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Poort, J.; van Til, G.

Published in: International Journal of Cultural Policy

DOI: 10.1080/10286632.2019.1690475

Citation for published version (APA):
ARTICLE

The role of territorial licenses and public support schemes in financing European films

Joost Poort \(^a\) and Gijs van Til\(^b\)

\(^a\)Institute for Information Law (IViR), Faculty of Law, University of Amsterdam, Amsterdam, The Netherlands;
\(^b\)Project Moore Advocaten B.V., Amsterdam, The Netherlands

ABSTRACT
This paper studies the complexities of film financing in Europe, and the role of territorial licences and public support schemes therein. It sets out a typology of support mechanisms and provides information on Member States’ and EU models of film financing.

1. Introduction

The digital revolution of recent decades, which has brought affordable broadband access to consumers in large parts of Europe, is having a profound impact on audiovisual markets. While cinemas, terrestrial and satellite broadcasting and cable distribution remain important modes of film exploitation, online services and platforms have rapidly captured significant market share, with rental and sales of DVDs concomitantly decreasing. Arguably, the future of film distribution lies largely in the digital realm.

Since the internet knows no natural borders, digitisation has enabled new global players to enter European markets, and has put existing business practices and models for distributing and financing films under enormous pressure. EU policies aimed at removing legal obstacles to achieving the Digital Single Market exacerbated this development. In the European Union, the exclusivity that a copyright confers upon its owner is, in principle, limited to the Member State where the right has been granted. This allows right holders and licensees to partition markets along national borderlines, and to structure their financing model accordingly. However, since this may pose obstacles to intra-European trade and services, from the 1990s onwards a variety of European policies and regulatory instruments have been deployed to reconcile territoriality with the Internal Market. Such EU policies might affect current film financing practices that are considered by many stakeholders to be vital to the European audiovisual industry.

This raises the first research question of this paper: what exactly is the role that territoriality plays in financing films in Europe today? The second and related question concerns the role of public support schemes for financing European films. The structure of this paper is as follows: Section 2 briefly analyses the fundamental issues in film financing and the general role of territorial licencing, after which Section 3 analyses how these issues are aggravated in Europe. Section 4 then outlines the three pillars of European Union film support policy, followed by a typology of aid mechanisms in Section 5. Sections 6 and 7 apply this typology to public film support schemes at the pan-European

CONTACT Joost Poort poort@uva.nl Institute for Information Law (IViR), Faculty of Law, University of Amsterdam, Amsterdam, The Netherlands, P.O. Box 15514, Amsterdam, NA 1001, The Netherlands

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level and in individual countries. A few practical illustrations follow in Section 8. Section 9 synthesises and discusses this paper’s findings.

2. Film finance and territorial licencing

Demand for creative works is intrinsically uncertain beforehand and not even easily understood afterwards. This is referred to as the ‘nobody knows principle’ (Caves 2000). Films are also experience goods, meaning that a consumer will only know if he really appreciates a film after having watched it, while most films are not watched more than once. Therefore, the ex-ante uncertainty occurs for almost every film one watches.¹

Various quality signals help consumers to cope with this uncertainty. Reputations of famous actors, directors and brands such as ‘Marvel’ are one. Sequels can also be understood against this background: they have a cast, style and storyline that is similar to a preceding film and aim to benefit from its success. Second, trailers are a way to allow consumers to sample a film before deciding whether to watch it.

Third, recognition, in the form of recommendations, reviews and awards can reduce consumers’ ex-ante uncertainty. They can be self-reinforcing and lead to positive consumption externalities, which fuel the ‘nobody knows principle’: everyone wants to see the film that everyone is talking about. It helps explain why the marketing budgets for commercial films can be half the production costs or even more.² But even expensive marketing campaigns are no guarantee of success.

From the producers’ perspective, films require high upfront investments as the whole process of scriptwriting, production and marketing must be financed during the process of creation, which can last several years. Budgets can reach tens of millions of euros and financiers usually demand that the budget is secured before production starts. High fixed ex-ante costs and low marginal costs of serving additional customers imply significant economies of scale: commercially, films benefit from large markets, as the average costs per viewer drop rapidly with market size. For an international blockbuster, even production costs of over a hundred million euros can be easily regained.

High ex-ante demand uncertainty and high upfront investments set the stage for the core challenge of film financing: commercial investors avoid downward risk and require higher expected returns on riskier investments. The distribution rights of a film can serve as collateral for investors, but their value is as uncertain as the success of the film itself. Most of the aforementioned quality signals – recommendations, reviews, awards and trailers – are not available until the costs of production have been incurred. Therefore, they are useless for financing a film ex-ante and investors have to rely on the reputation of a famous director, a stellar cast or other renowned parties involved – so-called ‘bankable names’ – to decide about investing in a film (e.g. IVF/FIAFP/IFTA/MPA 2015, 5, 11). Alternatively, investors may rely on the judgment of other investors and funding bodies and require their involvement before committing themselves.

In order to secure funding for a film, presale agreements (‘presales’) and minimum guarantees (‘MGs’) are common if not indispensable. Presales are contracts between producers and distributors, whereby the distributor promises to pay the producer a fixed advance on expected revenues. The advance, called a minimum guarantee, is paid upon the film’s completion. In exchange, the distributor gains the right to sell or exhibit the film in a given territory and/or distribution channel. The contracting party may also be an agent, who resells the distribution rights. Presales can count for anything from a small percentage to more than half of the budget of a film (IVF/FIAFP/IFTA/MPA 2015, 6) and may form the collateral for a production loan from a bank (FIAD/International Federation of Film Distributors’ Associations 2017a, 6).

Usually, cinemas, broadcasters, Pay TV and video on demand (VOD) channels demand exclusive rights for their distribution channel to reduce the risk that competitors undermine the value of their rights. For the same reason, presale agreements typically grant exclusive rights for certain time-frames, called ‘windows’, to minimise cannibalisation of earlier higher-value windows by later lower-value windows. Broadcasters and cinemas generally operate nationally and are hence predominantly
interested in exclusive rights within their own territory. Their interest in rights outside their market is limited at best, and it will be more lucrative for the producer to sell such rights on a territory-by-territory basis to other distributors.

A second reason for a producer to prefer selling rights on a territorial basis is price discrimination between high-income and low-income countries (Langus, Neven, and Poukens 2014, Ch. 3.3; Oxera and Oliver & Ohlbaum 2016). Thirdly, vertical agreements involving territorial exclusivity may help distributors to reap the entire benefits of marketing expenses. It prevents competitors from free-riding on such efforts, which would lead to underinvestment in marketing (Langus, Neven, and Poukens 2014, Ch. 3.2). Note that territorial licensing in one exploitation window tends to necessitate territorial licensing in other windows, as long as these are not synchronized across countries. For example, a license holder for transactional video on demand (TVOD) exploitation in country A, traditionally an early exploitation window, will wish to prevent competition from subscription video on demand (SVOD) exploitation or a free-to-air broadcasting in country B, where a film may have been released earlier.

