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**The Europe-Hollywood Coopetition:
Cooperation and Competition in the Global Film Industry**

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First edition: December 2007
© Copyright 2007. Alejandro Pardo
Ediciones Universidad de Navarra, S.A. (EUNSA)
Servicio de Publicaciones de la Universidad de Navarra
Pamplona - España

ISBN: 84-8081-050-5
ISSN: 1695-310X
Depósito legal: NA-2.944/2002

Printed by: Gráficas Egúzkiza

Printed in Spain

Issue 8 2007

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Alejandro Pardo

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Foreword

The relations between Hollywood and Europe are as old as the cinema itself, as many authors have pointed out through very well documented research (which will be reviewed in the following pages). Nevertheless, the present decade, characterized by the globalization of markets and resources, as well as the digital revolution, is witnessing a different set of strategies.

It is not a coincidence that during the last decades several scholars have begun to underline the internationalization of the American film industry. One of the pioneer texts in this regard was *The International Film Industry: Western Europe and America since 1945*, published by Thomas Guback in 1969, a splendid work of research on the economic and political relationships between Hollywood and Europe in the postwar era. In the last ten years, this concept of ‘international Hollywood’ has been substituted by ‘global Hollywood’ –and by extent ‘global film industry’– and has become a central issue in recent books on the current scenario of film production, distribution and exhibition worldwide. In mentioning just few of them, I would like to begin with the volume written by Colin Hoskins, Stuart McFadyen and Adam Finn (1997), *Global Television and Film: an Introduction to the Economics of the Business*, where they provide a systematic and structured economic explanation of how the global markets for films and television operate. The book also explains the underlying reasons for the prevalence of American based media across the world. Three years later, Gorham Kindem edited the *International Movie Industry* (2000) a comprehensive history of one century of cinema in twenty territories, with a remarkably conclusive chapter about the US role in the international movie industry and the different responses to Hollywood. About the same time, Toby Miller, Nitin Govil, John McMurria and Richard Maxwell published the well-known *Global Hollywood* (2001), reedited in 2005, a thought-provoking account of the effects of globalization and the success of the

Hollywood cinema factory from a variety of perspectives. Finally, there is a very recent collection of essays edited by Paul McDonald and Janet Wasko (2008), *The Contemporary Hollywood Film Industry*, which examines the US film industry as an international phenomenon from the 1980s to the present day, emphasizing the challenges of corporate strategies for global markets. (I am leaving out here, on purpose, many others relevant books about the political, economic, and cultural relations between Hollywood and Europe, past and present, which will be mentioned in the corresponding chapters).

All these books reflect in one way or another the expansion of Hollywood all over the world as industry and market contender, as well as the reactions from different territories defending themselves from the American domination while, at the same time, trying to obtain some benefit for their local film industries.

The brief text I am presenting here aspires to be just a further contribution on how the Hollywood and the European film industries work together in a 'love-and-hate' dynamics. Although my approach is mainly based on a business management perspective, it also covers a wider view in the way both players interact.

This research is divided into two main sections. The first one offers a comparative analysis of the American and the European film industries at the present moment, preceded by a brief historical background and followed by a summary of the strengths (Hollywood) and weaknesses (Europe) of both film industries. The second section represents the core of my contribution: a proposal of some cooperative and competitive strategies currently developed by Hollywood studios and European film companies to cohabit in a global scenario.

At this point I shall clarify the use of some terminology. On the one hand, I am intentionally using the term 'Hollywood film industry' as a substitute for 'American film industry'. It is true that there is a vast film independent sector in the US but, in my view, Hollywood epitomizes the movie industry in the US, especially from an overseas perspective. In addition, as some authors have underlined, the borders between the majors and the independents are becoming blurred (Schatz, 2008: 31-

35). On the other hand, I am also deliberately using the term ‘European film industry’ as a single inclusive concept. I am quite aware of the enormous differences between the film industries in some European countries, but at the same time there are a number of similarities that allow us to consider the different European film industries as a whole in comparison to the US.

The ideas and reflections I am addressing here pretend to be a ‘blueprint’ for further studies, especially in the application of the simultaneous strategies of cooperation and competition described here to any particular European country –or to any other territory in the world (Asia-Pacific, Latin America, Australasia, etc.). At the same time, some of the trends explained in these pages can be developed further as case studies (for business management purposes).

Partial results of this research have been presented at different international forums, such as the International Society for the Study of European Ideas (ISSEI) in 2004, the Society of Cinema and Media Studies (SCMS) in 2005, the World Media Economics Conference in 2006 and the annual conference on Cultural Production in a Global Context: The Worldwide Film Industries (NYU-Stern School of Business) in 2007. In all those meetings I received very valuable input and feedback that allowed me to rethink, adjust and develop some of the ideas I am discussing here. In addition, I benefited from an invitation to attend the Annual Business and Economics Scholars Workshop Summit in Motion Picture Industry Studies at the Carl DeSantis Business and Economics Center for the Study and Development of the Motion Picture and Entertainment Industry (Florida Atlantic University) in 2005. In this sense, I would like to express my gratitude to Bruce Mallen and Rob Davis, Director and Associate Director respectively of that Institution. Equally, I took advantage from a stay as Visiting Researcher at the Department of Film, TV & Digital Media, School of Theater, Film & Television at UCLA in summer 2006. My sincere thanks to Barbara Boyle, Dean of that Department, for her time and advice. Similarly, I am very grateful to Gigi Johnson, former Head of the Institute of Entertainment and Media Management, at the Anderson School of Management (UCLA). She had the opportunity to read a germinal version of this research and shared with me very insightful comments.

In this same regard, I would like to acknowledge the ideas from my colleagues of the “Europe-Hollywood” research network, and especially to Paul McDonald, Janet Wasko, Joël Augros, Giuseppe Delmestri, Joseph Gancarz and Peter Krämer, whose published works have been quite inspiring to me. In addition, I want to thank my colleagues at the School of Communication, University of Navarra, for their support, with a special mention of Alfonso Sánchez-Tabernero and Charo Sádaba, editors of these Media Markets Monographs series.

