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Challenges facing the European Audiovisual Sector

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Summary

While the European film market is comparable in size to that of North America, it is much more fragmented, being composed of five large markets (France, Germany, Great Britain, Italy and Spain) and many small ones.

American films very much dominate the market. European films perform badly outside their national market. Although some countries may enjoy the advantages of a substantial secondary market, there is no guaranteed Europe-wide market. Nevertheless, in 2001, the market share of American films shrank and some European films scored a big success on their home market, or even throughout Europe.

At the European level, these hits may be divided into three categories: universal (usually American) blockbusters, big national successes and international arthouse films.

European production is also highly concentrated in the above-mentioned five countries.

For these various reasons Europe does not, at present, seem able to contend seriously with American domination.

On the other hand the case can be made for a number of reasonable objectives: defence of a strong industry in Europe, maintenance of a varied supply in terms of content, origin and film-making philosophy and an increase in trade within the European Union. At all events, they must be spelt out in more detail and considered separately.

Existing forms of assistance mainly influence quantity and the results are not always related to precise targets.

The chief recommendations that we are putting forward are to:

- clarify goals;
- promote a forceful, industry-wide strategy for systems of support**;**
- abolish the nationality criterion for several measures;
- give more weight to helping development, distribution and export,
- target aid on companies, not projects.

A review of the film industry in Europe

The imbalance between Europe and the United States

The structure of the European market is similar to that of North America (United States + Canada). The Europan Union has a population of 370 million (as against 310 million in the United States and Canada). Annual attendance figures are around a thousand million (more than 1.1 thousand million in the European Community, compared with 1.5 thousand million in the United States and Canada) and are growing faster that those in North America.

Despite comparable potential, the European market for cinema screenings is very different to its North-American counterpart. It is marked by the predominance of American films, whose market share in the European Community ranged from 64% to 78% between 1996 and 2001, and by poor circulation of European films within the European area.

In contrast, Hollywood films score well in all countries and, when all is said and done, monopolise the European box office. In 2000, the 40 films which attracted the largest audiences in the European Union were American or co-productions involving the Americans, with the exception of *Taxi 2* which came fourteenth. Every year, the top European box-office movie from America achieves results similar to entire main European film industries: in 2001, *Harry Potter* alone claimed 5.6% of the market, compared with 12.4% for all French films and 4.3% for German films.

A shift has appeared over the last two years, notably in 2001. In 2001, 3 non-American productions broke into the top 20 (*Amelie/Le Fabuleux destin d'Amélie Poulain*, 13th, *Manitou's shoe/Der Schuh des Manitu*, 15th and *The Others* 16th) and four others into the top 40. The market share of American movies has fallen to 64%, while that of national film industries has grown and several European films have improved the overall circulation figures. For example, *Chicken Run* (GB/US) achieved half, *The Crimson Rivers/Les Rivières pourpres* (France) one third and *Dancer in the Dark* more than 60% of their European ticket sales outside their main European markets.

The huge disparity between the European and North American film trade lies in the fact that American films account for over 92% of the market share on their home market.

A fragmented market

Today it is impossible to speak of a European film market, because it is so fragmented. At present, European films are unable to take advantage of the potential that a homogeneous primary market would give them.

In reality the European film market consists of five main markets, each with an annual audience of between 100 and 200 people (France, Germany, Great Britain, Spain and Italy). All the other countries of the European Community together have annual audiences of 330 million, each country accounting for no more than 25 million box-office admissions.

There is relatively little circulation of films between these five chief markets: on average, between 1996 and 2001, German films sold only 10% more tickets, Spanish films 14%, French films 21% and Italian films 22% on the other four markets. Great Britain sold 121% more tickets in the other four markets, basically because many British films are co-produced with Hollywood.

There are no signs of any prime international market emerging within the European Union. The best circulation of films is between France and Belgium. For all Belgian films distributed between 1996 and 2001, the difference in the the size of the average audience in France compared with that of the average audience for French films was 0.13. The figure for French films in Belgium was 0.22. German films in Austria (0.48), Belgian films in the Netherlands (0.28) and Danish films in Sweden (0.14) constitute the other main trade flows, albeit in one direction only. The circulation of British productions in most other countries is quite good (apart from in Finland, Denmark and Sweden), but there is no reciprocity. Just as there is no single market for European films, there is no unity within cultural, linguistic or trade areas (Benelux, Scandinavia, Germany-Austria or France-Belgium).

