

State Aid for Film and Audiovisual Services. A Synoptic Review of Key Principles and Governance Models in Europe and Abroad

Ayudas estatales para servicios de cine y audiovisuales. Una revisión sinóptica de principios clave y modelos de gobernanza en Europa y en el extranjero

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ABSTRACT

This study synoptically reviews scholarly and policy-related debates on key principles and governance frames of the public policy of state aid for film and audiovisual services, in Europe and abroad. It addresses some important challenges of policies of state aid to film, regarding the efficacy of funding models and principles. It also qualifies these principles against current global models of “best-practice.” In all, this study wishes to amplify the discussion on public subsidies for film from various perspectives. Given the different methods in theorizing, development, realization, monitoring, impact-measurement and evaluation of policy concepts, programs, institutions, instruments and impacts, this debate is not only of interest for academics, but also for global policy makers in the field.

Keywords: “best-practice” case study analysis, global models, government support, political economy of the media, public film policy, state aid for film, synoptic review.

RESUMEN

Este estudio revisa sinópticamente debates académicos y relacionados con políticas sobre principios clave y marcos de gobernanza de la política pública de ayuda estatal para servicios cinematográficos y audiovisuales,

en Europa y en el extranjero. Aborda algunos desafíos importantes de las políticas de ayuda estatal para filmar, con respecto a la eficacia de los modelos y principios de financiación. También califica estos principios contra los modelos globales actuales de “mejores prácticas”. En general, este estudio desea ampliar la discusión sobre los subsidios públicos para el cine desde varias perspectivas. Dados los diferentes métodos de teorización, desarrollo, realización, monitoreo, medición de impacto y evaluación de conceptos de políticas, programas, instituciones, instrumentos e impactos, este debate no solo es de interés para los académicos, sino también para los formuladores de políticas globales en el campo.

Palabras clave: *análisis del estudio de caso de “mejores prácticas”, modelos globales, apoyo gubernamental, economía política de los medios de comunicación, política de películas públicas, ayuda estatal para películas, revisión sinóptica*

1. STATE SUPPORT FOR FILM: THE KEY CHALLENGES

This year, on August 23rd, the Cuban government recognized independent filmmaking as an independent art, and hence for the first time legalized independent film production in the country. This move effectively facilitates the work of independent producers because they now have received legal status and are recognized as private-sector workers. They may also open bank accounts to receive funds for producing a film.

In fact, when looking to state support for filmmaking in Latin America, the countries with the political will to support film legislation are the ones that have historically had the strongest and most stable film industries—Argentina, Brazil, Chile, Colombia, Mexico and socialist countries such as Venezuela and Cuba (Falicov, 2018a, 2018b).

Certainly, in an age characterized by a shift from the study of national cinemas to that of transnational and global formations, we might recall British film scholar John Hill’s (1996) words when he argued that the concept of national cinema is of vital importance when analysing state policy, particularly as a means of promoting cultural diversity and attending to national specificity (Crane, 2013; Hill & Kawashima, 2016).

Indeed, state support for film is not a new concept. There are plenty of examples around the world where governments keep on financially supporting film as an artform in the public interest—ideally without wielding editorial influence on the creators of these works.

In Europe, state aid for film policy has undergone different phases: from establishing automatic film aid mechanisms (1950-1957), to the development of selective film aid schemes (1959-1981), to the first wave of regional aid development (1980s), to the emergence of broader aid for audiovisual production (1980s), to the search for a new balance between cultural and economic objectives as a fifth phase (Lange & Westcott, 2004).

Direct cash support through film funds, indirect fiscal incentives schemes, and “mandatory transfers” that oblige specific media to financially source others—such as public-service broadcasting to refund film producers—have ever been the most popular instruments applied.¹

And yet, despite state aid for film production, distribution and exhibition having claimed the status of a “historical project” in most developed nations across the globe, notably in Europe, the public policy of state aid for film remains a contested terrain, stricken with many challenges and threats to industry, filmmakers and government administration. Today, the policy practice of handing out film subsidies is more challenged than ever before. While many state authorities in Europe continue to subsidize film as a genuine cultural asset, worthy of political protection, they seem to slip into the horns of a fundamental dilemma. On the one side, their schemes reflect the vision to strengthen artistic talent and creativity, safeguard cultural diversity, foster cultural integration, and improve the economic wealth of the film industry and its stakeholders at large. On the other side, however, they face a legitimacy crisis as these schemes are perceived as being inefficiently allocated, unfairly distributed, bureaucratically organized, and, worse so, they are said to help little to future changes needed to get film media adapt to new market needs of digitization and online streaming.

Critics claim that subsidies are most principally a controversial means to regulate film media markets and seem to have an in-built bias toward failure in that they:

- May unduly endanger artistic freedom and expression;²
- Do not correct the fundamental problem of “market failure” in the industry;³
- Are considered as economically ineffective as “free markets” work better;⁴
- Are a waste of taxpayers’ money as costs exceed benefits to consumers and producers;
- Are politically charged, as far as they require consent across opposing political forces backed up by a solid and impartial method of selecting projects and channeling the money to them;
- Cannot create long-term sustainability but instead create dependence on the handouts of the state;
- Do not improve the working conditions of producers, filmmakers and other creative staff, and
- Do neither incentivize consumption of audiences nor improve their satisfaction with the films funded.