Finally, on a more material basis, I would like to thank Peter Yordan for his early contributions to this research, as well as Sebastian Kaufmann, Joseph Killoran, Javier García, Claudia Salcedo and Marta Núñez for their assistance in the collection of data over the years. My special thanks also to Ike Obiaya for revising the final text before printing.

Now it is time to break into the Europe-Hollywood coopetition.

1. Historical Background

As many authors have asserted, during the first century of the motion picture industry, the relationship between Hollywood and Europe was basically a dual one: economic and cultural. Nevertheless, this dual relation was far from being balanced. On the economic side, the US film industry has virtually no competitor among other countries. Hollywood films dominate cinema screens all over the world, providing a substantial margin of profits for the major studios. To illustrate this blunt reality, it is enough to say that US films account for an average 70% of the European market whereas, in return, European films represent less than 5% of the North American box office (according to the European Audiovisual Observatory data). As a consequence, on the cultural side, Hollywood movies have efficiently acted as disseminators of American values in every single corner of the planet (Guback, 1969; Thomsom, 1985; De Grazia, 1989; Guback, 1969; Jarvie, 1992; Ellwood & Kroes, 1994; Segrave, 1997; Nowell-Smith & Ricci, 1998; Higson & Maltby, 1999b; Trumpbour, 2002; Gournay, 2002; Stokes & Maltby, 2004; Miller et al., 2005; Buquet, 2005; Elsaesser, 2005).

To talk about the connections between Hollywood and Europe is just about the same as to talk about Hollywood tactics in most of the world territories. As is well known, “the US movie industry has played a leading role internationally, stimulating many countries to adopt protectionist measures... and marketing strategies designed to successfully compete with Hollywood films” (Kindem, 2000a: 369-370). The role of the European film industry as the historical rival of Hollywood, together with the key contribution of European film markets to the majors’ total foreign income, has forced the development of a complex –and sometimes subtle– net of relationships. On its part, under the flag of the national culture/heritage defense, Europe has been obliged to take measures to preserve not only

the existence of its film industries but a share of its film markets as well. In response, Hollywood has reinforced even more its policy of expansion, increasing its number of overseas productions and co-productions while at the same time moving into European territories through partnerships with local producers, distributors and exhibitors (ibid.: 371-375). Therefore, whereas in the case of Hollywood the historical evolution has been one of 'expansion' and 'consolidation', the development of the European film industry on the contrary is more of 'survival' and 'defense'.

This is not the place to give a detailed history of the birth and development of the film industries on both sides of the Atlantic. Nevertheless, it is very useful to extract at least some highlights in order to understand the current situation.

As is well known, the first movements of rivalry between Europe and Hollywood were marked by the initial hegemony of the European films worldwide. Until 1914 the French film industry was the most important in the world, followed by the Italian and the Danish (Segrave, 1997: 1-6; De Grazia, 1989: 57). Pathè Frères, for instance, was the leading film company in the United States until 1909, with more than 50% of the domestic market share. In addition, this French company had offices in the main European cities as well as in New York (Kindem, 2000a: 365). America's reaction was not long in coming. In 1908 the industry representatives unified forces and created the Motion Picture Patents Corporation (MPPC) in order to face up to the European leadership in their own territory. Two years later, they added the distribution arm named the General Film Company. This strategy did not last for very long –it was soon accused of monopoly– but at least it helped them to recover their protagonism in their own market. By 1912, 80% of domestic releases were American (Forbes & Street, 2000: 3-25).

The struggle to conquer the international markets had just begun. While the US was strengthening its economic power all over the world, Europe was suffering a political and economic downfall that would end up in the First World War. In 1914, whereas Pathé had to dismantle his cinematographic emporium, the first seeds of the

Hollywood studio system were being set up. Two years later, New York became the new economic world capital instead of London. In addition, the Hollywood industry could soon rely on State support. In 1918 the movie business was declared an “essential industry” by the American government (Segrave, 1997: 6-12). By 1917 Hollywood had climbed up to the leading position in the international markets and was never to abandon it. Few years later, figures were unquestionable: according to some early reports, by 1922 American movies represented 85% of the European market and more than 90% in other territories like South America and Australia (Segrave, 1997: 65).

The European counter-offensive at that time was very similar to what we have seen very recently. On one hand, some Western European countries like Germany, Great Britain and France introduced during the 1920s several restrictive measures (mainly quotas and tariffs) in the distribution and exhibition transactions in order to protect their own film markets. As a consequence, the amount of American film exports in Europe dropped significantly whereas the number of domestic films grew together with their popularity (Segrave, 1997: 32-46). On the other hand, during the 1920s and 1930s, Europe launched a second strategy known as the ‘Film Europe’ movement. It consisted of an attempt to create a pan-European film production and distribution network to unify the European film market and compete against the Hollywood domination –not only in their own territory, but also overseas (Higson & Maltby, 1999a: 1-31).

None of these measures managed to change the scenario in the long run. Europe’s economic and political instability together with Hollywood’s renewed effort to recoup its hegemony made it impossible to consolidate these European attempts to impel a turn of power. Quite the contrary, during the 1930s Hollywood’s foreign grosses represented around 35% of total income. And which is more significant, 60% of that percentage came from Europe. A report from the US Department of Commerce published in 1939 estimated that Hollywood accounted for 65% of the total number of theatrical movies in the world (Thomsom, 1985: 148). On top of that, a number

of European talents decided to emigrate to Hollywood in several waves. There, movies were considered mainly as popular entertainment whereas in the Old Continent cinema was becoming more and more a political and cultural weapon, somehow distant from audiences' tastes. The advent of sound a few years before, and the strategy of shooting double (or multiple) language versions of movies was a first job opportunity for European writers, directors and actors. A second large wave of émigrés, escaping from the Nazi persecution, took place later on (Segrave, 1997: 1-11; 77-79; Behlil, 2007: 19-24).