Box office success of European films is often principally based on one market. In 2001, *Manitou's Shoe* (third on the list of the most popular European films) derived 82% of its European ticket sales from the German market alone, *La Vérité si je mens!* (which came 7th) 97% in France and *Torrente 2:Misión en Marbella* (10th) 100% in Spain.

Apart from American productions or co-productions, which are popular on all markets (*Harry Potter and the Sorcerer's Stone*, *Bridget Jones's Diary,* etc), few films can gather the whole of the European market behind them. A few arthouse films perform moderately well in each of the markets (*Intimacy, The Pianist*, etc) and, a novel feature in 2001, some European productions or co-productions (*Amelie, The Others, Brotherhood of the Wolf, Billy Elliot, etc*) obtained high scores on several European markets.

At the European level, the hits may be divided into three categories: universal (usually American) blockbusters, big national successes and international arthouse films.

Production and distribution: American firepower

Europe produces more films than the United States (600 compared with under 500) and distributes many more. Only 50% of American films are distributed in Europe against 90% of European films.

Each country distributes between 100 and 500 films a year. Irrespective of the size of their market, they all distribute 100 or more American films. A major consequence is that countries with a narrow market (ie few screens) distribute relatively few European films. The proportion of European films distributed varies from less than 20% in the smallest markets (Estonia, Bulgaria and Cyprus) to over 50% in the large markets (Italy, France, Spain and Russia).

The five big European producers were the only ones to turn out more than 50 films a year between 1996 and 2001: Germany from 50 to 85, Spain from 65 to 105, Italy from 85 to 110, Great Britain from 85 to 130 and France from 105 to 175. Production in the other countries is very small – under 40 films a year, falling in some cases to under 15. It is instructive that only countries with a substantial industry produce works which score well throughout Europe. That reflects, on the one hand, the size of the domestic primary market and, on the other, the importance of budgetary considerations in a film's success.

There is no comparison between investment in production and promotion in the United States and Europe. A Hollywood production costs on average US$55 million compared with under US$10 million for a European film. Distribution costs amount to US$24 million for a Hollywood film and to less than US$1 million for a European film. This considerable advantage is both a cause and a consequence of the huge amounts earned by the American film industry in Europe and of the homogeneity of the American market.

The situation in central and eastern Europe

Per capita cinema attendance in central and east Europe is much lower than the European average (2.25 visits to the cinema in the European Union and between 0.23 and 1.24 in central and eastern European countries). Furthermore, in some of these contries, the market share of the American film industry is considerable: more than 84% in Hungary and over 90% in Romania. Production is much lower than that of other countries with a population of the same size. Romania, Slovakia, Bulgaria and Poland have a particularly small per capita output.

Television

The situation is very similar in television. American and domestic films leave little room for non-domestic European films, even in countries where production facilities exist. Most (about 80%) of the television or cinema films imported by television channels in the European Union originate in America. Half of the imported European films come from four countries (Germany, France, Great Britain and Italy) and less than 8% from the other countries of the European Union. The situation is even more extreme during prime time. According to a survey carried out by Eurofiction in 2000, American and domestic films left no room for showing non-domestic European films on the principal channels in Germany, Great Britain and France and left them only 6% and 12% of viewing time in Italy and Spain respectively.

Some reasons for American supremacy

Hollywood's supremacy has structural, historical and organisational reasons.

The characteristics of the North-American market are of vital importance: it is huge, speaks one language, but comprises numerous cultures. In making films to cater for all tastes in this extremely diverse market, for this world in miniature, Hollywood has learnt to make films with universal appeal. The major American companies are backed by a primary market of 275 million inhabitants and a world secondary market which enables them to invest considerable sums in their films in order to reduce risks. Because of this head start, Hollywood films receive greater publicity and are financially much more attractive to managers, being a bigger box-office draw.

At the organisational level, Hollywood is a machine for generating ticket sales. Since the film industry remains very unpredictable, studios employ a number of risk-reduction procedures: spotting the right subjects, targeting a specific public, formulaic genres so that audiences are sure of what they will be getting (laughs, emotion, wall-to-wall action, etc), script development, the star system, testing of first versions on sample audiences, launching of films as events, etc. Everything is done to produce results fast. Another organisational factor is that the major companies jointly defend their interests abroad through a very powerful trade union, the Motion Pictures Association of America (MPAA), which enjoys the support of an American government which has always understood that it is in the country's best interests to export its films on a massive scale.