Indeed, one might expect a rich debate and ample empirical insights into the plethora of issues of public film funding, its performance and effects. However, surprisingly, while there is a growing body of both scholarly (Iosifidis, 2011; Lunt & Livingstone, 2012; Murschetz et al., 2018; Murschetz & Teichmann, 2018; Nielsen & Linnebank, 2011; Simpson et al., 2016) and policy-related research (notably by publications from the European Audiovisual Observatory, e.g. European Audiovisual Observatory, 1999a, 1999b, 2019; Fontaine, 2015; Lange

& Wescott, 2004; Kanzler & Talavera, 2018; Newman-Baudais, 2011; Talavera Milla et al., 2016) on “state aid for film”, showing that there is increased interest in the field, critical analyses into the key principles, the political and institutional context –the governance processes, and the efficacy of these schemes and their controversies, are still sparse.

Hence, this study fills this void. It synoptically reviews scholarly and policy-related debates on key principles and governance frames of the public policy of state aid for film and audiovisual services, in Europe and abroad. Following this introduction, it qualifies some key principles against current global models of “best-practice.” In all, this study wishes to amplify the discussion on public subsidies for film from various angles. Given the different methods in theorizing, development, realization, monitoring, impact-measurement and evaluation of policy concepts on state aid for film, its programs, institutions, instruments and impacts, this debate is not only of interest for academics, but also for global policymakers in the field.

Certainly, this is a daunting task, given the changing nature of current environmental challenges on the film media industries over the last ten years, notably through digitization, convergence, globalization, market concentration, audience fragmentation and intensified competition—through digitally based companies such as Google, Apple, Facebook and others as significant content and service providers diversifying into and attacking the traditional media domains from outside the E.U. That said, digitization has been among the most significant forces at work, and—as agreed upon many scholars globally—“shaping everything from industrial structures to business models, distribution strategies to marketing activities, and labour conditions to production practices” (Holt & Perren, 2019, p. 33). Think of Netflix buying up libraries of films, documentaries and dramas, investing in original productions, in big data, algorithms, and steaming direct to the screen in your living room or your pocket. Not to the theatre, not to a video or DVD. Netflix has bypassed everything and is utterly disrupting the market. Therefore, principally, what can policymakers and their governments do, if they are forced to counteract, not only to the “subsidy-failure” hypothesis laid out above, but are also confronted by the film industry’s epic challenges of digitization, market globalization, audience fragmentation, and the cultural globalization through the dominance of the American film industry?

Hence, this study takes the changing economic and technological context in which filmmaking occurs, as a starting point to critically review the policy responses that these changes have generated and their consequences for the pursuit of policy principles. The empirical part of this study follows a qualitative case study research design. It will examine various case studies presenting public film policy schemes, adopted by different countries across the globe. Further, these cases shall illustrate the factors that shape the various current subsidy policy “ecosystems.” These include:

- Investigating the key principles and governance models of public support for film of selected subsidy schemes, applied in order to map out their underlying rationales for intervening into the market;
- Understanding the changing role of film subsidies as an important interventionist governmental policy tool, with a view to selected governance models in Europe and abroad;
- Evidencing the effects of subsidy schemes from the perspective of governance studies and economic theory as they aim at promoting cultural diversity and economic prosperity of filmmaking.

2. KEY PRINCIPLES OF FILM FUNDING IN EUROPE

Historically, the early film aid schemes were usually simple in design and involved automatic payments for film production based on a film's box office success. Rapidly, the methods of state intervention diversified to include grants and loans, financed by the public purse and awarded on a selective basis (Stepan, 2019).

When addressing the key principles of film funding, another approach, adopted notably in France, was that of organizing a system of “mandatory transfers,” so that taxes or levies on one branch (for example, on cinema tickets or broadcaster advertising revenue and turnover) were used to finance another (audiovisual production).

From the mid-1980s onwards, fiscal measures were added to the range of possibilities available to government. Film production could be financed by incentives, delivering tax benefits either to third parties investing in film or directly to the producers themselves. Specialized loan guarantee systems were also developed to help overcome the difficulties that film production, distribution and exhibition companies have in accessing credit. Across all these different types of measures and consistently over time, support has been overwhelmingly aimed at the phase of the creation of the audiovisual work—writing, project development and production—rather than at the succeeding phases of a film's life or at the companies themselves.

The detailed design and the implementation of aid schemes are usually entrusted to specialized bodies whose relationship with central government can vary. These bodies often contribute to the design of policy themselves, rather than acting as uniquely executive agencies, and may also play a regulatory role for the industry.

Initially, these structures were established exclusively at the national level but, from the 1980s onwards, aid began to be offered at regional and, sometimes, local government levels. This initially reflected the existence of autonomous regions with cultural and economic competencies, as in Germany. During the 1990s, a second wave of regional funds, reflecting decentralized policies, made their appearance.