Through exclusive windows and territorial licences, distributors can be certain that no-one else may distribute the film in the territory, on the platform or during the timeframe agreed upon. However, such exclusivity in time and territory is increasingly at odds with EU policies (Section 1), market forces and consumers’ expectations.

First, film consumption is shifting towards platforms that operate globally. Historically, cinema has been the most commercially attractive window, followed by the sale and rental of DVDs and broadcasting. This has rapidly changed as the DVD market collapsed to make way for TVOD, and particularly SVOD such as Netflix and HBO. While SVOD still only accounted for 7% of total pay-service revenues in Europe in 2016, it generated 60% of the revenue growth. SVOD-subscribership in Europe increased by 55% to 37.7 million in that year (EAO/European Audiovisual Observatory 2018a, p. 50, 60). These digital platforms operate globally and prefer global or pan-European licence agreements.

Second, territories do not perfectly match cultural groups or identities. Not only do tastes differ within populations. On 1 January 2018, 22.3 million EU residents had citizenship of a non-EU country (4.4% of the EU-28 population), while 17.6 million EU citizens lived in another Member State than that of their citizenship (Eurostat 2019). All this implies that territorial exploitation will leave a significant share of the potential market unserved.

3. European films

European films are on average much less successful in attracting large audiences than American films. In 2017, European films accounted for 27.5% of EU cinema admissions; films produced in Europe with incoming US investment for another 3.7%. Between 2012 and 2017, this European share in EU cinema admissions was 27 ~ 34%, while US films accounted for 63 ~ 70% and the rest of the world for 3% (EAO/European Audiovisual Observatory 2018b, 15). On television, European films accounted for 28% of film broadcasts by 131 TV channels in 18 EU countries in the 2015–2016 season (EAO/European Audiovisual Observatory 2018a, 18, 55–57). In a selection of TVOD catalogues representing 47 country catalogues, the share of European films ranged from 17 to 30%. In 37 country catalogues for nine SVOD services, this was 20% on average (EAO/European Audiovisual Observatory 2018a, 20–25).

The modest market share of European films in Europe is not for want of European productions. In 2017, 1676 feature films were produced in the EU, against 821 in the US (EAO/European Audiovisual Observatory 2018b, 17, 42). In other words: in their home market European films have half the market share of US films, even though there are twice as many European films. This implies that in the EU, US films have on average four times as many admissions as domestic films (not taking into account that not all US films reach the EU market).

One explanation for this relatively weak position of European films are the language barriers and cultural differences within Europe. As a result, many European films do not circulate outside their
domestic market. In 2016, European films generated 60% of their admissions in their respective domestic markets, and only 19% outside Europe. In the same year, 650 European films were screened outside Europe while about 5200 European films were on release in at least one European market: a ratio of one-to-eight. Co-productions between European countries perform much better in this respect. They generate three times as many admissions as purely national European films and circulate almost twice as widely (EAO/European Audiovisual Observatory 2018a, 8–14, 54).

A second and related explanation may be that many European films are produced to be cultural goods rather than economic goods. Although they operate in the same market and make use of the same distribution channels as blockbusters, they do not aspire to serve large or international audiences and to achieve commercial success, but rather to contribute to national and European identity, diversity and heritage.

As a result of their relatively weak position in terms of audience, most European films do not benefit from economies of scale as much as American blockbusters do: fixed costs can be spread over fewer admissions, raising the average costs per admission. This makes it harder for such films to recover their production costs and further enhances the financial risks for investors.3 To recoup investments from a smaller customer base, production budgets need to be smaller for a film to remain commercially sound and public funding is often indispensable. In many genres, smaller production budgets make it harder to compete with high-budget films and as a result, ‘European film’ is often synonymous with ‘arthouse film’, having an intrinsically smaller audience.

Contracting a stellar cast and other bankable names is more difficult for films with a smaller budget. As these ex-ante quality signals for consumers and investors are out of reach, financing such films is even more complicated. More than blockbusters, they have to rely on reviews, recommendations and awards, which are not available until after their release. Even larger European productions often lack the budget to start a pan-European marketing campaign. They have to gain a reputation outside their producing countries after winning nominations or awards at festivals or through success in their home markets. This may take over a year from release and is often a prerequisite for films to start circulating abroad. Unlike large blockbusters, for which theatrical releases have become ever more synchronised across territories4, smaller yet relatively successful European productions continue to have a significant time span during which territorial exploitation windows are out-of-sync. Not being able to grant territorial licences during this period could increase cannibalisation risks and by doing so erode distributors’ investments in licences and the opportunities to recoup such investments. By consequence, European productions are typically more dependent on territorial licences for international success than American blockbusters.

A free-market outcome that would result from a lack of scale for the average European film, would be fewer productions. However, many policy makers consider this undesirable for various reasons. As mentioned above, films can be both economic and cultural goods and from a cultural and political perspective, films are seen as carriers of the cultural identity of Europe and its Member States or regions, which deserve protection and promotion (e.g. Raad voor Cultuur 2018).

In addition – and from an economic perspective – a healthy film industry is considered important for the jobs, incoming investment and tax revenues it generates. National film industries have stressed this repeatedly (e.g. Oxford Economics 2013). Successful films may also attract expenditure by tourists – as Lord of the Rings did to some extent for New Zealand (e.g. Croy 2004) and Harry Potter for King’s Cross Station (London) and other film locations in the UK.

These cultural, political and economic arguments have resulted in a wide variety of film support policies in Europe (Sections 4–8), which have evolved into significant film financing sources. These support policies have contributed to the fact that in the EU many more feature films are produced than in the US. Moreover, Figure 1 shows that within the EU, less populous Member States produce more films per million inhabitants.

This defies economic logic, which would suggest that larger home markets sustain a proportionally larger number of films. The opposite trend in Figure 1 illustrates how national film funding policies counteract market forces and economies of scale. Presumably, this happens for
cultural or political reasons, which makes it hard if not impossible and well beyond the scope of this paper to determine the ‘necessary’ number of productions for a country or the optimal level of public support analytically.

4. The European Union’s film support policy

Even the current modest market share of European films in Europe is no free-market outcome. It is partly the result of a variety of policies aimed at supporting European films. Within Europe’s legal framework, film support is currently built around three main policy instruments. A first pillar are the European Commission’s support schemes, which will be discussed in Section 6.