Offering a balanced summary of these first decades, Victoria De Grazia states:

To claim that the US cinema achieved a sustained advantage over European filmmaking after 1914 is not to argue that the latter was backward in any conventional sense... French and Italian producers were at least as prominent as American in international markets during the pre-1914 era... Through the interwar years, Europe –especially central Europe– supplied Hollywood with some of its most virtuoso performers, enterprises producers and brilliant directors. It is not implausible that European producers on their own would eventually have embarked on mass production... Yet even as they did so, they acknowledged the US cinema's supremacy and tended to identify whatever was innovative and “modern” with American precedents (De Grazia, 1989: 57).

Nevertheless, the closer precedents of current situation, as it is understood today, began in the post Second World War era. The conflict outbreak undermined the last hope of the European film industry. When the war was ended, Hollywood found a free way to strengthen its position in the foreign markets. In addition, it had access to the previously self-protective Western European film markets as part of the Marshall Plan (Jarvie, 1998: 36; Segrave, 1997: 148-149). Europe was considered a single trading zone and the US began to act as the single most powerful nation, the world's largest film exporter and with a massive and lucrative domestic market (Jarvie, 1998: 36; Nowell-Smith, 1998: 5). Among the advantages that the American film industry had over all potential rivals on international trade, the following, according to Jarvie, should be

underlined: a) Hollywood was an unquestionable leader in the manufacture of popular entertainment; b) local exhibitors and distributors were therefore favorably disposed towards American films, not only for their higher audience appeal but also for their competitive conditions (regular supply and better prices); c) blocked currencies obliged Hollywood to spend on European location shooting as well as using European talent; d) apart from that, Hollywood had extensive investments in Europe and intended to recover control over them (Jarvie, 1998: 44). In addition, in the immediate postwar years, Hollywood studios sought to monopolize control of distribution and exhibition, pressing on European competitors through booking offices, establishing their own distribution subsidiaries and even investing in theaters as well (De Grazia, 1989: 58). On the contrary, as De Grazia points out, European film industries were suffering the consequences of the war, with their capital depleted when the US firms were emerging. In addition, European film companies were dependent on export markets, whereas the US ones relied on their vast home market. On top of that, wartime regulations made it harder to respond to American competition. And finally, European audiences' tastes changed in favor of American movies (De Grazia, 1989: 57-58).

As a consequence, American films returned to European screens, under a new regime intentionally far less protectionist than the old one. During the 1950s and 1960s the US relied on exports for more than half of its film revenue. On the contrary, Europe didn't manage to achieve a significant presence in the American box office, although it did increase the number of film exports to the US (Guback, 1969: 37-90; Segrave, 1997: 288). At the same time, European cinema experienced some revival, due not only to those protectionist measures but also by the confidence of the industry and the rise of popular demand. Nevertheless, the conditions under which European cinemas would emerge were still precarious. This situation obliged European filmmakers to be innovative, seeking for new forms of storytelling. As a consequence, some new cinematographic movements like Italian neo-realism and the French "new wave" provided new and fresh films. Their success helped to open a door for European cinema in the American market (Nowell-Smith, 1998: 5).

The bilateral agreements signed between Western European countries (France, Italy, UK, Spain) and the US during the 1950s helped to steadily increase the proportion of American-European co-productions. They were also a way of accessing frozen cash (Guback, 1969: 164-180). The so-called ‘runaway productions’ continued with few ups and downs until the end of the 1970s. At the same time, film producers in several European countries (notably Italy and Britain) began to explore various forms of cooperation with American companies in the post-war years, as happened with the Korda-Selznick collaboration, the Rank Organization’s attempts to break into the American market and the regular activity of Cinecittà studios in Rome, known at that time as “Hollywood on Tiber” (Nowell-Smith, 1998: 6).

The different forms of cooperation –among European countries or between Europe and Hollywood– from the 1950s onwards led to the recognition that the individual markets of European countries were too small to support viable national film industries. In addition, big-budget movies required a co-production effort. The need for cooperative strategies became even more urgent with the advent of television. In this sense, European film industries reacted against TV competition as Hollywood did, by making more spectacular films (Guback, 1969: 181-197; Nowell-Smith, 1998: 5).

Finally, the second half of the 1960s witnessed a large succession of business operations on a great scale that threw the historical Hollywood majors –in a difficult financial situation– into the hands of big corporations not directly related to the entertainment business. These movements in the industry coincided in time with the rapid emergence of the “New Hollywood”, characterized by a director-driven, youth-oriented, unconventional cinema. This independent spirit, in connection with the recovery of the mainstream moviegoer ended up with the beginning of the ‘blockbuster era’ in mid 1970s (Schatz, 2008: 18-21).

Meanwhile, European film industries, which had experienced a revival during the 1950s and 1960s –thanks to the American investment–, entered into a situation of crisis in the 1970s, prompted by a declining audience, the shrinking of cinema facilities, the

exhaustion of the co-production formula, the fragmentation of the production sector and the reduction of distribution companies, unable to counterbalance Hollywood domination (Degand, 1978: 39-40). This decline coincided with a change in both official and unofficial government policy in a number of countries. From 1960s onwards, several European countries (France, Italy and Germany) moved to more targeted support mechanisms (Nowell-Smith, 1998: 10-11). As a consequence, the traditional European popular cinema was substituted by the subsidized art film. American companies took advantage from this situation and consolidated their presence in Europe through their distribution subsidiaries. As a part of their strategy, they increased their investment to acquire and to finance European films, especially in France, Italy and the United Kingdom (Guback, 1974: 2-6).

From the 1980s onwards, the tendency of concentration and diversification through mergers, conglomerates, and multinational corporations in the US was accentuated. This time the reason was not exclusively financial but mainly strategic, in view of the new multimedia landscape. More in detail, the most significant development of the studios during these years in terms of structure and business plan was towards synergy and diversification. According to film historian Thomas Schatz, Hollywood studios were trying “to become more efficient multi-faceted media corporations, focusing on their filmed entertainment divisions while taking full advantage of new delivery systems and revenue streams” (Schatz, 2008: 22). This same author explains how this process of transformation went a step further during the 1990s, and the New Hollywood was substituted by “Conglomerate Hollywood”, “as the logic of synergy and tight diversification met the larger forces of globalization, digitization, and US media deregulation” (ibid.: 25). As a result, a new strain of media giants –AOL Time-Warner, Sony-Columbia, News Corporation-Fox, Viacom-Paramount and Disney-Capital Cities/ABC, NBC-Universal– took command of the Hollywood film industry, becoming the dominant force in a rapidly expanding global entertainment industry (Balio, 1998: 61-68; Wasko, 2003: 59-78).