In Europe, media policies have primarily been designed to promote media pluralism and diversity. Subsidy policies, more particularly, come on top of “negative” rules on curbing media and cross-media ownership, which

aim at setting limits on media concentration. “Positive” rules, by contrast, such as different forms of direct or indirect public sector support, aim at maintaining a healthy and prolific industry for film and media at large. Still, as a result of Europe’s cultural diversity, different countries have developed different film policy regimes. Hence, state aid for film is provided within certain institutional boundaries and historically shaped practices, including cultural contexts, legal frameworks, agency structures and policies, aims and scope of funding, funding guidelines and transparency rules, etc. (De Vinck, 2011). These boundaries and practices act as “frameworks,” which are themselves deeply intertwined with the cultural practices of filmmaking and a country’s film tradition (Bondebjerg et al., 2015).

Indeed, many countries are becoming interested in developing their film industries as a way of promoting their national culture and growing their “soft power.” And with the continued global dominance of Hollywood films, policy makers have increasingly considered government subsidies as an essential tool in promoting their national film industries.

Consequently, there are various film policy regimes which have come to develop different practices of intervention (or non-intervention respectively). Now, diverse instruments of directly regulating film media markets are available (Talavera Miller et al., 2016). These are:

- Direct subsidies to filmmakers through financial grants offered by film agencies (covering a wide array of aids to the film sector, covering all stages of the value chain from script development, production, distribution to marketing and exploitation);
- Indirect fiscal incentive schemes (e.g. tax credits for production, distribution, exemption from business tax, special VAT rules, special amortization and depreciation rules, measures aimed at investors);
- Investments obligations into film of TV broadcasters and other stakeholders⁴; and
- “Guarantee facilities” (i.e. loan guarantees for securing access to private financing).

On a pan-European level, funding has remained fairly stable over the past years, and the fiscal incentive schemes are being used as complementary instruments to support the film and audio-visual sectors. Importantly, contributions from the national/federal government and broadcasting levies were the two main sources of financing for film and audiovisual funds in Europe (European Audiovisual Observatory, 2019a).

In fact, the European Union’s support program for the film, television and new media industries, MEDIA, for example, offers a wide variety of funding schemes, each targeting different areas of the audiovisual sector, including schemes for producers, distributors, sales agents, organizers of training courses, operators in new digital technologies, operators of video-on-demand (VoD) platforms, exhibitors and organizers of festivals, markets and promotional events. It encourages the circulation and promotion of European films with emphasis on non-national

European films. MEDIA, of the Creative Europe program, is the fifth multiannual scheme since 1991, organized in support of the audiovisual industry. It builds on the success of its predecessors, the MEDIA and MEDIA Mundus programs (2007-2013). The total budget of Creative Europe amounts to € 1.46 billion (2014-2020), a budget increase of 9 %, compared to the previous programs. At least 56 % of that sum is set aside for the MEDIA sub-program. It provides support and funding opportunities for film and TV projects, cinema networks, film festivals, audience development, training measures for audiovisual professionals, access to markets, distribution, video game development, online distribution and international co-production funds. On 30 May 2018, the European Commission published its proposal for a regulation establishing the future Creative Europe program (2021-2027). On 28 March 2019, Parliament suggested that the Commission's proposed budget of €1.850 billion be increased to €2.806 billion. The Council is currently reviewing Parliament's proposal.

In all, Europe is thus built on a large framework of support to film media across the continent. In total, these schemes account for (federal and regional) subsidies of more than 300 million euros per year. As mentioned above, state aid schemes for film mainly come as direct financial grants to support a nation's film culture. These grants are paid out by government agencies, through either conditionally repayable loans (that is when films are successful at the box office) or as non-repayable grants (including film awards). According to the European Audiovisual Observatory's annual flagship publication for the *Marché du Film de Cannes*, the 2019 key take-aways in analyzing more than 400 European fiction film financing plans include the diversity of the film production landscape, in terms of the budgets and the influence of the market size (i.e. smaller countries have smaller budgets and are hence dependent on co-productions); the variety of financing sources (with the lead role played by direct public support); the key role of pre-sales especially for higher-budget films (which have reportedly become more difficult to obtain); the widespread involvement of broadcasters; the still limited use of private equity and debt financing; and even more notably the heterogeneity of national landscapes as regards the film financing structure (European Audiovisual Observatory, 2019b). However, while all these financing schemes guarantee that the cultural film heritage of Europe is safeguarded and promoted, they seem to be biased towards safeguarding the economic well-being of these industries, rather than promoting cultural innovation, media literacy and pluralism.

Still, as Richeri (2016, p. 312) rightly claimed, "the place of the European film industry and market is different because Europe has a lot of problems to deal with: industry and market fragmentation, little cooperation among member states, lacking distribution of European film outside national markets and too large box office share of Hollywood films." It is true that the objective of protecting and promoting Europe's cultural diversity through audiovisual works can only be achieved if these works are seen by audiences. Aid to production alone risks stimulating the supply of film content without ensuring that the resulting work is properly distributed and

promoted. It is, therefore, appropriate that aid should cover all aspects of filmmaking and distribution, from design, to film creation, to film delivery to the audience.