Second, Article 107(3)(d) Treaty on the Functioning of the European Union (TFEU), conditionally exempts film support as a form of aid to promote culture from the general prohibition of state aid. The Commission has set out criteria to assess eligibility for this exemption, most recently in its 2013 Communication from the Commission on state aid for films and other audiovisual works (‘Cinema Communication’). In addition to complying with the general principle of legality, state aid can be justified as long as it complies with specific compatibility criteria. In the context of territorial spending conditions, for example, film production support schemes may require that up to 160% of the aid amount awarded to the production is spent in the territory granting the aid, for example on equipment and staff. Other criteria include the condition that aid must be directed to a cultural product and must in principle be limited to 50% of the production budget. However, this may be more for ‘difficult’ audiovisual works, as well as for co-productions funded by and involving producers from more than one Member State.

Third, the Audiovisual Media Services Directive shapes film support policy through the investment and prominence obligations. For example, Member States are obliged to ensure that broadcasters reserve at least 10% of their transmission time or programming budget for European works.
created by independent producers (Article 17). Additionally, the 2018 revision of the Directive requires Member States to ensure that media service providers of on-demand audiovisual media services under their jurisdiction secure at least 30% European works in their catalogues and ensure prominence of those works (Article 13(1)). Member States may also require these media service providers to contribute financially to the production of European works. A Member State may extend these obligations to service providers based in other Member States if these providers specifically target audiences in their territory.

5. A typology of film support schemes

Before discussing the actual film support schemes and the amounts involved on the pan-European level and in selected countries (Section 6–7), this section presents a typology of such aid mechanisms and their conditions. Table 1 provides a schematic representation thereof. Public support mechanisms, which provide a considerable if not dominant share of the total budget for most films in Europe (Ravid 2018, 44; Kanzler 2018, 52), are the main point of focus here. Next to that, semi-public and private sources of financing will be discussed.

5.1. Direct public support

Funding bodies are the legal entities that are usually responsible for the provision of direct public support to film or audiovisual projects, either ordered or assisted by public authorities. Funding bodies themselves receive their funds in various ways. Generally, public sources account for the largest share of their income, followed by contributions from the television industry and taxes/levies on cinema exhibition. Smaller shares come from national lotteries, repayments and copyright exploitation, and self-generated income (De Vinck 2011, 281; Kanzler and Talavera 2018, 164).

Table 1. Typology of support policies.

<table>
<thead>
<tr>
<th>General characteristics of support schemes</th>
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<tbody>
<tr>
<td>Administrative level: Supranational/national/subnational</td>
</tr>
<tr>
<td>Types of projects: Feature film (fiction, animation and documentary)/TV series/TV single work/short films/multimedia productions/video games/web projects</td>
</tr>
<tr>
<td>Types of activities: Scriptwriting/development/production/distribution/promotion/exhibition</td>
</tr>
<tr>
<td>Selection method: Selective/automatic</td>
</tr>
<tr>
<td>Eligibility criteria: Cultural test/spending obligations/market interest/confirmed financing</td>
</tr>
</tbody>
</table>

Direct public support:

- Financing of funding bodies: Public sources/contributions from broadcasters, cinemas and VOD services/national lotteries/repayments and copyright exploitation/self-generated income
- Type of financial aid: Grant/loan

Indirect public support:

- Incentive schemes: Cash rebates/tax credits
- Unlocking private capital: Tax shelters/guarantee facilities

Investment obligations

- Applicability: Public broadcasters/private broadcasters/exhibitors/audiovisual services distributors or video publishers/VOD services
- Type of obligation: Direct (Pre-acquiring of licensing rights, acting as co-producer)/Indirect (Taxes or levies payable to funding body)

Market oriented sources of financing

- Presale of distribution rights/In-house financing/Third-party financing/Varia
Funding bodies in Europe vary widely in their scope of work and their operations. Firstly, they can be distinguished by the administrative level on which they operate. At a supranational level a funding body could involve several countries (pan-European) or be aimed at non-European countries (outreach), whereas national/federal funding bodies operate mainly at the level of the central or federal government. Some funding bodies operate at a subnational level, for example on a regional, community or local level.

Furthermore, funding bodies differ in the types of projects they support. In most cases, these include feature films, high-end TV series, single works for TV, documentaries, animations and short films, whilst some funding bodies also support multimedia productions, video games and/or web projects.

Finally, funding bodies also differ in the types of activities they support. There can be support for the scriptwriting, development and production of a film, but also for distribution, promotion and exhibition (cinema support).

A project’s eligibility for support depends on multiple criteria. A scheme could be open to national production companies only or could demand a domestic establishment of a production company. Co-productions, in which two or more producers collaborate and pool their resources in a joint film project (Morawetz 2009, 63), are common and often rely on co-production treaties. Based on such treaties, a production qualify as a national film in both of the co-producing countries and may therefore be eligible for support from both countries.

Additionally, eligibility can be linked to a territorial minimum spending obligation or the passing of a cultural test, where points are awarded based on the place where the film is set or the nationality of the director and screenwriter. Some support schemes demand that a large share of the project’s financing has already been confirmed or require proven market interest. Especially for productions with a larger budget, a funding body could demand a completion bond or guarantee by a third party, usually an insurance company, that the project will be completed without running over budget or over schedule.

Some schemes are selective in character whereas others are of an automatic nature. Schemes are automatic if they are based on clear conditions without involving any discretionary judgment by experts. They are selective if they depend on conditions such as the quality, originality, cultural value and other features of the work, as assessed by experts.

Support provided as a grant generally does not entail any obligations for repayment. In case of a loan, there is usually an obligation to reimburse the amount. The means and ways of repayment vary widely. This could for example be reflected in the interest rate, which might also be zero, or in whether there is a full or only a partial repayment obligation, effectively rendering part of the amount a grant (Talavera Milla et al. 2016, 14). Loans can also be deferred in the scheme of recoupment, enhancing the risk of non-repayment. Some funding bodies use a revolving mechanism in which a part of the repaid amount is reserved for subsequent productions by the same producer. Further, a loan could serve as an advance on receipts, rendering repayment conditional on the economic performance of the supported work (De Vinck 2011, 283). In some instances, repayment obligations are limited to only a few years after theatrical release.

5.2. **Indirect public support**

Apart from grants or loans, public support can also be offered indirectly, through fiscal incentive schemes or measures to encourage private investment in film productions. These can be administered by a funding body or by a government directly.

Incentive schemes usually take the form of either a cash rebate or a tax credit. In the case of a cash rebate, a percentage of qualifying production expenditure is returned to the production company. The payment is normally made after the production expenditure has been completed and audited and, typically some months after the nation’s treasury has collected a range of taxes from the production itself (Talavera Milla et al. 2016, 73). A tax credit operates similarly, but offers a reduction against corporate tax owed or a refund where tax owed is less than the incentive
amount. Tax credits can be transferable, i.e. sold to a third party, or refundable to the producer (Olsberg-SPI 2017).