The historical reasons may be described as a virtuous circle: the more Hollywood films are seen throughout the world, the more they will habituate audiences to their conventions – types of film, narration techniques, actors, decors and the American way of life. The invasion of European markets by American films after the Second World War gave Hollywood an advantage it has never lost. One of Hollywood's strengths is that it has always known how to attract talent from all over the world. Two recent, seminal, Oscar-winning films, *Moulin Rouge* and *The Lord of the Rings,* were made by directors from Australia (Baz Luhrmann) and New Zealand (Peter Jackson). Their predecessors were Milos Forman, Paul Verhoeven, Jean-Pierre Jeunet and Wolfgang Petersen, who all went to Hollywood to make films.

The central and eastern European countries are now of great significance on account of their growth potential. The advent of consumer choice will determine the American cinema's results there.

New information and communication technologies

The advent of the new information and communication technologies at first gave rise to both hopes and fears: film-makers hoped that they could free themselves from the influence of the big studios and that “fast tracks” might emerge , but they feared widespread illegal copying which might be a threat to the various branches of the industry.

The growing use of digital technology and broadcasting via the Internet is currently reflected in two effects. The first is direct – the democratisation of production and broadcasting equipment. At a purely technical level, high-quality films can be designed and made with digital cameras and editing software, without any need for substantial financial investment. The lowering or virtual removal of initial barriers to production is opening up the market considerably. Similarly the Internet, the development of compressed formats for films and the prospects of high-speed networks are substantially widening access to broadcasting.

The second, indirect effect runs counter to the first. While conditions for diversified supply of cultural goods have improved, at the same time the big companies, by means of mergers and alliances between suppliers of content and suppliers of access (AOL-Time Warner, Vivendi and Universal), have been making it harder for newcomers to break into the industry, in addition to which marketing expenditure has soared, winning the promotion war even though distribution is not actually prevented. Works exist and are on offer, but invisibly so. This is another, sociological effect of globalisation, creating a “universal” market segment that allows big companies to launch an artist or a work all over the world.

Implications for cultural diversity

Cultural diversity is now a globally recognised principle, since it is mentioned in a universal declaration drafted under the auspices of the United Nations Educational, Scientific and Cultural Organization (UNESCO). But it is necessary to define the objectives behind this unifying concept.

The present situation raises various economic, cultural and artistic issues. Concentration of the European film industry is taking place at three levels: the market is becoming concentrated around the big companies, production is becoming Hollywood-centred and audiences are only going to see one or two leading films. Market concentration is due to the oligopolistic structure of world distribution networks, where 5 or 6 huge firms scoop up 85% of cinema takings (and more than 65% in Europe). These firms’ control of the market poses questions regarding creative renewal and access to the cinema-going public, quite apart from straightforward profitability issues.

Geographical concentration leads to economic and cultural problems. At the cultural level, the audiovisual sector is peoples’ means of expression. Given that each people must be able to express its culture, it is essential that artists have these means of expression available to them. Defending an audiovisual and film industry is one way of safeguarding the availability of production tools for creative artists.

At the economic level, the audiovisual sector is the vehicle for passing on a national culture and a way of life. It makes it possible to export the products which make up this way of life. This partly explains why the American government champions its film industry. Back in 1912 a United States senator said “Trade follows films”. The deficit in the balance of trade in audio-visual products and services is likely to widen still further between Europe and North America, or at least unlikely to narrow. What is at stake here is the competitiveness of an industry, the potential for growth and employment that it represents in Europe and the beneficial effects it would have on the whole of our international trade. The structural differences of the North-American and European markets are such that this competitiveness can be restored only through deliberate action.

Lastly, the concentration on leading films is causing other difficulties. In 2000 38 films accounted for half of the box-office receipts in the European Union, in 2001 30 films did so. This is a structural feature of the cultural industries and is due to the risk inherent in these industries, which encourages big firms to concentrate their efforts on one or two leading products, which are then energetically promoted. Globalisation is now both exacerbating this tendency and producing ever louder affirmation of a transnational universal “culture” centred on Nike, MacDonalds, Harry Potter, Pokémon and Walt Disney.

