An overview of Europe's film industry

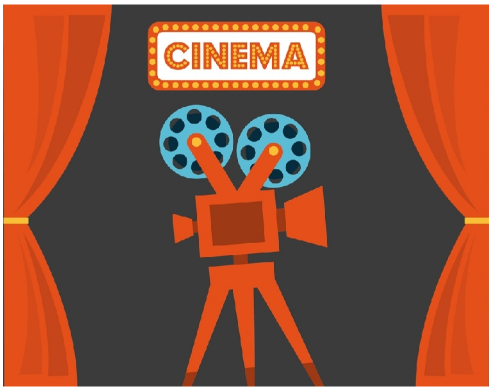
SUMMARY

In spite of the fact that Europe pioneered both technological and content innovation in cinema, at present the EU film landscape is characterised by the strong presence of Hollywood productions. In 2013, they held a share of nearly 70% of the EU market, while European productions represented only 26%. What makes the major US companies so powerful is the fact that they are vertically integrated, with activities spanning production and distribution, allowing them to spread risks over several films, and reinvest profits in new projects. To offset the financing challenges facing EU film companies, different types of film-support schemes have been set up, accounting in 2009 for an estimated €2.1 billion (excluding tax incentives and interventions by publicly funded banks and credit institutions).

Notwithstanding the ever-increasing presence of Hollywood majors, the European film industry is quite dynamic and encompasses over 75 000 companies, employing more than 370 000 people, and reaping some €60 billion in revenue in 2010. Within the EU, the 'Big Five' – France, Germany, United Kingdom, Italy and Spain – account for around 80% of releases, industry turnover, and persons employed.

In its 2014 communication on European film in the digital era, the European Commission identified a number of structural weaknesses which prevent the EU film industry from reaching potential audiences in the EU and globally. Along with the fragmentation of production and issues related to financing, there is greater focus on production, resulting in limited attention to distribution and promotion, and insufficient opportunities for international projects.

Helping overcome distribution barriers for European films is also one of the European Parliament's goals through the LUX Prize, awarded annually since 2007. The winner of the prize does not receive a direct grant. Instead, during the LUX Film Days, the three films in competition are subtitled in the 24 official EU languages and are screened in more than 40 cities and at 18 festivals, allowing many Europeans to see them.



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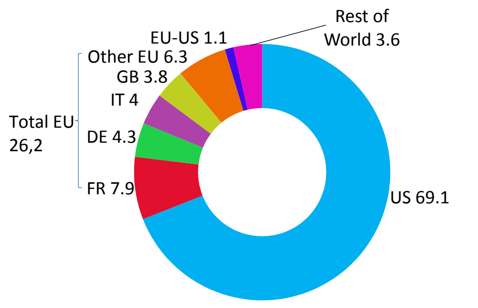
Background

Cinema was born in Europe. Auguste and Louis Lumière patented the *cinematograph*[1] in 1895. Georges Méliès built one of the first film studios in 1897. In the 1900s, European film companies dominated international film distribution and had not only the largest market share in Europe, but also in the United States (US), reaching at times 60%. They pioneered both technological innovations such as projection, colour processes and sound films, and content innovations such as the weekly newsreel, the cartoon, the serial and the feature film.[2] By the early 1920s, however, the situation had reversed, and the emerging Hollywood studios started supplying the majority of films shown in Europe.

Figure 1 – Estimated market shares for US and EU films, in %, 2013



Data source: European Audiovisual Observatory, 2014.

This is still the case today, with the European film landscape characterised by the strong presence of Hollywood 'majors', such as Sony Pictures, Walt Disney and Warner Bros. Strikingly, despite US-based companies having produced[3] only 622 feature films in 2013 – compared to 1 546[4] European productions in the same period – they account for almost 70% of the European Union (EU) market, while European companies hold only 26% (see figure 1). What makes these majors so powerful is the fact that they are vertically integrated with activities spanning production and distribution, thus controlling the most important components of the global audiovisual industry. Seven of the top 10 global media groups have a specific film making subsidiary: these are the six US majors and the French Canal+ Group, whose Studio Canal is the leading EU film and audiovisual production company (see table 1).