Nonetheless, the European film sector suffers from an apparent disconnection between supply and demand, as the United States is the largest presence in Europe's audiovisual markets. In terms of cinema admissions, U.S. films typically account for 60-65 % of the market, versus 25-30 % for European films (European Audiovisual Observatory, 2019b). The causes for this imbalance are varied and complex, but one major weakness is obvious: the European market for European films is fragmented along linguistic and cultural lines, and the market players are predominantly small to medium sized. While this positively reflects in a culturally diverse output, it represents a significant challenge for access to finance and markets. The audiovisual sector is a high-risk prototype industry, so the integrated nature of the major US: studios, their large domestic market, as well as their much higher production and marketing budgets, are very difficult for these small European players to challenge. The linguistic and cultural differences add to this and limit the cross-border circulation of European audiovisual works within Europe even further.

2.1. Governance models in the European Union

Film subsidies are provided within certain legal and institutional frameworks. In Europe, state aid for film is firmly based on specific laws (i.e. European Union's law on state aid). In addition, there are national and regional laws for the specific media sectors. They too must comply with the European Union's state aid law and must conform to the EU's legal principles of freedom of competition, equal rights and the guarantee of property rights. Government grants for film are typically paid out by funding agencies on supranational (such as MEDIA), national, federal and even local level.

First and foremost, audiovisual works, particularly films, play an important role in shaping European identities. They reflect the cultural diversity of the different traditions and histories of the States and regions within Europe and abroad. Being hybrid in nature, audio-visual works are both economic goods—offering important opportunities for the creation of wealth and employment—and cultural goods, which mirror and shape our societies. Consequently, the film industry is today labeled as a “cultural industry” which is said to be belonging to the “creative industries,” a paradigmatic shift that epitomizes that film is to be associated not only with the arts, culture and the social and cultural norms that shape and are shaped by film media, but also with economic and institutional structures (Cunningham & Swift, 2019; Cunningham & Flew, 2019), and therefore all issues surrounding the performance of state support.

Hence, film subsidy regulation is typically based on the following aims. Grants should:

- contribute to the preservation of the common cultural heritage of Europe and the further development of European culture with its national and regional diversity;
- support the production, dissemination and marketing of films which are suitable to enhance the quality, autonomy and cultural identity of a nation's film sector;
- support the cultural, economic and international interests of the film industry, especially by measures aimed at developing new talent;
- improve the international orientation of film and thus improving the basis for the dissemination and market-oriented exploitation of films, as well as its cultural impact and its exploitation abroad, particularly by supporting their presentation, domestically and out of the country;
- support film co-productions;
- support co-operations between the film industry and television to financially strengthen the production of cinema films,
- work towards a harmonization and coordination of film funding between various levels (regional funding).

Areas of funding are wide today. They include schemes for producers, distributors, sales agents, organizers of training courses, operators in new digital technologies, operators of video-on-demand (VoD) platforms, exhibitors and organizers of festivals, markets and promotional events. Films productions and other forms of cinematographic expression are, of course, also sourced from ticket sales made at the box office, cinema advertising revenues, and private investments in production and sponsoring activities of any kind.

Naturally, private funding sources from industry—including in-house financing and production-finance-distribution deals with TV companies, TV pre-sales, debt financing, and end-user financing—play another key role in refunding film projects. The key issue in this regard is access to these financing sources. Film subsidies are provided within certain legal and institutional frameworks that are shaped by societal expectations to film media subsidies and (political) regulation. In the European Union, the key piece of legislation in this field is the Audiovisual Media Services Directive (AVSMD). It governs the EU-wide coordination of national legislation on all audiovisual media, both traditional TV broadcasts and on-demand services, and was renewed in November 2018.

Now, if film aid is politically approved—and policy history and market imperfections may not, in themselves, be a sufficient condition for concluding that financial support is warranted—regulators face the obvious choice of publicly financed subsidy approaches, either through direct cash injections, indirect cash advantages, anti-trust policies as means of regulatory state action, or, most likely, a combination of these. The detailed design and the implementation of aid schemes are usually entrusted to specialized independent bodies whose relationship with

central government can vary. These bodies often contribute to the design of policy themselves, rather than acting as uniquely executive agencies, and may also play a regulatory role for the industry. In Europe, these governance structures were initially established uniquely at the national level, but from the 1980s onwards aid began to be offered at regional and, sometimes, local government levels. This initially reflected the existence of autonomous regions with cultural and economic competencies, such as in Germany; but during the 1990s a second wave of regional funds, reflecting decentralized policies, made its appearance.

Germany is a best-practice example for a highly decentralized regional funding purpose and practice. There, various regional funding bodies offer subsidies for film as both selective ex ante grants to filmmakers and ex post grants handed out automatically for new film projects, once a film has become successful in cinemas or festivals. Subsidies are administered both on federal and regional level and aim at correcting market failures and safeguard the surplus value of film as an economic good and cultural artefact. However, as German film media scholar Bomnüter (2018) argued, specific subsidy tools hardly achieved planned policy goals. Results show a basic “instruments-effects bias” in various schemes.

Still, when it comes to evaluating the various regional funding schemes, economically oriented institutions are financially stronger, and thus better suited for financing higher production budgets, whereas culturally oriented institutions are mostly limited to supporting artistically ambitious films with lower budgets. The bigger regional funding bodies have a special status: in the context of the States’ cultural sovereignty, they regularly pursue cultural objectives as well, for example, through their funding of young talents’ and experimental films. The specific organization of funding schemes varies considerably: subsidies are provided in the form of grants or repayable loans; and funding can be awarded automatically or by decision of an expert committee or a director. In contrast to national funding bodies, regional institutions strongly emphasize the extent of regional effects in their decision-making.