Most incentive schemes apply automatically to any film that fulfils certain criteria. Thus, they allow film producers to factor in a foreseeable amount of funding in the planning and development phase. Various elements and parameters determine whether and for what amount a production could be eligible for support (Castendyk 2018, 598).

Complementary to schemes aimed at production companies, indirect public support schemes could aim to encourage the investment of private capital in film production. Some Member States have a tax shelter to incentivise investment by external parties. They permit individuals or corporate entities to deduct investments in the production of qualifying films against their tax liabilities. The investment of private equity can also be encouraged by offering a guarantee facility for private investors. As a relatively new form of public support, the guarantee fund commits to covering (part of) the losses if the borrower fails to reimburse (Talavera Milla et al. 2016, 90).

5.3. Investment obligations for broadcasters and other players

Public support may also result from investment obligations for broadcasters and other players in the audiovisual value chain (Milla et al. 2016, 83). Such obligations are usually defined by law or in the public service contract between the State and the Public Service Broadcaster. Directly, a party could be obliged to pre-acquire the licensing rights to broadcast a production or to act as co-producer. Indirectly, there could be compulsory financial contributions to funding bodies, for example through taxes and levies. Most Member States have such obligations for Public Service Broadcasters, while some have expanded them to commercial broadcasters, exhibitors, and on-demand platforms such as Netflix.

5.4. Market-oriented sources of film financing

While public support usually makes for a significant share of the financing plan of a film, in almost all cases monetary support from semi-public and private sources also has to be secured. Presales of distribution rights with minimum guarantees usually raise a substantial portion of the budget (see Section 2). In addition, a share usually comes from the production company’s own investments. Sometimes, these contributions are required to obtain public funding. Thirdly, private investors and banks could invest in films. As was explained in Section 2, such investment is generally risky. Guarantee facilities aim to reduce this risk to convince private investors to supply debt and equity. Lastly, alternative sources of funding such as sponsoring or product placement agreements, donations and crowdfunding, as well as presales of rights for derivative products such as games and merchandise can form a, relatively small, share of the production budget.

6. Pan-European film support schemes

How does the typology set out in Section 5 apply to the current pan-European system for film support? From the late 1980s, an expansive support system has emerged, most prominently at European Union level, but also at the level of the Council of Europe.

6.1. European Union

Since 1991, the MEDIA programmes, financial support schemes for audiovisual content, have provided direct public support at EU level. The current MEDIA programme functions as a sub-programme of the broader Creative Europe programme, which aims to safeguard, develop and promote European cultural and linguistic diversity and to promote Europe’s cultural heritage. Additionally, the programme aims to strengthen the competitiveness of the European cultural and creative
sectors, in particular the audiovisual sector. The budget for Creative Europe for the period 2014–2020 is €1.46 billion, of which at least €820 million has been earmarked for the MEDIA sub-programme. This translates to €112 million for the 2018 work programmes⁷, which comes down to €0.22 per capita.

Support schemes under the MEDIA sub-programme cover a wide variety of activities, including support for training, development, television programming of audiovisual European works, market access and promotion, distribution, film festivals, cinema networks, online distribution and audience development and co-production funds.⁸ Calls for proposals open on a regular basis. Each proposal is evaluated against several awarding criteria. For most calls, the relevance and European added value of the project as well as the European and international distribution and marketing strategy play a significant role. Support is provided to feature fiction films, documentaries and animations intended for cinematic release as well as to projects for television or digital platform exploitation. Support can be provided to single projects or to a slate of projects.

Support mainly takes the form of a non-repayable grant. Each call specifies the maximum contribution available for a certain type of proposal. In 2018, the maximum financial contribution for a single fiction film with a production budget below €1.5 million was €30,000, and €50,000 for projects with a higher budget. It follows that the contribution can be only a few percent of the total production budget of a film.

In addition to Creative Europe’s direct support schemes, an indirect support scheme, the Cultural and Creative Sectors Guarantee Facility, became effective in June 2016.⁹ The Facility is managed by the European Investment Fund (EIF, part of the European Investment Bank Group), on behalf of the European Commission. Under the 2018 budget, a total of €25.5 million is allocated to the Facility. Acknowledging the challenges SMEs in the cultural and creative sector encounter in securing financing for their projects, the Guarantee Facility aims to unlock private capital by providing credit risk protection to financial intermediaries building portfolios of loans. The EIF selects financial intermediaries that can participate under the facility. Cultural and creative sector companies can apply by contacting a financial intermediary selected for a country. Under the facility, the financial intermediaries are provided with guarantees to cover losses up to 70% for loans and up to 25% at a guaranteed portfolio level. Through a capacity-building programme, the Facility also aims to improve the financial sector’s understanding of the cultural and creative sectors’ specificities, for example by improving the capacity of financial intermediaries to assess the risks associated with micro, small and medium-sized organisations in these sectors.

In the mid-term evaluation, the European Commission showed itself cautiously optimistic about the progress achieved under the MEDIA sub-programme.¹⁰ It highlighted the enhancement of cross-border circulation of European films and audiovisual productions and the support provided to about 400 new films per year, equivalent to 25% of Europe’s production. The growth in scope of the programme without an equivalent budget increase was considered a weakness. According to the Commission, this has resulted in funding being spread too thinly among beneficiaries. In addition, the Commission pointed at the overgrowth of funding schemes and actions that were deployed under the programmes. Negotiations for a follow-up to the current Creative Europe programme for the period 2021–2027 are underway.¹¹ Part of the proposed new programme by the European Commission is a 27% increase of the overall budget to €1.85 billion. The MEDIA strand’s budget would increase by 32% to €1.08 billion. The budget will, among other things, be spent on the international promotion and distribution of European works and innovative storytelling, including virtual reality.¹² Further, to increase findability and accessibility, the creation of a directory of European movies is proposed.

6.2. Council of Europe

Almost simultaneously with the MEDIA programmes at the European Union, similar support mechanisms came to life within the framework of the Council of Europe. Set up in 1989 as a Partial Agreement within that framework, Eurimages is the cultural support fund of the Council, aiming to
promote European Cinema. Eurimages has five support schemes: film co-production, theatrical
distribution, exhibition, promotion and gender equality. Support for theatrical distribution, exhibi-
tion and promotion is provided as a grant, while support under the co-production scheme takes the
form of an interest-free loan provided as an advance on receipts. It is repayable from the first euro of
each co-producer’s net receipts, at a rate equal to the percentage of Eurimages’ share in the financing
of the film. Financial support shall not exceed 17% of the total production cost of the film and shall
not exceed €0.5 million.

Within the framework of the Council of Europe, the securing of funding for the production of films
is also encouraged by the Convention on Cinematographic Co-production, which has made it easier
for entities to engage in bilateral and multilateral co-productions. Such co-productions are treated
as national films and thus entitled to the national support mechanisms. A revised version of the
Convention came into force on 1 October 2017 to provide new flexibility in constructing co-
productions and to reflect technological change and evolving industry practice by, for example,
altering the maximum and minimum participation in co-productions and by opening up the
Convention for non-European countries.