Table 1 – Top 10 media groups worldwide (US$ millions, 2009)

Rank	Company	Country	Film subsidiary	Turnover
1.	Sony	Japan	Sony Pictures	**30.245**
2.	Walt Disney	USA	Walt Disney Studios	25.482
3.	Time Warner	USA	Warner Bros.	22.769
4.	News Corp.	USA	20th Century Fox	22.699
5.	Direct TV Group	USA	-	21.565
6.	Vivendi	France	Canal+ Group (StudioCanal + 20% stake in NBC)	17.133
7.	Nintendo	Japan	-	15.474
8.	NBC Universal	USA	Universal Studios	15.436
9.	Viacom	USA	Paramount Pictures	13.619
10.	CBS Corp.	USA	-	10.684

Data source: JRC, The film sector, 2012.

Experts argue that with control over distribution, US majors can commit significant resources to production and marketing (namely via the star system, and the use of film sequels), build audience awareness, reduce and/or spread risks over several films, and reinvest profits in new projects. In establishing this type of dominance, they seem to have raised significant entry barriers for EU film companies whose share on the US market was just under 2.5% in 2010.

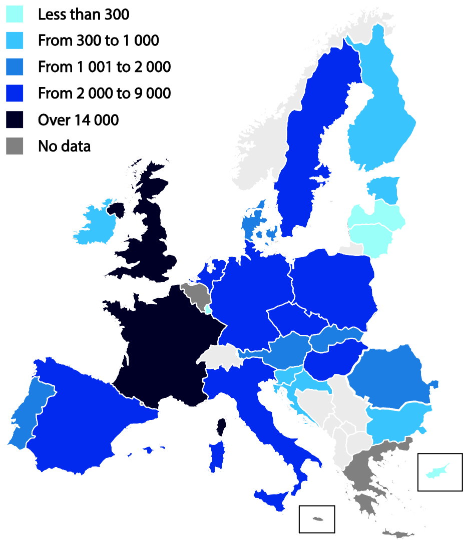
Situation and trends

The specific character of the film industry

The fragile balance between cultural and industrial components of the film industry[5] is the source of significant tension between creative and market considerations. The fact that it is a 'prototype' industry – i.e. with fluctuating demand, high fixed production costs and relatively low reproduction costs[6] – accounts for its strong reliance on public funding and the extensive regulation framework that accompanies it. In addition, there is a weak relation between the quality of a film and the price of a ticket (which remains stable regardless of production costs or demand). In other words, films need to achieve critical mass to be profitable (so-called 'blockbusters') and to offset the costs of less lucrative productions. Risk is however inherent within film-making (notably in terms of demand) and for many years, the industry's main focus has been on developing strategies of control. One way of dealing with risk is spreading out fixed costs across larger international markets. An illustration of this is the dominant position of US majors which partly rests on the intricate international distribution networks through which their films are circulated. Yet another form of control is through copyright protection systems. A cautious balance is however required[7] between access to culture and the fair remuneration of authors and content creators.

A closer look at the European film industry

Figure 2 – Number of enterprises in the EU, in thousands, 2011



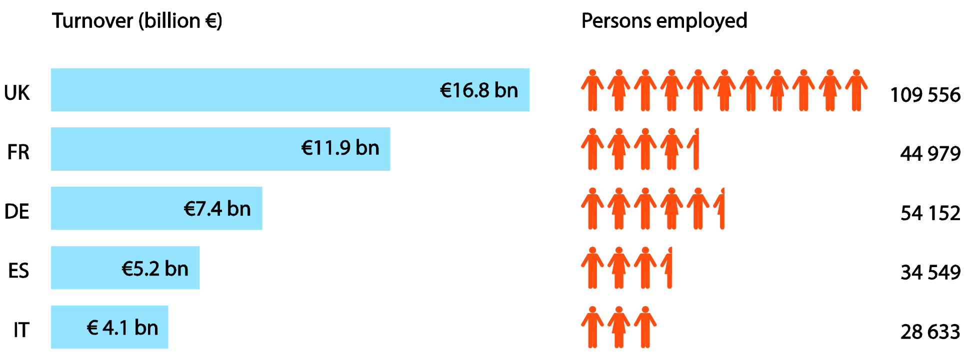
Data source: Eurostat, Annual detailed enterprise statistics for services, 2011.