Europe reacted in a similar way, although on a lesser scale. Some European conglomerates were formed –the former Kirch Group, Berterlsmann, Canal Plus, RTL, Fininvest– and even dared to break into Hollywood’s ownership (the former Vivendi-Universal) as a sort of vengeful strategy (Pardo, 2002: 20-25). In addition, a few European film companies managed to have an international impact, as happened with Le Studio Canal Plus and Polygram (Miller et al., 2005: 184-204).

In addition, during the 1990s, new efforts to identify and resolve the main deficits of the film industry were undertaken, with the support of some pan-European initiatives –Eurimages and Media Program. In this regard, a new European Union Audiovisual Policy was established and it contributed towards dealing with some challenges (Jäckel, 2003: 68-90; Henning & Alpar, 2005).

The global economic significance of the audiovisual sector was confirmed by the GATT negotiations in 1993. Whereas the Americans sought a deregulation of the European market –an abolition of quotas and subsidies– in cause of free trade, the Europeans defended the so-called ‘cultural exception’. This year also marked a turning point in Hollywood revenues, bigger overseas than at home for the first time (Forbes & Street, 2000: 24).

Since then onwards, Hollywood and Europe have been trying to consolidate their positions according to the new global map. Thus, as some authors point out,

The traditional argument between European and American film industries has been transformed in the 1990s into an argument about who would secure the multi-billion dollar profits from world-media domination, in which cinema plays a small but significant part (Forbes & Street, 2000: 24).

Nowadays, more than half of the top ten media conglomerates are American and each one of them owns a Hollywood major, as it is showed in table 1 (EAO, 2005b: 28)

Table 1.

Top 10 Worldwide Media Companies by Turnover (US \$ millions)

| Rank | Company | Country | 2001 | 2002 | 2003 | 2004 | Activites |
|------|--------------------------------------|----------|--------|--------|--------|--------|-------------------------------------|
| 1. | Walt Disney (ABC) | US | 18,168 | 18,864 | 20,649 | 23,002 | Film, Video, TV, Music, Theme Parks |
| 2. | Viacom (Paramount) ¹ | US | 18,046 | 18,858 | 19,758 | 21,374 | Film, Video, TV |
| 3. | Time Warner ² | US | 19,845 | 21,900 | 10,401 | 20,907 | Film, Video, TV, Music, Theme Parks |
| 4. | Sony (Columbia) | JP (US) | 19,161 | 20,151 | 20,159 | 16,006 | Film, Video, Music |
| 5. | Vivendi-Universal ³ | FR (US) | 14,733 | 19,058 | 19,860 | 15,494 | Film, Video, Music |
| 6. | News Corporation (Fox) | AUS (US) | 8,318 | 10,183 | 11,739 | 14,417 | Film, Video, TV, Music |
| 7. | NBC/Universal | US | 5,769 | 7,149 | 6,900 | 12,900 | Film, Video, TV |
| 8. | The Direct TV Group | US | 6,280 | 7,121 | 8,292 | 11,360 | TV |
| 9. | Bertelsmann | DE | 6,566 | 7,420 | 9,047 | 10,113 | TV, Music |
| 10. | Liberty Media Group-QVC ⁴ | US | 2,059 | 1,804 | 3,783 | 7,682 | TV |

Notes:

¹ Blockbuster Inc. was deconsolidated from Viacom in 2004.² Warner Music Group was sold in 2003 and is not included in Time Warner turnover.³ Vivendi sold Universal in 2004. NBC-Universal is ranked as a separated company.⁴ Since September 2003, QVC is consolidated in Liberty Media Corp.

Source: EAO, 2005: 28.

The situation of US supremacy is even more evident if we consider that these multimedia groups are responsible for 80% of the movies, 70% of TV fiction and 50% of the recorded music produced in the whole world (Dale, 1997: 10; Scott, 2005: 163-166). According to data offered by the European Audiovisual Observatory, the imbalance of trade in films and television programs between North America and Europe in the period

1995-2000 increased substantially. In this period, the sales of US companies in the EU increased from US\$ 5,331 million to 9,031 million (+69.4), whereas the EU revenues in North America grew only from US\$ 518 million to 827 million (+59.7). The total EU deficit increased from US\$ 4,813 to 8,204 million (+70.5) (EAO, 2003: 36). Not without reason, Jean Chalaby has defined this situation of American pre-eminence as one of “cultural primacy” –instead of “cultural imperialism”, which implies more ideological connotations (Chalaby, 2006). As this same author assesses, under this new global scenario the interaction between Hollywood and Europe is becoming more intense.

All US media conglomerates have set their eyes on international expansion and seek to increase their own out-of-home revenue. Hybridization is a key to the success of this strategy (Chalaby, 2006: 46)... American companies owe their continuing presence in the region to their understanding and adaptation to European cultures, establishing bases across the continent and hiring European staff (ibid.: 48).

At the same time, European interests are becoming more and more global, not only from the financial perspective, but also from the creative one. European monies feeding US companies’ coffers in different forms have been quite regular (Miller et al., 2005: 184-204; Gubbins, 2007b), as well as the presence of European talent in Hollywood (Goodridge, 2000). Thus, during the present decade the old rivalry has apparently been put aside in favor of subtle forms of cooperation and competition, as we will see later on.

Some of the factors explaining Hollywood’s dominance over the European film industry and market will be developed in the following pages. Nevertheless, in order to rely on the adequate framework, it is convenient to obtain first a comparative picture of both film industries.

2. Face to Face: Comparative Analysis by Sector

Over the last ten years Europe has seen an amazing level of activity, with investment and production skyrocketing and with industry and the state joining forces to promote European film more intensely than ever before. Nevertheless, as has been mentioned before, Hollywood remains firmly entrenched as the dominant force in the European film industry. The evolution of the film industry sectors –production, distribution and exhibition– in both territories along the last decade, together with the main industry and market indicators, are eloquent enough to draw a comparative analysis.