6.3. International co-production funds

In addition to support provided by the European Union and the Council of Europe, some suprana-
tional funding bodies exist. These can involve several countries (pan-European) or be aimed at non-
European countries (outreach). International co-production funds can themselves apply for funding
through Creative Europe’s MEDIA sub-programme. Notable examples of supranational funding
bodies are the Nordisk Film og TV Fond, with a budget of approximately €9.8 million to provide loans
to productions in the five Nordic countries (NFTVF 2018, 61), and Ibermedia, which provides loans to
Ibero-American (including Italian) projects and has a budget of around €6.5 million.

7. Film support schemes in European countries

There are about two hundred public funding bodies in EU Member States. Until 2014, the European
Audiovisual Observatory’s KORDA database provided comprehensive information on their income,
spend and activities. The first part of this section gives a summary thereof.

Since then, the KORDA database is no longer maintained. For that reason, the second part of this
section provides a non-exhaustive description of national and regional support policies in
a representative set of European countries. It follows the typology of Section 5 and relies mainly
on information from annual reports and funding body websites, supplemented with information
from the OLFFI database. Descriptions have been submitted to the funding bodies for verification.

7.1. Comprehensive overview for 2014

Based on the KORDA-database, Kanzler and Talavera (2018) provide an overview of key statistics on
public film funding in EU Member States. As a caveat, they observe that diverging definitions
between and even within countries challenge the comparability of data. Also, they note that their
data is not entirely comprehensive and that private funds, institutions and foundations as well as
publicly funded banks and credit institutions are not included. More importantly, indirect support
schemes such as fiscal incentive schemes are not included. The country overviews later in this section
do include the major indirect support schemes.

Table 2 provides the number of national/federal and subnational funds per country in 2014: 50
national/federal funds in total, plus 151 regional funds. Countries in the table are ordered by their
activity spend in 2014. France spent the highest amount, followed at some distance by Germany and
the United Kingdom. Together, funding bodies spent €2.15 billion in 2014, an average per capita
spending of €4.20, but differences between countries are large: it ranges from €70.95 in Luxembourg
to €0.18 in Greece and €0 in Cyprus. Unlike the number of films per million inhabitants (Figure 1), the activity spend per capita does not correlate with population size. Luxembourg and France – one of the most and one of the least populous countries in the EU – are the most generous countries in this respect, and also when excluding either or both of these countries, there is no correlation between population sizes and per capita spend.

Information on the sources of financing for the funds and on the cumulative spend by activity is summarised in Figure 2, based on averages for the years 2010–2014. The first pie chart shows that almost half of the funding originates from government budgets and about a third from TV taxes and contributions. Repayments and receipts from copyright comprise only 5%. This implies that, in financial terms, funding bodies mostly provide grants or loans that are seldom repaid. The second chart shows that two-thirds of the money was spent on the creation of works, while only 4% was spent on promotion.

7.2. Overview member states

The final part of this section provides a non-exhaustive description of film support policies in twelve European countries. These countries give a representative overview, respecting the differences in market size and amounts of support provided. Table 3 gives general information in terms of population, admissions and gross box office earnings of the selected countries.

All countries studied here provide direct public support in the form of grants or loans at the national level. In addition, many have subnational support policies (Table 4). Various types of projects and various film-related activities (from scriptwriting to exhibition) are supported, but most of the financial support is provided for production. All countries have schemes with a selective character. In addition, Belgium, Germany, France and Sweden have automatic direct support schemes, where eligibility does not involve any discretionary expert judgment.

Table 2. Key information on film funding bodies in member states (2014).

<table>
<thead>
<tr>
<th>Country</th>
<th>National/federal funds</th>
<th>Sub-national funds</th>
<th>Activity spend 2014 (mio.)</th>
<th>Activity spend per capita 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>FR</td>
<td>2</td>
<td>40</td>
<td>€876</td>
<td>€13.28</td>
</tr>
<tr>
<td>DE</td>
<td>5</td>
<td>19</td>
<td>€393</td>
<td>€4.87</td>
</tr>
<tr>
<td>GB</td>
<td>2</td>
<td>8</td>
<td>€182</td>
<td>€2.83</td>
</tr>
<tr>
<td>IT</td>
<td>1</td>
<td>16</td>
<td>€107</td>
<td>€1.76</td>
</tr>
<tr>
<td>ES</td>
<td>1</td>
<td>15</td>
<td>€82</td>
<td>€1.76</td>
</tr>
<tr>
<td>AT</td>
<td>6</td>
<td>16</td>
<td>€80</td>
<td>€9.40</td>
</tr>
<tr>
<td>SE</td>
<td>2</td>
<td>19</td>
<td>€71</td>
<td>€7.36</td>
</tr>
<tr>
<td>NL</td>
<td>3</td>
<td>0</td>
<td>€63</td>
<td>€3.74</td>
</tr>
<tr>
<td>DK</td>
<td>1</td>
<td>3</td>
<td>€50</td>
<td>€8.89</td>
</tr>
<tr>
<td>BE</td>
<td>0</td>
<td>4</td>
<td>€46</td>
<td>€4.11</td>
</tr>
<tr>
<td>LU</td>
<td>1</td>
<td>0</td>
<td>€39</td>
<td>€70.95</td>
</tr>
<tr>
<td>PL</td>
<td>1</td>
<td>9</td>
<td>€30</td>
<td>€0.79</td>
</tr>
<tr>
<td>FI</td>
<td>2</td>
<td>1</td>
<td>€27</td>
<td>€4.95</td>
</tr>
<tr>
<td>IE</td>
<td>3</td>
<td>0</td>
<td>€24</td>
<td>€5.17</td>
</tr>
<tr>
<td>CZ</td>
<td>1</td>
<td>0</td>
<td>€10</td>
<td>€0.95</td>
</tr>
<tr>
<td>HU</td>
<td>2</td>
<td>0</td>
<td>€10</td>
<td>€1.01</td>
</tr>
<tr>
<td>LT</td>
<td>3</td>
<td>0</td>
<td>€10</td>
<td>€3.40</td>
</tr>
<tr>
<td>PT</td>
<td>1</td>
<td>0</td>
<td>€10</td>
<td>€0.96</td>
</tr>
<tr>
<td>HR</td>
<td>1</td>
<td>0</td>
<td>€9</td>
<td>€0.91</td>
</tr>
<tr>
<td>RO</td>
<td>1</td>
<td>0</td>
<td>€7</td>
<td>€0.35</td>
</tr>
<tr>
<td>SK</td>
<td>2</td>
<td>0</td>
<td>€7</td>
<td>€1.29</td>
</tr>
<tr>
<td>BG</td>
<td>1</td>
<td>0</td>
<td>€6</td>
<td>€0.83</td>
</tr>
<tr>
<td>EE</td>
<td>3</td>
<td>0</td>
<td>€4</td>
<td>€3.04</td>
</tr>
<tr>
<td>LV</td>
<td>2</td>
<td>1</td>
<td>€4</td>
<td>€2.00</td>
</tr>
<tr>
<td>SI</td>
<td>1</td>
<td>0</td>
<td>€3</td>
<td>€1.46</td>
</tr>
<tr>
<td>GR</td>
<td>1</td>
<td>0</td>
<td>€2</td>
<td>€0.18</td>
</tr>
<tr>
<td>CY</td>
<td>1</td>
<td>0</td>
<td>€-</td>
<td>€-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
<td><strong>151</strong></td>
<td><strong>€2,152</strong></td>
<td><strong>€4.20</strong></td>
</tr>
</tbody>
</table>