Defence of diversity reflects the idea that the public must be able to choose the works it sees. As both the quality and the public impact of cultural goods are very uncertain, the only way to be sure of having some works of commercial or artistic value is through plentiful, varied production. Furthermore, the product standardisation which results from industrial concentration in the sector and from audience concentration on a small number of films potentially jeopardises culture-industry momentum, which has always been predicated on a balance between the little companies which discover talented newcomers and the big ones which make them famous. Today concentration and the rising costs of access to the public (ie. distribution) is undermining this balance.

Resolute defence of a European film sector can also protect small-scale artistic creativity, as opposed to more industrialised, market-oriented production. The film world has always had to strike a balance between the commercial and the artistic. Industrial, commercial films for immediate consumption have always existed alongside more personal films fitting into the cultural heritage. Defending a European film industry constitutes a refusal to allow it to become completely industrialised.

It is crucial to curb America’s stranglehold on the entertainment sector and support the development of an alternative. Although the current fragmentation of the market might make the assertion of a European culture through the cinema seem illusory, resistance to homogenisation centred on Hollywood is vital to the building of Europe. The assertion of a European cultural identity requires breaking free of the cultural world of Hollywood. This is even truer when it comes to protecting the individual cultures of Europe.

The notion of diversity comprises two aspects. Usually what is meant by diversity is varied geographical origin of works, implying that each people should have the means to fashion its own images. But today it is equally vital to maintain a balance between films strongly influenced by marketing considerations and more personal films displaying an artistic, enquiring approach, irrespective of any concern for “nationality”. The idea is that less accessible works must have an opportunity to reach their public.

An overview of existing assistance

All European countries have now recognised the need to support their audiovisual sector by means of regulatory systems or financial measures. Regulatory systems take the form of broadcasting quotas for national and European works, regulated advertising of commercially released films, requiring television companies to invest in national and European works, rules on media scheduling, etc. Financial measures consist in public funding from taxes or parafiscal charges paid by distributors, which are then pumped into various stages of production.

In 2001, in the countries of the European Union, total public support worked out at €33 million for development, €939 million for production and €87 million for distribution. France, where almost all assistance is funded from charges on distributors (cinemas and television companies), devotes one third of the money raised to production and a quarter to development and distribution. Some countries have a cinema fund. In 2001 France channelled €43 million to this sector, Germany €2.8 million and Portugal €1.8 million.

Most EU countries offer both automatic support (the amount of which depends on how successful a film is) and selective support (works are chosen by a committee according to several criteria, including artistic merit). The former is designed to help a more commercial film industry and the latter to support more artistic films with a smaller public. The respective shares of these two forms of assistance vary from country to country: in Portugal and Belgium almost all grants are selective whereas in Spain three quarters are automatic.

The extent to which production is paid for by public funding also differs from country to country: in France public subsisdy makes up only 12% of film financing compared with 25% in Spain and 33% in Germany.

Two support mechanisms exist at European level: the European Union's Media programme and the Eurimages Fund. Twenty-seven Council of Europe member states have now joined Eurimages, which was set up in 1988 to bolster the co-production and distribution of European works. Like national systems, the Fund offers assistance for co-production (involving at least two European countries), distribution and screening. Assistance for co-productions comes from two schemes: one for commercial, the other for art films. In 2001 the Fund allocated €18.5 million in support of co-productions.

In 2002 the French Minister for Culture and Communication, Catherine Tasca, asked Jacques Renard to evaluate the Eurimages Fund. In his report he first stresses that French film-makers regard the Fund as an auxiliary source of finance, that it sometimes leads to fictitious co-productions and that, in France, it has very little incentive effect. At European level he notes that the Fund has been more successful in supporting European co-production than in promoting the circulation of films in Europe.

Recommendations

Existing national and European arrangements for assistance produce fairly good results, which are, however, mainly quantitative and artificial. They are artificial in that the mere availability of economic aid automatically leads to making films and quantitative in that the regularly good results mean that the question of goals is never raised. The market share of European films in Europe is measured, but we rarely enquire about film quality. The excellent figures for 2001 conceal a decline in the diversity of films seen and a sharp rise in European films with an American format and formula (*Bridget Jonse's Diary, The Others, The Brotherhood of the Wolf, etc*). While such films are certainly of interest, they do not embody the recommended cultural diversity. One film that accounts for several million cinema admissions in Europe and is therefore a box-office hit is not necessarily conducive to cultural diversity.