Even though production levels continued to grow in 2013, the estimated share for European films on the EU market dropped from 28.9% to 26.2%, while the share of US films increased from 62.8 to 69.1, reaching its highest level of the past ten years. Yet, in spite of the ever increasing presence of US majors, the EU film industry is quite dynamic. It encompasses around 91 000 companies[8] (see figure 2), employing over 373 000 people, and reaping revenues of some €60 billion in 2011. Within the EU, the 'Big Five' – France, Germany, United Kingdom (UK), Italy and Spain – account for around 80% of releases, industry turnover, and persons employed (see figure 3).

It is, however, difficult to get a detailed overview of the number of companies and staff employed in the film industry. The reasons for this seem to reside in its more volatile nature. A number of European groups such as Pathé (France), Constantin Film (Germany) and Kinepolis (Belgium) are active at various levels of the film value network (e.g. production, distribution, and/or marketing). However, the core of the EU film industry consists of nationally based companies, many of which are relatively small and focused on one segment of the value network. Some of them may be set up to produce only a single project.

Due to their lower budgets, some European films remain profitable even with a relatively small number of admissions. However, research shows that the great majority of European films do not recoup their costs, which makes it difficult for EU companies to remain in the industry and grow. In spite of these difficulties, some EU productions

Figure 3 – Big Five: turnover and persons employed, 2011



Data source: Eurostat, Annual detailed enterprise statistics for services, 2011.

are still able to achieve commercial and/or critical success[9] and Europe's film heritage continues to inspire generations of film-makers. However, the lack of large, vertically integrated groups, able to compete with the US majors, is perceived as a weakness.

The results of a recent survey (2012) indicate that while cinema attendance has remained stable in recent years, Europeans go to the cinema less than once a month. Strikingly, 39% of respondents never go to the cinema. Apart from in cinemas (87%), Europeans watch films on TV (90%), on home video (89%) and through online services (62%).

Important challenges ahead

In its most recent communication (2014) on European film in the digital era, the Commission has identified a number of structural weaknesses which prevent the EU film industry from reaching potential audiences in the EU and globally. The Commission recalls however that the EU can only complement national support mechanisms[10] and in that sense, its overall objective is to maximise complementarity between existing instruments and policies, without increasing the level of public aid.

Fragmentation of production and financing

The small or micro-enterprises making up the European film industry frequently face difficulties in raising the budgets required to compete on a global scale, due mainly to the high risk associated with the industry and its perceived lack of profitability. A quick comparison between the EU and the US shows a stark contrast. While the average EU production budget ranges from some €11 million in the UK, €5 million in Germany and France to €300 000 in Hungary and Estonia, the average budget for US-produced films amounts to €12 million and exceeds €85 million for films produced by majors and their affiliates. Total investment in EU film production has more than doubled between 2001 and 2008 (from €2.4 billion to €5.6 billion), but it appears to be used in making more films instead of following a more selective approach. It has also been argued that the distribution of public funds inflates the earnings of a few stars irrespective of economic realities.

Limited opportunities for international projects

It appears that only a limited number of European film producers operate in more than one market. More importantly, research shows that only a minority of production companies in the EU have a regular production rhythm (i.e. producing at least one film per year), which suggests a lack of sustainable (production) structures within the industry. As a significant part of financing comes from national or regional public bodies, the main focus of EU productions in terms of audiences is often national or regional. While it has been established that co-productions circulate better than national productions, it seems that they tend to be used essentially to ensure financing, notably in countries with a low production capacity.

Focus on production and limited attention to distribution and promotion

The current state aid system predominantly supports film production, without sufficient corresponding emphasis on distribution. In 2009, European public film-funding bodies spent on average 69% of their budget on creation of works, while only 8.4% went to distribution and 3.6% to promotion. The focus on cinema release and promotion is instrumental for recouping investment but the current system of 'release windows' is under increasing pressure from changes in audience behaviour. Indeed, the standard sequence of release for a feature film places cinema release at the top, followed by video/DVD/Blu Ray, video-on-demand, pay-TV and finally free-to-air TV. However, as shown in the previous section, Europeans watch films mostly on free TV, on DVD, and via on-demand services.