Source: Kanzler and Talavera (2018), Eurostat. No information available for Malta.
While the direct aid schemes show great similarities, the specific conditions for eligibility and minutiae differ. All countries apply cultural tests and spending obligations. In addition, some countries, for example Belgium and Spain, demand that additional financing for the production must be confirmed. Others, such as Germany, demand a contribution by the producer. In the UK and in Ireland, producers must provide a completion guarantee or bond to become eligible for support. Poland and Sweden require proven market interest.

Figure 2. Sources of financing and activity spend by funding bodies.

Source: Kanzler and Talavera (2018). ‘Other’ in the right-hand chart includes money spent on training, structural funding, audience development, film archives/heritage, media literacy, video games and multimedia. The breakdown includes €147 million spent in six non-EU countries in Europe, most notably Norway (€65 million) and Switzerland (€63 million).
Some schemes mandate a theatrical release in the supporting country and impose requirements on the timing of distribution windows. In Ireland, for example, a viable theatrical window is required for all projects. In addition to windowing requirements, the German funding body requires final versions of the films to be spoken or dubbed in German.

Direct support takes the form of a grant or loan. The non-commercial nature of such loans shows in their favourable conditions, e.g. deferred, without interest or applicable only for a limited time after a film’s release. Recoupment rates are generally very low, implying that most loans are de facto grants. Funding bodies in France, the Netherlands, Belgium and the UK use revolving mechanisms, which reserve a part of the repaid amount for subsequent productions by the same producer.

Over the last decades, most Member States have also implemented indirect support schemes: incentive schemes in the form of cash rebates or tax credits, or schemes such as tax shelters and guarantee facilities aiming to unlock private capital. As Table 5 illustrates, Sweden remains the only important exception here, having no such incentive scheme.

Table 6 lists the countries in which broadcasters and other players such as VOD platforms have obligations to invest indirectly, by contributing financially to film funds, or directly, by co-producing or licensing national and European content. Such obligations reinforce the important role that broadcasters and these other players have in the financing of films. A growing number of countries have expanded the applicability of these obligations to VOD service providers, while Estonia, the Netherlands, Belgium and Ireland are currently looking into this option. France and Germany have recently also introduced these obligations for VOD service providers that are not established in those respective countries.

### Table 3. General information on selected countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Population 2017 (mio.)</th>
<th>Admissions 2017 (mio.)</th>
<th>Market share national films</th>
<th>GBO 2017 (€ mio.)</th>
<th>Co-production Agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE – Belgium</td>
<td>11.4</td>
<td>19.6</td>
<td>8.4%</td>
<td>161.0</td>
<td>12</td>
</tr>
<tr>
<td>DE – Germany</td>
<td>82.5</td>
<td>122.3</td>
<td>23.9%</td>
<td>1056.1</td>
<td>24</td>
</tr>
<tr>
<td>EE – Estonia</td>
<td>1.3</td>
<td>3.5</td>
<td>8.0%</td>
<td>19.4</td>
<td>4</td>
</tr>
<tr>
<td>ES – Spain</td>
<td>46.5</td>
<td>100.2</td>
<td>17.0%</td>
<td>598.9</td>
<td>20</td>
</tr>
<tr>
<td>FR – France</td>
<td>67.0</td>
<td>209.4</td>
<td>37.4%</td>
<td>1380.0</td>
<td>58</td>
</tr>
<tr>
<td>GB – United Kingdom</td>
<td>65.8</td>
<td>170.6</td>
<td>37.4%</td>
<td>1280.0</td>
<td>13</td>
</tr>
<tr>
<td>IE – Ireland</td>
<td>4.7</td>
<td>16.1</td>
<td>2.4%</td>
<td>114.0</td>
<td>5</td>
</tr>
<tr>
<td>LT – Lithuania</td>
<td>2.8</td>
<td>4.1</td>
<td>21.4%</td>
<td>20.2</td>
<td>1</td>
</tr>
<tr>
<td>LV – Latvia</td>
<td>2.0</td>
<td>2.5</td>
<td>7.8%</td>
<td>12.9</td>
<td>1</td>
</tr>
<tr>
<td>NL – The Netherlands</td>
<td>17.1</td>
<td>36.0</td>
<td>12.0%</td>
<td>301.9</td>
<td>8</td>
</tr>
<tr>
<td>PL – Poland</td>
<td>38.0</td>
<td>56.6</td>
<td>23.4%</td>
<td>254.7</td>
<td>5</td>
</tr>
<tr>
<td>SE – Sweden</td>
<td>10.0</td>
<td>16.9</td>
<td>17.2%</td>
<td>N/A</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Eurostat, EAO/European Audiovisual Observatory (2018a/2018b), Marché du Film and OLFFI (2018)

8. Case examples: film financing in practice

Section 2–3 sketched the intricacies of film financing, in particular in Europe, after which Sections 4–7 outlined the public support schemes at the EU level and in various Member States. How does this work out in the financing mix of European films in practice?

Most European films, in particular larger co-productions, typically raise their production budget from twenty or more financing sources. This includes direct support schemes (grants/loans) in the co-producing countries, incentive schemes, support from European funds such as Eurimages and, where applicable, international co-production funds. These receipts from support schemes are supplemented with presales and MGs from exclusive deals with distributors and broadcasters in the co-producing territories and beyond, and investments by the producers and by other private investors. Specific requirements by funding bodies and incentive schemes, in terms of obligations on territorial spending of production budget and obligations relating to the use and timing of
Table 4. Direct public support.