Yet some results, which the figures do not measure, are worth noting. For example, for many years French film-industry money has been financing works by foreign directors such as Krysztof Kieslowski, David Lynch, Nanni Moretti, Pedro Almodovar and Abbas Kiarostami. Of the top films showing in Paris at any time, one third are French, one third American and one third come from a huge variety of European and non-European countries (in February 2002: Benin, Kyrgyzstan, Kazakhstan, Egypt, Mexico, Bosnia, etc).

Moreover, the European audiovisual market will always be different from the American one. The European audivisual sector will never be homogeneous, short of abandoning the diverse cultures which go into its making. In addition, the circulation of films which are steeped in national culture will remain relatively small, at least in the medium term. For this reason, the segmentation of the market along the lines we are witnessing is perhaps the only one we can expect at the moment: universal films without any cultural identity, national films for the general public which are deeply rooted in a national culture and a few avant-garde and experimental films aimed at a much more limited distribution on several national markets.

These different markets do not operate according to identical economic principles. Some rely on multiscreen cinemas, others depend on alternative distribution channels. It is true that they are both complementary - being based on the same industry infrastructure - and rivals because their products sometimes compete on the same distribution systems.

It is therefore essential to clarify a number of objectives, several of which can be defended on the grounds of cultural diversity:

- fight against American supremacy which is likely to curb diversity, kill

  national film industries and lead to a uniform world culture;

- encourage the growth of European audiovisual industries, which are peoples' means of expression;

- build a more unified European market to foster dialogue between cultures;

- promote a larger supply of films of varying origin and content and ensure that films with limited potential are able to exist;

- as an alternative to Hollywood, develop a creative film centre open to film-makers from all over world.

In order to meet these targets, it seems important to devise an approach to support systems which addresses each aim separately. An industrial approach, which helps develop an audiovisual industry in Europe possessed of long-term viability (providing stronger foundations for a European entertainment sector with European stars, etc), will enable projects of a more cultural nature to evolve. Equally it is necessary to adopt a cultural approach by supporting the production of less accessible works which enrich the heritage.

The industrial dimension requires:

- as far as commercial films are concerned, a refocusing of nationality criteria on industrial aspects (where a film is shot, the technical industries involved, the nationality of technicians) instead of cultural aspects (the nationality of the film-maker, scriptwriter, etc),

- introducing incentives to shoot films in Europe;

- building bridges between audiovisual sectors so as to enable film industries to position themselves on other types of market.

When expanding and reviving the European film industry, it is important to restore a public habit of going to see European commercial films which are different from Hollywood films (European actors, subjects, etc) and the public desire to do so. This necessitates aggressive rather than defensive measures (quotas) – the latter offer quantitative safeguards, but do not further the development of a self-sufficient industry. Making films is one thing, but they must be seen. One sine qua non is production of high-quality commercial works in order to restore a positive image of the European cinema among young audiences. This quality requirement must be taken into account in all the measures recommended.

The revival of European film industries calls for:

- support for the development of commercial European films (assistance with screenplay, rewriting, etc);

- more and better training for scriptwriters;

- gearing production support not to projects but firms, on terms and conditions designed to achieve various targets (firms producing commercial films, firms producing European films, firms producing films which create a sense of identity, etc);

- support for the distribution of identity-based works not just through cinemas but via the range of distribution media (television, Internet, DVD, non-commercial channels) as cinemas are not the only means for a culture to assert itself;

- strengthened support for the distribution of European films.

Note that the audiovisual markets in central and east European countries are in the process of being rebuilt. Nascent consumer choice will determine how Hollywood films perform. Measures must therefore be introduced rapidly so as to enable European film industries to establish a market presence there.

Trade within the European market might be boosted through :

- the development of “cultural catchment areas” by widening national circuits (Great Britain, France-Belgium, Scandinavia, Germany-Austria, etc);

- export subsidies for distribution companies, on terms and conditions designed to promote a number of national films in other European countries.

Lastly, steps to defend less accessible (avant-garde and experimental) films must drop all reference to nationality criteria, as this is a quite different kind of film. We therefore recommend:

- ending aid to projects and switching to aid to production, distribution and screening companies, in accordance with specified terms and conditions. This would in effect delegate a public service function to the cultural production sector;

- completely doing away with nationality criteria.