Support schemes and incentives

The dual cultural and economic characteristics of the film industry and the reality of a strong US presence in the EU film market account for a long tradition of public support, which has aimed to improve the global competitiveness of European cinema. Over the years, an increasingly complex support framework has been created across Europe, in which public funds[11] co-exist with tax incentives. In 2009, the estimated amount of this aid in Europe ran to some €2.1 billion (excluding tax incentives and interventions by publicly funded banks or credit institutions). With a total spend of €581 million, France leads the way, followed by Germany (€303 million), Italy (€146 million), UK (€128 million), and Spain (€124 million).

State aid

Article 107 of the Treaty on the Functioning of the EU (TFEU) declares state aid incompatible with the common market. However, there are exceptions to this rule, the most relevant for the cinema industry being Article 107(3)(c) and (d). According to these paragraphs, aid facilitating the development of certain economic activities and promoting culture and heritage conservation without affecting competition may be considered compatible with market rules. In its 2001 Cinema communication, the Commission set out the assessment criteria for state aid support. The validity of these rules was extended in 2004, 2007, and 2009. In 2011, the Commission launched a consultation on public support to the film industry and published an Issues Paper identifying areas for reflection. Without questioning the purpose of public funding, the Commission indicated that greater clarity in the selection criteria of film funds would help avoid contradictory funding.

Most importantly, the Commission has identified competition among some Member States to use state aid to attract investment from large-scale, mainly US, film-production companies. This 'subsidy race' typically includes tax incentives to draw these productions to a country's locations, and to obtain in return the employment of local film companies, cast, crew, etc. The Commission maintains that this practice leads to a distortion of competition. Even though supporting non-EU productions could have indirect economic benefits (namely improving EU film services), the profits related to such productions do not necessarily enhance the long-term development of the industry. Moreover, supporting films produced by US majors appears to contradict the very rationale of EU state aid policy, since big studios do not face their EU counterparts' problems regarding access to private financing.

New state aid rules for cinema

In 2013, the Commission adopted new film-support rules. The intensity of the aid continues to be limited to 50% of the production budget. Distribution and promotion costs may be supported with the same aid intensity. However, co-productions funded by more than one Member State may receive aid of up to 60% of the production budget. By contrast, there are no limits on aid for script writing or film-project development, or for difficult audiovisual works, as defined by each Member State. Territorial spending obligations are still allowed but cannot exceed 80% of the production budget.

EU support

With a budget of €1.46 billion, the Creative Europe programme will continue to support cultural and creative industries in the 2014-20 period, building on earlier EU programmes such as MEDIA, MEDIA Mundus, and Culture 2007-13. More than €800 million will be dedicated to cinema. Furthermore, €210 million will be available as of 2016 for a new financial guarantee facility, which will make it easier for small companies to access bank loans. In addition, companies will also have the possibility to benefit from more horizontal instruments for business development (within the COSME Programme), for investments (through COSME and Horizon 2020), and for content creation and delivery using new technologies (via LEIT in Horizon 2020).

The role of the Council of Europe

In the 1980s, in the absence of a specific EU film fund, the Council of Europe (CoE) served as a safety net for production support. The Eurimages fund was established in 1989 and currently has 36 member countries, with the notable absence of the UK. Next to the Eurimages fund, the CoE has initiated the European Audiovisual Observatory, which collects data and information on the European audiovisual sector. The European Convention on Cinematographic Co-production – in force since 1994 and ratified by 43 signatories – replaced bilateral co-production treaties between European countries. The Convention has also established a definition of 'European works' which among other things entails benefits in terms of access to national funds. Eurimages has a total annual budget of €25 million, some 90% of which is dedicated to co-production.