But, as Bomnüter asked wryly, is this panoply of support measures and designs all worth it? Results, he answered, are mixed: they reveal several weak points but also suggest favorable developments and some success. Subsidized films show solid domestic market shares, an increased number of international co-productions, and high levels of regional effects, mainly generated by economically oriented national and regional funding bodies. German films with public funding would also show an increased presence at festivals and competitions. Badly, however, the international market presence of German films is still low. Even their seemingly high domestic market share is dearly bought by a high level of public funding. Only few films achieved strong box office performances and would thus be able to recoup their investments. This criticism on the efficacy of government funding for film reveals the problems policymakers face when having to design the funding schemes. Certainly, the gaps between purposing, policy schemes offered, money transfers made, and the controlling of these schemes are challenges of “good” governance and policy quality.

France is the most prominent example for a highly interventionist film subsidy culture in Europe. There, the government has long adhered to an étatiste-interventionist tradition of promoting diversity and quality in film, where government subsidies have come to be a *raison d'être* for the film industry. Indeed, the French state aid framework for the film and audio-visual industry is among the most comprehensive in Europe. It is also endowed with the highest financial resources in absolute terms. While direct aid, distributed by the CNC (National Film Board) and the French regions, remains the most visible component of this scheme, this aid has been increasingly complemented with more indirect financial mechanisms and notably by tax incentives. State support includes a generous and wide-reaching subsidy programme for cinema and video, worth roughly 2 billion euros yearly across all the different types of subsidies provided (Messerlin & Parc, 2014, 2017; Messerlin & Vanderschelden, 2018). The United Kingdom, having exited the European Union by the end of January 2020, is notoriously critical towards all proposals to directly intervene into its film industry. Apparently, British regulators have proved the most skillful in playing a regulatory system of official non-intervention into film, thus rejecting the interventionist approach to sustaining film diversity by direct subsidies in many other European countries. There, government support for the film industry is mainly achieved by the UK film tax relief scheme. Critically, the British public funding system for film production has mainly benefitted transnational corporate interests and their national partners, a policy approach that Newsinger and Presence (2018) rather cynically called “a corporate welfare system” for the UK film industry. This system has had considerable success on its own terms, leveraging massive investment into the UK film infrastructure, and has provided a blueprint for the economic development of other creative industries. However, it has also hindered wider policy commitments towards diversity and equality in the film workforce. Yet, for all the benefits that tax relief affords the film industry in the UK, its primary beneficiaries are the Hollywood studios and other major multinational media corporations. Newsinger and Presence (2018) argued that policy objectives to improve opportunities for underrepresented groups, such as women, ethnic minorities, disabled people and people of working-class origin, are unlikely to be successful unless more direct interventions can be developed.

3. DIFFERENT TYPES OF FILM FUNDING ACROSS THE ATLANTIC

In the U.S., the 50 State governments, institutional units to exercise some of the functions at a level below that of the federal government, for the better part of two centuries, have employed tax incentives schemes to promote local economic development. Rising competition, both domestic and foreign, has driven the proliferation of programs such as enterprise zones, tax increment financing, and hiring incentives (Thom, 2016). Following a ten-

month investigation in 2012, *The New York Times* estimated the number of such “targeted tax incentives programs” at nearly 1.900 with an annual cost of over 80 billion dollars (Story et al., 2012).

Certainly, the big Hollywood studios continue to dominate the film industry and is the force with which other places and systems of production must compete. The commercial success of this system has prompted other countries to support production and distribution of domestic films, in order to contend in the marketplace. Conversely, the success of the Studio System is a reason for limited government intervention within the United States, although exceptions do exist and should better be explored sub-nationally (Gallagher et al., 2018). Still, state and local governments have tested tax credits and incentives that attract film productions, attempting to lure them away from the centers of economic agglomeration in California and New York. Analyses of outcomes from these efforts have delivered mixed results, and, as a consequence, tax credits and incentives have been eliminated in some places.

However, while these “movie production incentives” (MPIs) had spread, doubts regarding their efficacy occurred. There, the issue of tax incentives for film is a subject of ongoing and intense political debate. On the one side, proponents of incentive schemes have ever since argued with a strong “multiplier effect” of these instruments and their potential to diversify and expand the economic base of the respective region. Critics, on the other side, have repeatedly pointed out that costs would exceed benefits (Maddens, 2017).

When looking to Asia, Korea’s film policy offers a story of great interest for the design of cultural policies (Parc, 2018). Since the 1960s, most Korean governments have actively intervened, in order to promote and protect Korean culture—a line not much different from the one adopted in certain European countries, such as France. Research on Korean film policies have been instrumental for the success of the country’s film industry. The major finding of this analysis is that protectionist policies in the film industry have played an insignificant role. First, the import quota regime did not limit the size of the Korean audiences that watched foreign films, but rather strongly induced Korean filmmakers to produce poor-quality movies. Second, the screen quota system has not ensured that the domestic audience will watch these movies. Finally, the subsidy policy was barely noticeable before the late 1990s and is now too late and too small to be credited for any significant impact on the success of the Korean film industry, which began from the early 1990s. Parc suggested that business activities under market-friendly conditions are the key factor towards enhancing competitiveness of the film industry. Furthermore, this author recommended that policymakers in other countries reviewed their own policies that advocate protectionism, as a way to make their film industry more competitive and attractive.