<table>
<thead>
<tr>
<th>Country</th>
<th>Funding body name(s)</th>
<th>Budget 2017 (€ mio.)</th>
<th>Types of projects</th>
<th>Types of activities</th>
<th>Loan/Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>Vlaams Audiovisueel Fonds (VAF)/Screen Flanders/ Centre du Cinéma et de l’ Audiovisuel (CCA)/Wallimage Screen.Brussels</td>
<td>18.6 25 3</td>
<td>VAF: F/D/A/E/S</td>
<td>S/Dp/P</td>
<td>Loan, recoupable from the net receipts, due only if earnings are received</td>
</tr>
<tr>
<td>DE</td>
<td>Filmförderungsanstalt (FFA)/German Motion Picture Fund (GMPF)/ Beauftragte der Bundesregierung für Kultur und Medien (BKM)</td>
<td>76.92</td>
<td>F/D/A/T/S/TV/E/I</td>
<td>S/Dp/P</td>
<td>Loan</td>
</tr>
<tr>
<td>EE</td>
<td>Eesti Filmi Instituut (EFI)</td>
<td>12.5</td>
<td>F/S/D/A</td>
<td>S/Dp/P/Db/T/E/HRD</td>
<td>Grant</td>
</tr>
<tr>
<td>ES</td>
<td>Instituto de la Cinematografía y de las Artes Audiovisuales (ICAA)</td>
<td>71.68</td>
<td>F/D/A/S</td>
<td>Dp/P/Db/X</td>
<td>Loan/Grant</td>
</tr>
<tr>
<td>CoE</td>
<td>Eurimages</td>
<td>20</td>
<td>F/D</td>
<td>C/Db/Pr/X/gender equality</td>
<td>Loan/Grant</td>
</tr>
<tr>
<td>FR</td>
<td>Le Centre national du cinéma et de l’ image animée (CNC)</td>
<td>371.2</td>
<td>F/D/A/S</td>
<td>S/Dp/P/Db/E</td>
<td>Interest-free loan, repayable from the receipts of the film</td>
</tr>
<tr>
<td>GB</td>
<td>British Film Institute (BFI)</td>
<td>610.85</td>
<td>F/A</td>
<td>Dp/P/Db/Pr/HD/education/skills development/audience development</td>
<td>Loan, repayable from the net receipts. A share of all rights of a film is assigned to BFI.</td>
</tr>
<tr>
<td>IE</td>
<td>Fís Éireann/Screen Ireland (FE/SI)</td>
<td>14.1</td>
<td>F/D/A/S/T/TV</td>
<td>Dp/P/Db</td>
<td>Limited-recourse loan, recoverable from a share of revenues from the exploitation of the project and also entitling FE/SI to a share of net profits</td>
</tr>
<tr>
<td>LT</td>
<td>Lietuvos Kino Centras (LKC)</td>
<td>4.62</td>
<td>F/D/A/S/I</td>
<td>Dp/P/Pr/Db/Film education activities/HRD</td>
<td>Grant</td>
</tr>
<tr>
<td>LV</td>
<td>Nacionaláis Kino Centrs (NKC)</td>
<td>10.5</td>
<td>F/D/A/S</td>
<td>Dp/P</td>
<td>Grant</td>
</tr>
<tr>
<td>NL</td>
<td>Nederlands Film Fonds (NFF)</td>
<td>54.5</td>
<td>F/D/A/S/E</td>
<td>Dp/P/Db</td>
<td>Deferred loan, repayable from net receipts</td>
</tr>
<tr>
<td>PL</td>
<td>Polski Instytut Sztuki Filmowej (PISF)</td>
<td>48.9</td>
<td>F/D/A</td>
<td>S/Dp/P/Film education and dissemination of film culture/development of cinema infrastructure/Pr</td>
<td>Loan, reimbursable if the film makes a profit, applicable to the first six years after the film’s premiere</td>
</tr>
<tr>
<td>SE</td>
<td>Svenska Filminstitutet (SFI)</td>
<td>41.84</td>
<td>F/D/A/S/L</td>
<td>P/Db/C/E</td>
<td>Loans, repayable as a share of the producer’s revenue from all exploitation windows and the whole world, if the producer’s total revenues reaches 135 percent of preapproved private equity and 100 percent on sold licenses and MGs</td>
</tr>
</tbody>
</table>

Notes: Type of projects: A = animation; D = Documentary; E = experimental films; F = Feature fiction film; I = Interactive projects; L = Low budget film; S = short films; TV = tv series and tv film. Type of activities: C = Cinema; Db = distribution; Dp = Development; E = Events and activities; P = Production; Pr = Promotion; S = Scriptwriting; T = training; TD = Talent Development; X = exhibition; HRD = Preservation of film heritage, research work and digitisation.
exploitation windows, enhance the complexity of this financing puzzle further. Once a film has been released and starts to generate revenues, most of these sources have their own specific recoupment conditions.

Kanzler (2018, 35) finds that the median budget of a European live-action fiction film with a theatrical release in 2016 was €2.07 million. The mean budget was €3.17 million. These findings are based on a data sample comprising financing plans for 445 films from 21 European countries, which was estimated to cover 41% of the European fiction films released in 2016. Kanzler points out that average budgets tend to be higher in larger national markets. In a medium-sized European market – a market with 10 to 50 million admissions per year – the median budget for a fiction film was €1.6 million. International co-productions tend to have higher budgets than purely national films.

Direct public funding and investments by broadcasters were the most important financing sources in 2016, representing 29% and 25% of the cumulative financing volume (Kanzler 2018, chapter 5). Direct public funding accounted for 58% in small markets, 45% in medium-sized markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Indirect/Direct</th>
<th>Applicability</th>
<th>VOD?</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>Indirect/Direct</td>
<td>Flanders: public broadcaster and other providers of audiovisual services; Wallonia: Broadcasters and providers of on-demand services</td>
<td>Currently discussed by the Flemish Government</td>
</tr>
<tr>
<td>DE</td>
<td>Indirect/Direct</td>
<td>Broadcasters/distributors/cinemas</td>
<td>Yes, expanded to VOD services not established in Germany</td>
</tr>
<tr>
<td>EE</td>
<td>Not applicable</td>
<td>-</td>
<td>Currently discussed by the Estonian Government</td>
</tr>
<tr>
<td>ES</td>
<td>Direct</td>
<td>All providers of television media services</td>
<td>Yes</td>
</tr>
<tr>
<td>FR</td>
<td>Direct/Indirect</td>
<td>Broadcasters/Cinemas/VOD</td>
<td>Yes, expanded to VOD services not established in France</td>
</tr>
<tr>
<td>GB</td>
<td>Direct</td>
<td>Public service broadcasters</td>
<td>-</td>
</tr>
<tr>
<td>IE</td>
<td>Not applicable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>LT</td>
<td>Not applicable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>LV</td>
<td>Direct</td>
<td>Public service broadcaster</td>
<td>-</td>
</tr>
<tr>
<td>NL</td>
<td>Direct/Indirect</td>
<td>Public service broadcaster (direct)/cinema and film distributors (indirect)</td>
<td>-</td>
</tr>
<tr>
<td>PL</td>
<td>Direct/Indirect</td>
<td>Public service broadcasters</td>
<td>-</td>
</tr>
<tr>
<td>SE</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: Form: TS = Tax Shelter; TC = Tax Credit; C = Cash Rebate; G = Guarantee Facilities
and 24% in large markets. Presales and producer investments accounted for 16% and 15% respectively, while incentive schemes contributed 10%.