Some issues

The cultural exception and TTIP

The idea behind the concept of a 'cultural exception' resides in the assumption that cultural goods and services are not ordinary commodities and should be left out of international agreements. In practice, this may translate into protectionist measures including the regulated diffusion of non-EU artistic work via quotas or state aid. Under the 2005 Unesco Convention (not signed by the US), the EU has a legal obligation to protect and promote the diversity of cultural expressions, a principle also enshrined in Article 167 (TFEU). In addition, individual Member States have a veto right in areas related to culture and the audiovisual sector if an agreement threatens the EU's cultural and linguistic diversity (Article 207 TFEU).

In 2013, the EU started negotiations on a free trade agreement with the US – known as the Transatlantic Trade and Investment Partnership (TTIP). The European Parliament reacted promptly by adopting a resolution asking for cultural and audiovisual services to be excluded from the negotiating mandate. In reaction to growing concern among professionals, the Commission asserted that the negotiations would not interfere with the AVMSD (see box below) or other instruments such as 'public subsidies, financing obligations for broadcasters, taxes on film tickets, co-production agreements, linguistic policy measures, the functioning of channels invested with a public service remit, the existence of stockholding caps in channels and networks, intellectual property rights or specific social-security systems'. In 2014, responding to long-standing calls from civil society, EU governments decided to disclose the TTIP negotiating mandate.

Copyright and piracy

Copyright is both an incentive for producers and the basis for the revenues of contributors in the cinema industry value chain. Films are often financed through the selling of exclusive rights for limited territories, a business practice which then makes it more difficult and more costly to license for multi-territory on-line services within the digital single market.

Piracy, i.e. the illegal duplication and consumption of films, is not a new phenomenon. Experts argue that the issue was initially overshadowed by the rapid growth of the legal DVD market. However, the rapid development of broadband technologies enlarged both the potential supply of pirated materials and the audience for illegal copies. A 2005 study commissioned by the Motion Picture Association of America (MPAA), estimated the cost of piracy for the film industry worldwide at over €15 billion. The potential economic impact of piracy is nevertheless heavily disputed.

Despite the MPAA claiming that online piracy is greatly harming the film industry, Hollywood majors achieved record-breaking global box office revenues of €28 billion in 2012, a 6% increase over 2011. More importantly, figures seem to indicate that the more a film is pirated the better it sells, thus prompting some reactions within the industry suggesting that illegal downloads could be viewed as a form of free promotion. The results of a 2013 study also claim that copyright infringement might actually be helping boost revenues.

What is clear, though, is that piracy poses a double challenge, both in terms of direct economic loss as well as in a more intangible way, since it threatens the very premiss of copyright, with an increasing number of consumers expecting to find content free in a 'sharing economy'. Indeed, a 2013 survey on infringements of intellectual property rights shows that while 96% of Europeans believe that intellectual property rules are an important tool for protecting authors' and artists' rights, 52% of young adults (15-24) consider that buying counterfeit products is 'a smart purchase [...] preserving your purchasing power'. Strikingly, research indicates that 39% of US film industry professionals also illegally download films.

Main EU legal instruments

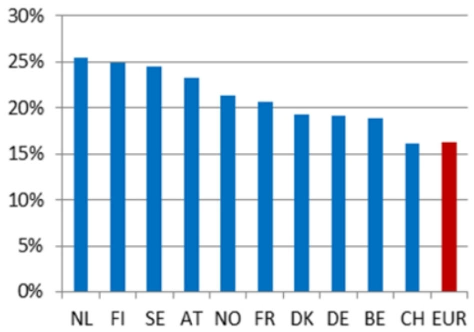
The Television Without Frontiers Directive and its successor, the Audiovisual Media Services Directive (AVMSD) are the main EU legal instruments impacting upon the film industry. Their quota provisions, in particular, are aimed at promoting European works.[12] A number of copyright directives were also adopted as the various national authors' rights systems were prone to conflict with each other and with common market rules. In this respect, alongside the now closed 'Licences for Europe' dialogue with stakeholders, the Commission is carrying out a review of the EU copyright framework, as announced in its communication on content in the digital single market. This debate will be of particular relevance for the film industry.

The place of women

A 2014 report by the European Audiovisual Observatory shows that only 16.3% of European films were directed by women between 2003 and 2012 (see figure 4). Detailed analysis indicates that the countries with the highest production volumes for films by female directors are mostly medium-sized production countries. In contrast, larger film-producing countries, such as the UK, Italy, and Spain ranked below the European average.