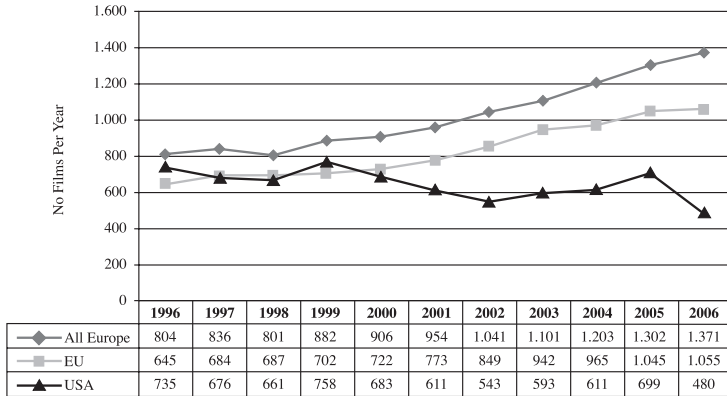
2.1. Production

On the Production side, the number of movies produced by the US and Europe was quite similar one decade ago –between 600 and 800 films per year. Nevertheless, the turn of the decade has witnessed a clear turning point. Whereas the European film industry has grown spectacularly surpassing the barrier of 1,000 productions per year (1,371 in the whole continent), the US has scaled down to less than 480 (*Screen Digest*, 2007a: 206).

On a worldwide basis, film production hit 4,858 feature films in 2006 –a steady 4.6% increase on the previous year and the most recent peak for the world feature output. This increase was led by Asia –particularly Far East–, where as much as 2,481 films were produced (51% of world film production), followed by Europe (28.2%). The US represents only a tiny 9.8% of total film production in the world (*Screen Digest*, 2007a: 205).

Figure 1.

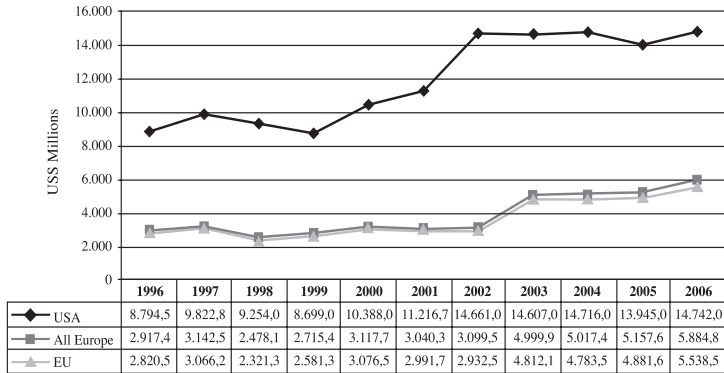
Europe vs. USA: Film Productions per Year (1996-2006)



Note: EU accounts for 15 countries from 1996 to 2002, and for 25 from 2003 onwards.
Source: Screen Digest.

These figures must be put in relation with the average budget per picture –which reflects the annual film investment in each territory. Here the US presents a very significant leadership. In the period 1996-2006, the US has experienced a significant increment in annual investment in film production –from US\$ 8.7 to 14.7 billion, which accounts for 59.6% of world total investment. European effort has been proportionally even larger, although on a lesser scale –from US\$ 2.3 to 5.8 billion, which represents 23.7% of worldwide investment.

Figure 2.

Europe vs. USA: Annual Investment in Film Production (1996-2006)

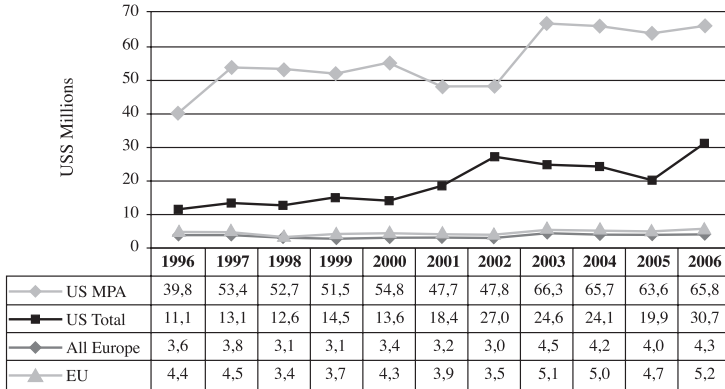
Note: EU accounts for 15 countries from 1996 to 2002, and for 25 from 2003 onwards.

Source: Screen Digest and MPA.

Regarding the average cost per picture, whereas in Europe this has remained very regular over the last decade (from US\$ 3.6 to 4.3 million taking into account the whole continent, and from US\$ 4.4 to 5.2 million in respect to EU members), in the case of US it has been skyrocketing, from US\$ 11 to 30 million if we include all the film producing sector (major companies and independents); and from US\$ 39.8 to 65.8 million in the case of the Hollywood studios (see figure 3). The main conclusion that can be drawn at this point is quite clear: the US produces fewer movies but with higher budgets, which means more competitive products for an oversaturated market.

Figure 3.

Europe vs. USA: Average Budgets (1996-2006)



Note: EU accounts for 15 countries from 1996 to 2002, and for 25 from 2003 onwards.

Source: Screen Digest and MPA.

It must be underlined that, in the case of the American film industry, the first 100 movies at the box-office achieve around 70% of the total domestic grosses; while, at the same time, every year about 250 films do not reach theatrical exhibition. In addition, close to 200 titles –in fact, the most successful ones– are exported to the foreign markets (Buquet, 2005: 23). In the case of Europe, only one third of the films released make a profit, and only 2 out of 5 pull even (Adler, 2003). In this regard, heavily marketed films tend to make more profits, and Hollywood’s marketing budgets can be 20 times bigger than those of European films.

From the income point of view, the American audiovisual industry usually doubles the European one. In the respective domestic theatrical market, the total gross for the US film industry in 2000 was more than € 20,000 million whereas in Europe it was close to € 10,000 million. Regarding the film exports, that year the US film industry obtained € 8,000 million out of the European market. On the contrary, the commercial deficit of the European Union in relation with the US was more than € 7,000 million (Buquet, 2005: 64-65).

