financing streams should be combined: subsidies (in our geographical context: of the Flemish *Vlaams Audiovisueel Fonds* or *the European Eurimages*), tax shelter investments, investments by private investors, and income distributed from the platform to the filmmakers. Most of these streams will speculate on a revenue stream coming from the distribution phase of the production.

In the phase of distribution, four revenue streams can be identified: European subsidies of the pilot programme, clicks-and-bricks distribution, licensing and subscriptions for professional institutions, and finally private sales (pay-per-view, pay per download, or pay per order). This is the most profitable phase, but investments from the platform and production phases will have made claims on many of the revenues coming in.

5 Revenue Scenarios

To obtain a better image of what is definitely an uncertain future, we provide an analysis based on scenarios. In these scenarios we assume a movie crowdfunding platform that can create financing in four different ways: via advertisements, via moviemakers that pay for a premium account to get more services for their movie projects, via movie enthusiasts that pay for a premium account on our platform, and via movie enthusiasts who make donations (or investments) to specific movie projects. This means that in our model, we abstain from many of the movie financing methods that we have described in the previous sections because they are not specific to a crowdfunding platform but generic to any movie project. The four financing methods mentioned above all relate to the platform itself. In our scenarios we vary them based on pessimistic, neutral, and optimistic estimates.

5.1 Advertisement Revenues

The advertisement revenues will be dependent on the amount of moviemakers and movie enthusiasts visiting the platform. However, the platform will attract an audience with a very specific interest, which can be very attractive to advertisers, resulting in a CPM estimate of 20 €. Based on visitor numbers of related Belgian sites, like *Cinebel* and *Brands4Bands*, whose visitor numbers are published by CIM, we estimate page views of the platform to be 50,000, 100,000, and 150,000 in the pessimistic, neutral, and positive scenarios, respectively. For the simplicity of our model, we neglect the fact that a small group of premium users are not shown advertisements. Nevertheless, the yearly income generated by advertisements would be marginal.

5.2 Moviemakers

We estimate the amount of Flemish moviemakers, willing to find financing for their project on a platform like this at 50, 100, and 150 in our three scenarios. Anderson (2009, p. 27) provides a heuristic for premium services, stating that in general roughly 5% of the user base will consist of paying users. When we apply this to our estimates of how many professional filmmakers would like to pay for platform membership, we end up with, respectively, 3, 5, and 8 moviemakers paying for premium services. We acknowledge that in reality these numbers will be heavily dependent on a myriad of factors, in particular the value and quality of the premium services and the price of these services. For reasons of simplicity, we ignore this causality and estimate the numbers independently. Because these moviemakers are

Table 6 Premium membership by professional filmmakers

Scenario	Pessimistic	Neutral	Optimistic
Number of participating moviemakers	50	100	150
Number of paying moviemakers	3	5	8
Price for premium membership	50 €	50 €	50 €

professionals, who might value premium services more than consumers, we put the annual fee in our model on 50 €. This all results in the premium membership table mentioned in Table 6.

5.3 Subscriptions by Movie Enthusiasts

The amount of participating movie enthusiasts is one of the main variables within our model. Again, we make three estimates, ranging from pessimistic to optimistic: 5000, 10,000, and 15,000 users. We believe these numbers are fair within the Flemish market, assuming the site provides good quality and the promotion for it is adequate. To estimate the user base for paid accounts, we again use Anderson's five-percent rule of thumb. As a yearly premium fee, we suggest 25 €, which is comparable, for instance, to the $25 yearly fee that Yahoo! charges for its Flickr Pro accounts. These data result in the following revenue (Table 7)

5.4 Donations by Movie Enthusiasts

The last big variable is the essence of any crowdfunding platform: the amount of donations coming in. Again, we use three scenarios. In the pessimistic scenario, 5% of the site members donates 50 euros on average. The neutral scenario assumes 10% of the users donate on average 100 euros. In the optimistic scenario, finally, 25% of the members decide to donate an average amount of 150 euros a year. The last scenario might look unrealistically optimistic, but we believe that a platform might attract some big donations by offering quality and exclusivity, which can pull up the average donation size.

In this part of the model, we see a big difference in the revenues between the three scenarios. This is caused by the fact that here we have two variables, whose effects multiply each other.

These numbers clearly show that in a restricted geographical region like Flanders, small donations will not get a project very far. Hence, we recommend to aim a platform not only at a young audience with small budgets but rather at wealthier movie enthusiasts who can donate significant amounts to projects they care about (Table 8).