Likewise, research (2014) on the gender-wage gap among Hollywood stars demonstrates that while in their 20s, actresses outpace their male counterparts in terms of pay. However, after the age of 34, their earnings quickly decline, unlike those of male actors, which peak at the age of 51 and remain stable after that. More worryingly, the study suggests that roles for older actresses are limited, creating more pressure on them to maintain a youthful appearance. According to the study: 'Men's well-worn faces are thought to convey maturity, character and experience. A woman's face, on the other hand, is valued for appearing young.'

Figure 4 - Share of films by female directors, in %, 2003-12



Data source: European Audiovisual Observatory, Female directors in European films, 2014.

European Parliament involvement

Perhaps one of the best known cultural initiatives of the European Parliament – the LUX Prize – has been awarded annually by the institution since 2007. The prize supports the circulation of European (co)productions and aims at overcoming the language and distribution barriers for European films. Its logo is a positive interpretation of the myth of the Tower of Babel (see box). The LUX

Prize focuses on fundamental EU values such as integration of vulnerable communities, the fight against poverty and violence against women.

As a rule, the films in competition are proposed by a selection panel, composed of cinema professionals and appointed by the European Parliament's Committee on Culture and Education, but entries can also be submitted by MEPs or cinema professionals. Of the 10 films selected, three go into competition, and one is awarded the prize through the votes of MEPs.

The LUX Prize is focused on distribution – 'the Achilles heel of European cinema'. This explains why the winner does not receive a direct grant. Instead, during the LUX Film Days, the three films in competition are subtitled in the 24 official EU languages and are screened in more than 40 cities and at 18 festivals, allowing a large number of Europeans to see them and vote for the 'Audience Mention'. In addition, the winning film also gets adapted for the visually or hearing impaired.

Endnotes

[1] The original cinematograph was patented by L. Bouly in 1892. The Lumière brothers patented their own version in 1895 when the name became available again due to Bouly's inability to continue paying the patent fee. In contrast to Edison's kinetoscope, it allowed simultaneous viewing by multiple parties.

[2] Unesco defines it as 'at least 60 minutes long and intended for commercial exhibition in cinemas'.

[3] According to the Feature Film Production Report 2013, of the 622 feature films released in the US in 2013, fewer than 160 had production budgets exceeding €800 000 and fewer than 100 had budgets exceeding €12 million. The European Audiovisual Observatory gives a lower figure – 455. However, it indicates that production figures for the US no longer include films with budgets below €800 000, feature documentaries or student films. Conversion rate $1 = €0.80, as of 1 December 2014.

[4] Growth in EU production levels was however driven primarily by a rising number of feature documentaries, as the production of EU fiction films has remained stable over the past four years.

[5] The film industry comprises the technological and commercial institutions of film-making, namely, film production companies, film studios, film production, screenwriting, pre- and post-production, film festivals, distribution; and actors, film directors and other film crew personnel.

[6] The costs of reaching one extra viewer are marginally small.

[7] Hesmondhalgh, D., 'The Cultural Industries', London, Sage Publications, 2007.

[8] Using a broader definition that also includes TV programmes.

[9] Two recent such examples are 'The King's Speech' which gathered nearly €112 million for an estimated production cost of €12 million and 'The Artist' which reaped over €35 million for an estimated investment of €12 million.

[10] Indeed, in accordance with the subsidiarity principle, policies in the area of culture and the audiovisual sector are essentially decided and implemented by the Member States. The EU's role is one of support and coordination. While any harmonisation of laws and regulations is specifically excluded, the European Parliament and Council can adopt support measures under the ordinary legislative procedure.

[11] However, experts warn that over-reliance on public funding can have adverse effects known as the 'production support paradox'. The producer can be tempted to ignore the market and audience since the subsidy guarantees future production.

[12] The current Article 16 requires European broadcasters to reserve a majority of their transmission time for European works, whereas Article 17 requires reserving a minimum of 10% of transmission time or of the programming budget for European independent productions.

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