Some more light shall then be shed on the surging film industries within Latin America, and the role of film subsidies play as an essential component in fostering a continental film industry under the reign of national governments. Falicov (2018) examined the histories of various film institutes throughout the region, to understand how these state-run funding bodies have diversified their roles and policy mechanisms, in order to help sustain

national film industries. The state has been fundamental in enforcing laws to help strengthen national film industry growth through film institute programmes, support to the private sector via legislation and funding to film schools. Moreover, more recently, it has boosted its assistance in marketing and branding national cinema, along with its commitment to foster transnational exchange with the Ibero-American film finance fund, Programa Ibermedia. Research suggests that neoliberalism, or the shift from a state-funded system to a privately-owned market economy, is not solely an economic policy, but also a cultural one. As Latin-American public film policies have turned neoliberalist, they have taken on branding and marketing policies as dominant ideology.

Through various governments and arrangements, there has been considerable experimentation with different forms of funding and assistance over time in Australia. The primary ways in which government has opted to support the Australian film industry have been through subsidy (direct funding) or incentive (indirect funding). During the 1990s, the primary means of support was through subsidy. With the turn of the century, government has opted for an increasing mix of both subsidy and incentive (McKenzie & Rossiter, 2018). In fact, Australia runs a “two-door approach” of funding provisions. One under the Film Finance Corporation (FFC), and the more recent “Producer Offset” scheme, operated under Screen Australia—the Federal government agency charged with supporting the development, production and marketing of Australian screen content, as well as for the development of Australian talent and screen production businesses. For the time being, the “Producer Offset” scheme looks here to stay, but with convergence of media platforms and changing audience viewing behaviors, there is some debate about the relevance of a distinction between an offset for a feature film which is set at 40 % of eligible funds and 20 % offset for other programs, such as TV drama and documentary. The federal government’s Convergence Review, conducted in 2011, raised the idea of a 40 % offset for all types of production (DBCDE, 2012). This distinction is important because Australia, like many other countries, has experienced an increasing convergence of media channels. While cinema has not been the only means by which audiences can view feature films for some time, there are now more screens than ever before, delivering more content in more ways to more fragmented audiences. Cinema competes with television, DVD or Blu-Ray, and video online. Assessing the performance of a feature film must take into account these various access points across the entire lifecycle of the film. Theatrical revenues tell a vital, but incomplete, story about the performance of feature films. Assessment of the performance of Australian feature films must move beyond the box office, despite it being a significant lead indicator, it is not the only one.

3.1. Evidencing subsidy effects

Clearly, evidencing the effects of film subsidies has recently become a first-order rationale for governance and state intervention, if not their *raison d’être* in times when film culture is considered as belonging to the “creative industries” (Hesmondhalgh, 2012). Although creating benefits from subsidies to culture is far from being a new

academic proposition (Frey, 2011), the effects debate warrants much closer study from the perspective of media policy and governance research.⁷ Why should government subsidize film? What are the effects of these subsidies? And, is a focus on narrow economic benefits of subsidies to film sufficient? Does it not need bigger picture that includes the effects of culture as well? Certainly, effective governance plans for supporting a whole industry will first have to identify the key drivers when aiming to resolve an ailing, or otherwise to be supported industry, all the way from setting clear and realistic objectives to measuring subsidy-impacted industry performance and output.

First, on an institutional level, in the European film sector, the European Commission adopted a new “Communication on state aid for films and other audiovisual works” on 16 November, 2013. This new Cinema Communication provides an updated set of rules for assessing whether European Member States’ audiovisual support schemes comply with EU rules on state aid (European Audiovisual Observatory, 2014). It gives clarity to market players on the criteria that the Commission will apply when examining notifications by Member States. On 17 June 2014, the Commission declared certain categories of aid, compatible with the internal market, in application of Articles 107 (3)(d), and 108 of the Treaty on the Functioning of the European Union (TFEU). The review of the rules in the Cinema Communication of 2012 was extensive, and reflected the important role films and other audiovisual works play in Europe at the crossroads of culture and the economy. On the one hand, European audiovisual production is an important source of creativity and cultural diversity, one that contributes to defining European cultural identity. On the other hand, cinema is an industry, which has a European dimension. Its activities, just like those of other sectors, are embedded in the EU Single Market.

While the EU film sector is dependent on state support—whether at sub-national, national or supranational level—state aid for film is said to be necessary, in order to ensure such subsidies are in the common interest and a level playing field between all Member States is preserved. Likewise, government grants to promote culture is allowed by the TFEU through a specific derogation (Article 107(3)(d)). Considering the particular nature of the audiovisual sector, the European Commission established specific criteria in the Cinema Communication for assessing the compatibility of audiovisual support. These criteria aim to achieve a balance among economic, cultural and legal concerns (European Commission, 2014). By tackling several recent sector evolutions and support trends, the new Cinema Communication ensures continued legal certainty, to the advantage of Member States, sector professionals and ultimately European audiences.