Table 7 Premium membership by end-users

Scenario	Pessimistic	Neutral	Optimistic
Number of members	5000	10,000	15,000
Number of premium members	250	500	750
Price for premium subscription	25 €	25 €	25 €
Yearly revenues	6250 €	12,500 €	18,750 €

Source: The authors

Table 8 Movie enthusiasts' donation size

Scenario	Pessimistic	Neutral	Optimistic
Number of members	5000	10,000	15,000
Number of members making a donation	250	1000	3750
Average size of donation	50 €	100 €	150 €
Yearly revenues	12,500 €	100,000 €	562,500 €

Source: The authors

5.5 Model Round-up

In the previous sections, we built a calculation model based on three scenarios to estimate the revenues of a possible crowdfunding platform for movies in Flanders. Combined, this model results in Table 9.

Even though we did not provide a cost estimate, this table already shows that a platform will hardly be able to sustain itself once it is operational. The introduction period with lower revenues and higher (development) costs will even be more negative.

The revenues via paying moviemakers are so insignificant that we strongly recommend making this side of the platform completely free. This will encourage more moviemakers to participate, which might have a positive effect on the revenues via memberships. Another option would be to rethink this side of the platform into a variation that generates more revenues.

The revenues via paying movie enthusiasts are more interesting for the platform, but one needs to consider to also make this side of the platform completely free or, at least, to provide a good package of services to free accounts. The amount of movie enthusiasts visiting the platform will be positively correlated with the number of sponsoring individuals. One could consider making a premium account for a small price consisting of features that enhance the experience but that are not necessary for normal content consumption. An example could be trailers and previews in high definition, while the same content is available in standard Internet movie quality for free account holders. This will provide paying users with a premium service. At the same time, it does not stop free members to view the content, something that would have a negative effect on advertisement revenues and donations.

The revenues from donations in our model are subject to a large margin. In the pessimistic scenario, the yearly revenues wouldn't even cover the production of one

Table 9 Total revenue projections (annual, in Euro)

Scenario	Pessimistic	Neutral	Optimistic
Revenues via paying members	6250	12,500	18,750
Revenues via paying moviemakers	150	250	400
Advertising revenues	1000	2000	3000
Total of platform internal revenues	7350	14,750	22,150
Donations to movie projects	12,500	100,000	562,500

Source: The authors

single long feature movie. The more positive scenarios do provide opportunities, especially when alternative means of financing, like subsidies, can be applied too. Developers of a platform will have to make tough choices on whether to aim for a larger audience or rather a smaller group of wealthier movie enthusiasts.

We have reservations about applying the *Sellaband* model to this industry. We consider crowdfunding a significant contribution to a financing model, but we still consider it unlikely that a Flemish movie can be financed by crowdfunding alone. However, if a platform can combine the crowd donations with other, more traditional means of financing, it can lead to an increase of available money and media attention provided to specific movie projects and consequently an increased number of produced movies.

6 Conclusion: Crowdfunding Does Only Partly Help

In this chapter, we considered the possibilities for a crowdfunding platform for the movie industry in a small market of Flanders. The movie industry, like some others, is characterized by high costs upfront, with only marginal costs to produce additional copies once the product has been completed. Since a crowdfunding solution has proven somewhat successful in other industries, like the music business, we consider the possibilities for a movie crowdfunding platform from a business modelling perspective.

We started with a benchmark, resulting in value networks of the different phases of a crowdfunding platform. Collecting information from a variety of international similar crowdfunding platforms, we identified several technical, service, and financial design characteristics that could be included if a similar crowdfunding initiative would be rolled out locally. The financial design characteristics in particular served as an inspiration for the construction of multiple revenue scenarios.

Subsequently, we proposed a business model, which combined the multiple financing streams and revenue streams as identified in the industry cases. Finally, we tested the viability for a Flemish crowdfunding platform based on available data on typical advertising and subscription fees and mapped these on pessimistic, neutral, and optimistic scenarios. Based on these projections, we can conclude that given the small market size and the high costs associated with movie production, a movie production fully funded by the crowd in Flanders will remain fiction.

However, a crowdfunding platform could be a valuable asset when combined with other means of financing, such as a tax shelter for institutional investors, public funding, or specific forms of logistical support.

The implication for the movie industry is that crowdfunding is not about to revolutionize the model for local movie production in Flanders or similar small cultural markets and not even about to significantly grow the local industry. Government support will continue to form an integral part of the Flemish movie production process. A viable platform will combine industry sponsorship for the infrastructure and distribution costs, with government sponsorship for marketing support via the public broadcaster and direct movie subsidies via the local audiovisual government fund. The platform can increase the involvement of the audience—which is relevant since the rise of second-screen applications that offer a parallel media experience to cultural consumers—and create much better transparency towards the audience of how funds are used. The increased transparency would provide us with more precise ROI and revenue figures than currently available, which could form the basis for future research that will be more quantitative. Finally, the platform could serve an educational purpose towards the general public by giving an insight in the many facets and phases of movie productions.

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