The study suggests that there are structural differences in how films of different budget sizes are financed. In general, films with a budget of up to €3 million depend more on direct public support while films with higher budgets are financed with higher shares of pre-sales and broadcaster investments. Incentive schemes appear to be particularly important for films with a budget between €1 million and €10 million.

Representative for a medium-sized European market, The Netherlands Film Fund (NFF) publishes relatively detailed financial information on the feature films it supports (NFF/Netherlands Film Fund 2018a, 12–13). The top pie-chart in Figure 3 depicts the breakdown of the financing of all 35 majority productions and co-productions released in 2017 with support from the NFF combined. On average, 23% came from direct support from the NFF, 1% from revolving funds that producers can receive from the NFF based on successful previous productions, a further 13% from the Netherlands Production Incentive administered by NFF, and 1% from the private Abraham Tuschinski Fund.

![Figure 3. Financing sources for Dutch film productions supported by the NFF released in 2017.](image)

Source: Based on NFF, 2018a, p. 12–13.
Another 16% came from public funding in other European countries and production incentives and economic funds abroad, adding up to a 55% share for direct and indirect support. Dutch broadcasters financed 12%, leaving a third of the average budget to MGs, investments from producers, private investors and other foreign funding such as foreign co-producers and broadcasters.

The subsequent charts – that use the same colour coding – provide the breakdown for three international co-productions released in 2017. They illustrate that this breakdown can differ substantially from one feature film to the next. Yet in all three cases, direct support and incentives add up to more than 40% of the total budget. This agrees largely with the case studies published by IVF/FIAPF/IFTA/MPA (2015), in which subsidies and tax credits represent 40 ~ 57% of the budget, alongside territorial presales and in some cases private equity.

9. Conclusions and discussion

This paper discussed the complexities of film financing in Europe, and the role of territorial licences and public support schemes therein. Elicited by language barriers as well as cultural differences and ambitions, European films are on average far less successful in attracting large audiences than American films. The 2017 market share of European films in Europe was typically 20 ~ 30% of admissions, TV broadcasts, and international SVOD and TVOD catalogues, despite the fact that Europe produces twice as many feature films per year as the US. In market terms, this relatively weak position causes the average European film to benefit much less from the economies of scale that films potentially have. This makes European films more dependent on territorial licencing and on public support policies.

Territorial licencing is more important for films with a smaller audience and hence a smaller budget, as it is harder for such films to contract a well-known director or famous actors – bankable names – that may serve as a quality signal to the public and to financiers. Such films need to build their reputation via festivals and awards. Even larger European productions often lack the marketing budget to start a pan-European campaign and do not gain a reputation outside their producing or co-producing countries until they win awards at festivals or prove successful in their home markets. Only then can they start gaining revenues in other EU Member States.

This process may take more than a year from a film’s first release. For smaller productions, not being able to grant market-specific licences during this period could erode distributors’ willingness to invest in licences and the opportunities to recoup part of the investments. This is distinctly different from the trend for large blockbusters, for which theatrical releases have become ever more synchronised globally.

Therefore, drastic and sudden changes to the possibility for producers to licence on a territory-by-territory basis could have significant effects on the European film industry. At the same time, however, the turbulent growth of internationally operating VOD platforms, changing viewing behaviour, particular in younger age groups, and the far from perfect match between national borderlines and cultural groups call for flexibility and willingness to reconsider traditional practices in film financing.

Missing out on economies of scale also makes European films more dependent on public funding. So far, new sources of funding (e.g. sponsoring, product placement, donations and crowdfunding) generally only account for a small share of production budgets. It was shown in Figure 1 that, contrary to purely economic logic, smaller EU Member States produce more films per million inhabitants than larger ones, albeit with a lower average production budget per film. That illustrates how national film funding policies counteract market forces and ties in with the observation that many European films may be cultural goods rather than economic goods. While operating in the same market as blockbusters, they do not aspire to serve large or international audiences and to achieve commercial success, but rather to contribute to national and European identity, diversity and heritage. It also ties in with the observation that the weight of direct public funding decreases with increasing market size. In sum, smaller markets tend to produce more films per capita, which have
a smaller average budget but still require a larger share of public funding via grant, loans, incentive schemes and schemes that offer tax benefits for private investors or reduce their risks.

However, if a majority of European films are to be cultural goods rather than economic goods, the increasingly economic justification for and automatic nature of many support schemes may be questioned. In that light, cultural justifications and cultural tests seem more appropriate.

A recurring theme when studying or discussing European film policies is the large number of films that are made in the EU, in combination with their great dependency on support schemes and their disappointing performance in terms of audience and commercial success. The latter may be exacerbated by the focus of support schemes on supporting production costs and not marketing, and by specific regulations in law or the conditions of support schemes and public broadcasters concerning specific (time) windows and exploitation channels. For instance, several film support schemes mandate a theatrical release in the supporting country and might impose requirements on the timing of distribution windows.

Such regulations enhance the dependence of European film financing on the territorial grant of licences. Removing such regulations that stand in the way of pan-European licences and focussing public support on a smaller number of productions with larger budgets, including budgets for marketing and cross-border travel may be the way to increase the opportunities for European films to find an audience.

Notes

1. This paper focuses on feature fiction films, but many insights also apply to other audiovisual productions such as documentaries and series.
3. This is illustrated by the observation that only 6.6% of UK independent films produced between 2003 and 2011 were profitable (Oxera and Oliver & Ohlbaum 2016, 3).
4. To illustrate this: the average time between the US and UK cinema release for the top 100 films dropped from around a hundred days up to the year 2000, to just ten days in 2016. See: <https://stephenfollows.com/changing-movie-release-patterns>.
15. Council of Europe Convention on Cinematographic Co-production (revised), CETS No. 220.


Acknowledgments

Disclosure statement
No potential conflict of interest was reported by the authors.

Funding
This work was supported by the European Parliament, Policy Department for Structural and Cohesion Policies.

Notes on contributors
Joost Poort is associate professor and deputy director at the Institute for Information Law (IViR), University of Amsterdam. He adds an economic perspective to various multidisciplinary research projects in media, copyright and telecommunication.

Gijs van Til is IT lawyer at Project Moore Advocaten in Amsterdam. As a researcher at the Institute for Information Law (IViR), he previously worked on wide-ranging projects in the field of information law and intellectual property law.

ORCID
Joost Poort http://orcid.org/0000-0003-4611-8816

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