Several studies have been performed around the world on the potential economic effects (for Europe, see Olsberg & Barnes, 2014; for the United States, see Tannenwald, 2010). For the United Kingdom, there are four reports by Oxford Economics (2012) based on the comprehensive statistics compiled by the Film Council and the British Film Institute. Many of the US states have had their own incentive funding evaluated. In their evaluations of the funding models, the experts at Olsberg SPI, commissioned by the European Council’s European Audiovisual

Information Office, came to the conclusion that, in the case of almost all incentive funding models, revenues in the form of taxes exceed the state's expenditures for the systems, and that there were positive side effects for the entire economy, particularly in the areas of tourism and exports (Olsberg & Barnes, 2014). Olsberg SPI stressed that most studies found positive results in Europe. Furthermore, Olsberg employed a "difference in difference" method, according to which countries are divided into two groups: one with incentive funding and another one without. Then, economic effects are compared on the basis of certain indicators (the number of employees in the film industry, the industry's economic output, the value of investments, tax payments, etc.). This method was also used to examine the effect of abolishing or altering existing incentive funding programs. However, Olsberg SPI admitted that results and validity of the study were limited due to a lack of comparable data.

On a national level, Austria, a small country in the center of Europe, is another best-practice example which testifies for the welfare-enhancing effects of its public film policy scheme. The country has introduced government subsidies to film only late in 1981, at a time when other European countries had long arrived at considerable levels of financial support for their film industries. Austria's film industry has grown continuously, with more and more companies and individuals working in the sector. With total funding of almost 82 million euros, revenue in the sector has risen considerably and now totals 918 million euros. In 2015, the total expenditures of the 19 subsidizing institutions were 81.7 million euros, an increase of 5.8 % compared to 2014. National funding bodies disbursed 57.2 million euros or 70 % of all funding, while regional funding amounted to 24.5 million euros or 30 % (ÖFI, 2016).

The largest regional source of subsidies, by far, is the state of Vienna, with just under 19 % of total disbursements. The Austrian Film Institute supports films selectively on basis of newly filed project applications (selective funding) or automatically (automatic funding), based on performance success of a prior film (also called "reference film funding") in which support is given to a new project, based on the applicant's success with its previous reference film. This scheme represents a dual system of film funding. Funding is available in the fields of: (a) script development ("incentive funding"); (b) project development (i.e., all measures prior to film production and/or shooting); (c) production of Austrian films (cinema films, TV movies, other films) produced by Austrian producers under their own responsibility and international co-productions with Austrian participation; (d) exploitation of Austrian films and films equated to Austrian films (i.e., cinema release funding, foreign-language dubbing or subtitles, and the participation in international film festivals and film markets) and (e) continuous vocational training of professionals working in the area of film in creative, technical, or commercial positions.

Research found that while subsidies have remained the main pillar of the country's quest for diversity, more attention should be given to funding concepts that support less "market-driven" productions, that is, independent, original and high-quality productions and the effects these have on film culture and society at country's film

producers albeit limited resources and low funding levels overall; the debate needs to be redirected to the specificities of understanding the wider cultural effects of government subsidies to film. They believe that more attention should be given to research and practices of the cultural and societal impacts of these schemes, other than the direct production-related and exploitation-related impacts which the schemes address. They argue that the purpose of subsidies needed to be redefined in that their value was not only economic and hence contained within budgets, but that benefits were rather indirect and “cultural.” Repurposing these schemes would naturally lead to “cultural enrichment” resulting from collective interactions between governance and the market players, that is, filmmakers, artists and other cultural professionals.

Still, in Europe, film and cinema is conceived more as an art form than as a business. And therefore, we believe that one-sided arguments exclusively employing economic effects ignore an extremely important area: film production has cultural value and these wider impacts on culture and society must be considered equally when evaluating subsidies to film and film production. However, the economic effect, which can easily be counted and quantified, has become a sole yardstick for legitimizing state aid for film to the industry. However, is evidencing film subsidies on purely economic reasons enough for legitimating film funding as such? Publicly funded film is under more pressure than ever to quantify the social benefits it brings, as would be done for schools and hospitals. But isn't the crucial role of art to challenge the way society is run? Again, we wish to stress that when film funding seeks legitimation for its action and yardsticks for the success of its work, an integral approach revealing both economic and cultural impacts is much more useful. This involves tools for informing, monitoring, and controlling subsidy effects on each side of the equation, hence the design of an “evaluation toolkit” for State aid for film. To our knowledge, such a unifying toolkit does yet not exist.

On a policy level, the European Audiovisual Observatory, representing 42 active members (41 countries plus the European Union represented by the European Commission) developed a “matrix” of indicators to measure the potential impact of film subsidies on various levels. The matrix consists of a series of indicators made up mostly of quantitative (minimum spend required, maximum amount grantable, etc.) and binary indicators (is there a cultural test?; are there theatrical performance criteria?), which make it possible to draw conclusions on the most common pan-European patterns referred to when applying for the different types of schemes.