Table 2.
*Top 10 European Film Companies by Operating Revenues in
 € thousand (Exhibition excluded)*

| Rank | Company | Country | 2001 | 2002 | 2003 | 2004 | 2005 | Sectors |
|------|------------------------------------|---------|-----------|-----------|-----------|-----------|---------|--|
| 1. | Walt Disney International | GB | 1,236,098 | 1,302,582 | 1,162,078 | 1,376,124 | n/a | Rights, Distrib (Film & Video) |
| 2. | United International Pictures | NL | 882,059 | 420,086 | 538,880 | 634,938 | 818,424 | Distrib (Film) |
| 3. | Warner Bros. Entertainment UK | GB | 329,243 | 474,334 | 625,851 | 553,402 | n/a | Distrib (Film) |
| 4. | Embassy Eagle Holdings | NL | 324,441 | 299,590 | 501,377 | 257,762 | 522,999 | Prod, Distrib (Film) |
| 5. | Groupe Canal Plus ¹ | FR | 430,000 | 455,000 | 351,000 | 394,000 | n/a | Rights, Prod, Distrib (Film & Video) |
| 6. | Warner Bros. Entertainment GmbH | DE | n/a | n/a | 360,685 | 434,784 | n/a | Distrib (Film) |
| 7. | Warner Bros. France | FR | 249,794 | 275,306 | 401,351 | 396,149 | 413,852 | Distrib (Film) |
| 8 . | RAI Cinema ² | IT | 289,835 | 319,203 | 311,252 | 298,546 | 386,794 | Rights, Prod |
| 9. | Group Pathé ³ | FR | 350,000 | 348,699 | 250,981 | 355,272 | 254,763 | Rights, Prod, Distrib (Film & Video), TV |
| 10. | Twentieth Century-Fox Home Entert. | GB | 200,241 | 246,979 | 300,567 | n/a | n/a | Distrib (Video) |

Notes:

¹ TV turnover not included.

² TV turnover not included.

³ Exhibition turnover (Europolaces) not included.

Source: Adapted from EAO, 2006: 113.

Another relevant data referred to the European film production sector is that 24 out of the top 50 European film companies (exhibitors excluded) are subsidiaries of the Hollywood majors –5 out of the first 10 (EAO, 2006: 113-114), as table 2 shows.

2.2. Distribution

Regarding the Distribution sector, the different levels of fragmentation in the US and Europe should first of all be stressed. Whereas in the US there are approximately 180 active theatrical distribution companies (seven big Hollywood studios and about 175 independent firms associated under the AFMA umbrella), the overall number in Europe is close to 830, 646 belonging to the EU (25) members and, within this group, more than half (375) concentrated in the five big Western European countries (Lange, Newman-Baudais, & Hugot, 2007: 9).

In this sector, especially, the dominant position of American companies in Europe can be traced. A recent study conducted in 2005 by the European Audiovisual Observatory, among a population of 435 film distribution companies, presented the following typology: 393 companies (85.8%) were under European control, 55 (12.1%) were controlled by US majors and 9 (1.9%) depended on investors from other parts of the world (Lange, Newman-Baudais, & Hugot, 2007: 15). Significantly, 20 out of those 55 US-controlled distributors are ranked among the top 40 leading film distributors in Europe for the period 2001-2005 (EAO, 2006: 120) –6 out of the top 10, as table 3 reflects.

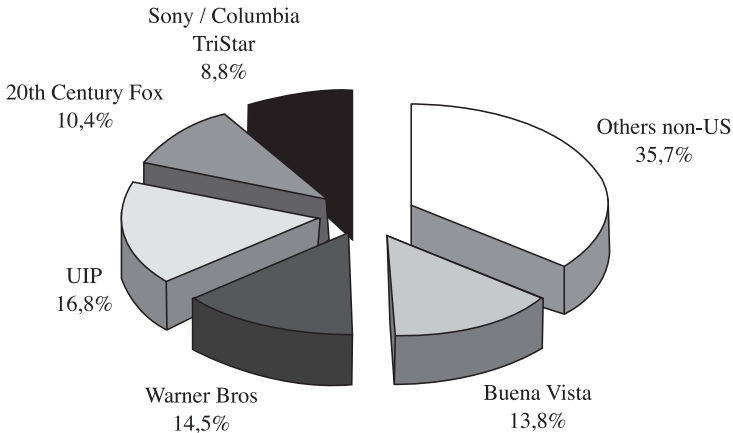
Table 3.
Top 10 European Film Distributors by Operating Revenues
(in € thousands)

| Rank | Company | Country | 2001 | 2002 | 2003 | 2004 | 2005 |
|------|---------------------------------|---------|---------|---------|---------|---------|---------|
| 1. | United International Pictures | NL | 882,059 | 420,086 | 538,880 | 634,938 | 818,424 |
| 2. | Warner Bros. Entertainment UK | GB | 329,243 | 474,334 | 625,851 | 553,402 | n/a |
| 3. | Warner Bros. Entertainment GmbH | DE | n/a | n/a | 360,685 | 434,784 | n/a |
| 4. | Warner Bros. France | FR | 249,794 | 275,306 | 401,351 | 396,149 | 413,852 |
| 5. | Sony Pictures Releasing GmbH | DE | 193,121 | 257,473 | 284,460 | 251,696 | n/a |
| 6. | Metropolitan Film Export | FR | 150,483 | 145,089 | 181,513 | 190,012 | 190,421 |
| 7. | Pathé Distribution (AMLF) | FR | 50,393 | 120,789 | 86,563 | 260,941 | 180,367 |
| 8. | The Walt Disney Company Iberia | ES | 137,677 | 179,600 | 184,303 | 253,870 | 169,624 |
| 9. | Entertainment Film Distributors | GB | 127,845 | 182,287 | 187,747 | 180,927 | 153,643 |
| 10. | Columbia Pictures Corporation | GB | 62,522 | 134,877 | 112,692 | 142,147 | 147,909 |

Source: EAO, 2006: 120.