Again, when looking to the situation of Austria, the film industry has been supported by public subsidies in ways that generically should help innovative and original film to develop sustainably, all granted by a plethora of financial schemes on various levels. And, importantly, the Public Service Broadcaster ORF has safeguarded these developments by several agreements to support the Austrian film industry. Arguably, this diversity of support mechanisms has greatly contributed to the success of Austrian film productions at home and abroad. As mentioned, this success is not self-evident as Austria's film industry is small and has limited resources. Located in central Europe with some eight million inhabitants and divided into smaller regions—with the Viennese region

of two million inhabitants being the exception—Austria has to cope with two basic conditions: (1) the shortage of resources of the markets for film and audiovisual services and (2) Germany as a large neighboring country with a highly developed range of audiovisual media products belonging to the same language area (Trappel, 2007). While these conditions would speak for dependency in terms of artistic creativity and production, however, Austrian films and its industry today loom big on the international film horizon without much international money. Lately even, Austrian filmmakers received more festival participations, international visibility, and more recognition than ever, fortunately also at the home box office.

4. STATE AID FOR FILM IS ESSENTIAL

This study found a variety of arguments that state aid schemes for film are limited by several critical challenges that endanger their principalities, do not avert market failure and prevent effective performance. However, conversely, it wishes to stress the notion that government support for film is a necessary, if not inevitable, policy instrument that is much needed in response to: (1) safeguarding jobs and creating further employment; (2) raising filmmakers income and job satisfaction levels; (3) fostering their skills and introducing incentives to persuade the film industry to recruit more talent; (4) compensating filmmakers for their performance if the public would not want to buy into their works; (5) improving film quality for the general public benefit, and/or encourage innovations in filmmaking and distribution that would otherwise not take place by supporting less “market-driven” productions, that is independent, original, high-quality productions; and (6) counteracting on inefficient or inequitable market practices of “Global Hollywood.”

Arguably, current policy support schemes to film media seem particularly challenging, intrigued by positive, negative, and ambiguous effects on all stakeholders involved (Flew et al., 2016). This is not only because European media policy consists of a complex maze of stakeholders, regulatory instruments, and diverging interests (Donders et al., 2014); this is mainly because the art and culture of filmmaking is presently facing a plethora of profound, if not disruptive, challenges that seriously threaten their long-established ecosystems and so the industry’s continued financial viability and competitiveness. However, the organization and functioning of the media systems are not the same across the globe, for they vary in the way they are funded and structured, their political independence, and so on (Iosifidis, 2011). These large variations among the media systems stem from different traditions, political cultures as well as regulatory systems. Hence, it can be concluded that profound changes in the media ecosystem as such are taking place—for example those driven by convergence—which have important implications for effectively governing a national or transnational film policy scheme. However, these impacts are complex, contrary and, of course, highly context-specific in that they are shaped by the culture and

society of a nation. Certainly, the “screen art industry” has always been powered by the capabilities of currently available technologies. Be it about the invention of the color television, the progress of cinema-related technology, special effects capabilities, and now virtual reality powered video/movie experiences—the adoption of new technology is clearly impacting the way movies are produced and consumed and other video-related entertainment products. However today, because films may attest to a remarkable creative potential and know-how of a country’s film producers, albeit limited resources and low funding levels, the debate on the effects of public film funding has affirmed that film subsidies are to be redirected to the specificities of understanding the wider cultural impact of government subsidies to film in the digital era (European Commission, 2014). When it comes to policy design, good governance plans for supporting a whole industry will first have to identify the big picture—when aiming to resolve an ailing or otherwise to be supported industry—all the way from setting clear and realistic objectives to measuring subsidy-impacted industry performance and output (Freedman, 2008). Naturally, effectively designing these schemes is a very difficult task. And finally, governance design can help supporting that schemes will not only have material impacts on the economic well-being of filmmakers and national industries as such, but also be regarded as essentially and primarily being support to culture and not to film business.

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Explanatory notes

¹Rather little is still known about these “mandatory investments” for film, these are compulsory inter-branch financial transfers. Organized by public authorities through binding legal agreements, they can take the form of a) an implementation of a specific tax or levy to finance a national film fund, or b) a legal definition of mandatory investments into film production.

²Film censorship, often on political grounds, can take on different forms and is carried out by various countries to differing degrees (Biltreyst & Vande Winkel, 2013).

³In economic theory, films exhibit increasing returns to scale, high fixed and sunk costs, and significant economies of scope. This means that film industries, in general, tend towards concentration—since cost savings achieved by a certain volume of films produced (economies of scale), between different films produced within one company active in more than one market or across more steps of production (economies of scope), or between networks of different suppliers and audiences (economies of networking)—lead to a distortion of fair competition with overall welfare losses for the viewing public. This also means that setting prices equal to marginal cost will generally not recoup sufficient revenue to cover the fixed and start-up costs of a film production. And the standard economic recommendation to set prices at marginal cost will fail to cover total costs, thus requiring a subsidy, albeit not necessarily from the public purse (on film financing and “movie economics”). Another observation made by economists, sociologists and other analysts alike is that when the market size increases, so do demand uncertainty and the importance of scale economies. As for most cultural industries, consumer tastes for films are unpredictable, and it is difficult to foresee any film’s success or failure at the box office (Chisholm et al., 2015).

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

Conflict of Interest

The authors declare that there is no conflict of interest.

Author’s Contribution

Paul Clemens Murschetz: had the original idea, designed the research frame and method, researched all literature on the subject and edited all subchapters.

Roland Teichmann: contributed to selecting and reviewing the literature and added data on the subject.

Sameera Javed: helped editing all chapters and supported the literature review.