This supremacy is also reflected in box office terms. On average, five Hollywood companies –until recently, UIP acted as distributor for Universal, Paramount and Dreamworks– controlled about 65% of the European distribution market for the period 2002-05, as figure 4 illustrates, leaving a scarce 35% to be shared by a number of European independent distributors.

Figure 4.
European Film Distribution Market: Breakdown by Companies
(Average 2002-05)

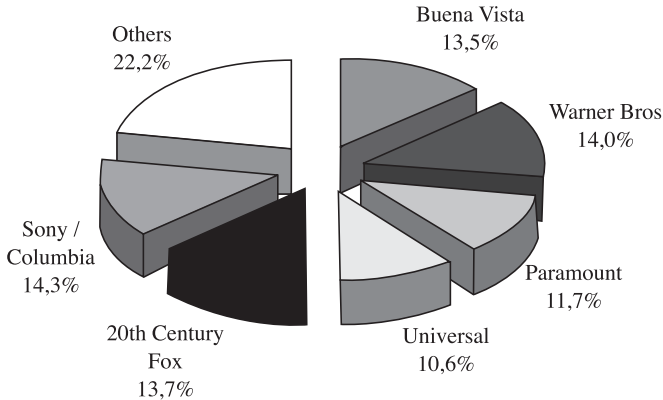


Source: Own elaboration on EAO data.

This panorama by itself speaks of a high concentration in this sector, both in Europe and in the US. An examination of the situation on some European individual markets highlights even more this concentration of revenues around the leading distributors. For instance, on the five larger markets –France, UK & Ireland, Germany, Italy & Spain–, the top ten distributors (which includes both subsidiaries of US majors as well as European companies in each case) account for 91% of admissions and 43% of new releases on average (Lange, Newman-Baudais, & Hugot, 2007: 11).

The situation in the US is even more accentuated. As figure 5 shows, six major companies account for 77.8% of the domestic market on average for the period 2005-07, without taking into consideration that among those “others” there are some “independent brands” related to the main studios like Miramax (Disney), New Line (Warner) or Fox Searchlight (Fox).

Figure 5.
US Film Distribution Market: Breakdown by Companies
 (Average 2005-07)



Source: Own elaboration on Box Office Mojo data.

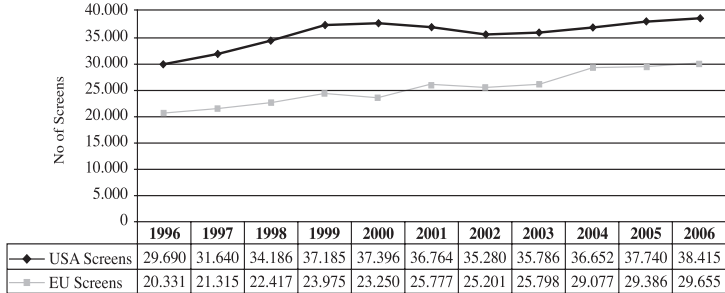
2.3. Exhibition

To give a first general comparative view between Europe and the US in the Exhibition segment –with regard to number of screens, admissions and box office revenues–, as *Screen Digest* indicates, North America (US and Canada) accounted for 28% of screens, 20.1% of admissions and 41.1% of box office revenues in 2005. On its part, Europe was responsible of 22.4% of screens, 13.4% of admissions and 30% of box office revenues (*Screen Digest*, 2006b: 333).

Although the amount of cinemas has been reduced in the last decades, the number of screens has steadily increased, both in the US and Europe (see figure 6). In this respect, the US has passed from 110.3 screens per million heads of the population in 1996 to 128.2 in 2006, whereas the EU has gone from 52 screens to 64.2 in the same period (*Screen Digest*, 2007b: 304). In order to perceive the significant difference between the American and the European theatrical markets

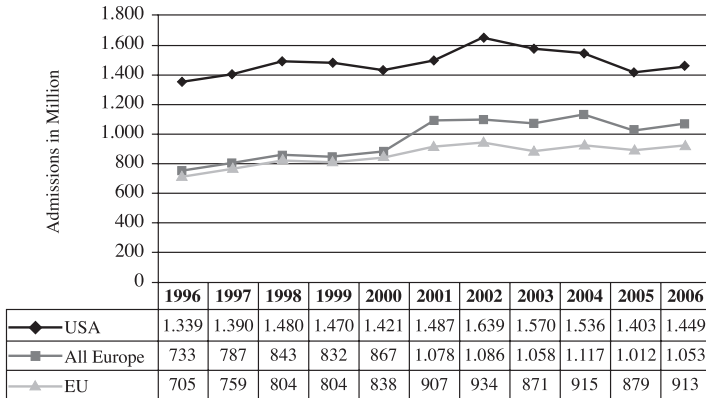
–in terms of market size and potential–, the number of screens must be put in relation with the admissions (figure 7).

Figure 6.
Europe vs. USA: Screens (1996-2006)



Source: Screen Digest.

Figure 7.
Europe vs. USA: Admissions (in millions) (1996-2006)



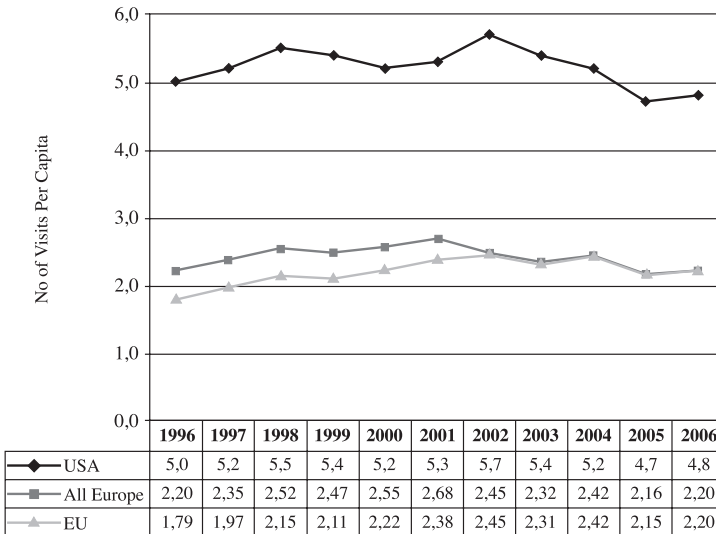
Note: EU accounts for 15 countries from 1996 to 2002, and for 25 from 2003 onwards.

Source: Screen Digest.

As can be observed, the US has scaled down from more than 1,600 tickets sold in 2002 to more than 1,400 in 2006. On its part, Europe has

suffered a slighter decline of its cinema audience. In any case, the gap of about 400,000 admissions between both territories has been regular. Apart from the bigger number of screens, the US citizen is a much more frequent cinemagoer than her European counterpart. Whereas the annual frequency per capita in the case of the US was 4.78 in 2006, the average in Europe was only 2.20.

Figure 8.

Europe vs. USA: Annual Frequency Per Capita (1996-2006)

Note: EU accounts for 15 countries from 1996 to 2002, and for 25 from 2003 onwards.

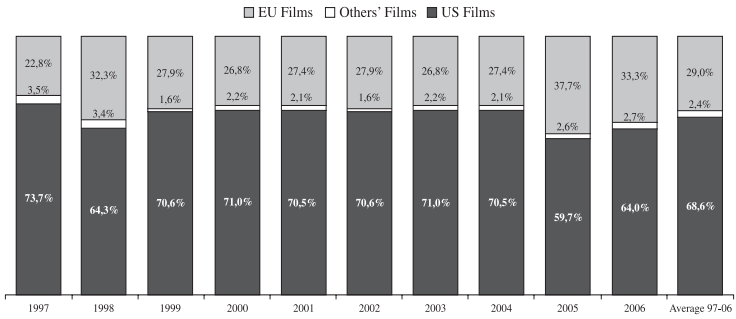
Source: MPAA and Media Salles.

Box office revenues from cinemas worldwide have achieved a ceiling of about US\$ 25 billion approximately in the last years. There is a significant concentration of the theatrical grosses on few successful titles. In 2005, 24.9% of the world's box office was accounted for by the 10 top-grossing films –this figure was of 22.9% for 2006– and the majority of them were one hundred per cent American (*Screen Digest*, 2006d: 210).

On the other hand, in relation to the box office, there is a clear imbalance between Europe and US. Around 68.6% of the European film market

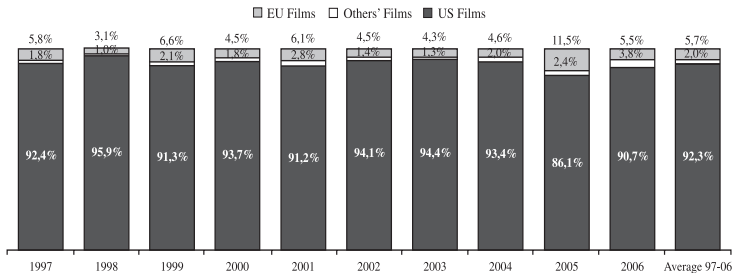
(admissions) belongs to American movies, whereas European films only manage to achieve 5.6% of the US market as figures 9a and 9b shows. As will be addressed later on, there are a some movies produced in Europe with US investment –generally quite successful at the box office– that for the purpose of this statistic count as European productions. In other words, without taking into account these film productions, the market share of European movies (in Europe and in the US) would be even smaller.

Figure 9a.
Europe vs. USA: Market Share by Admissions (EU Film Market)



Source: Own elaboration on EAO data. Percentage of EU films for 2005 and 2006 include some UK-US co-productions.

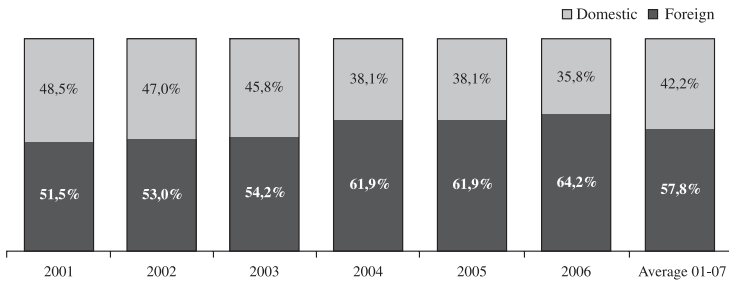
Figure 9b.
Europe vs. USA: Market Share by Admissions (US Film Market)



Source: Own elaboration on EAO data. Percentage of EU films for 2005 and 2006 include some UK-US co-productions.

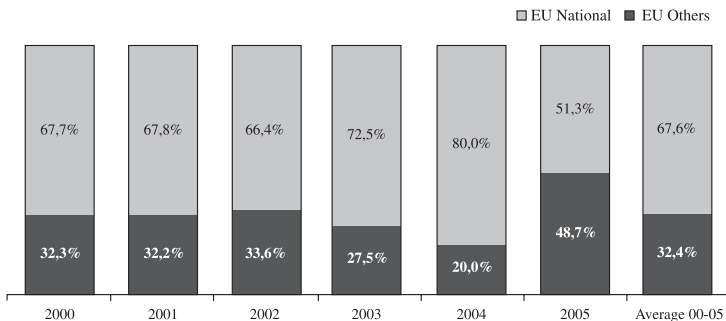
To complete the conclusion drawn before, the US produces fewer films with higher budgets which are addressed not only to a bigger domestic market (number of screens, annual frequency per capita and total admissions), but also to an international market eager to receive Hollywood blockbusters. Whereas Hollywood studios got almost 58% of total revenues (theatrical) from the international markets on average in the period 2001-06, films from the European Union only got 32% of admissions from the EU market between 2000 and 2005 (see figures 10a and 10b).

Figure 10a.

Europe vs. USA: B.O. Percentage of US Films in Foreign Markets

Source: Own elaboration on MPA data.

Figure 10b.

Europe vs. USA: Admissions Percentage of EU Films in EU Markets

Source: Own elaboration on EAO data.

Finally, let us pay attention to the analysis of the Exhibition sector from the company point of view. In the US market, consolidation continued to occur among the top-ranked exhibitors. In relation to international markets, the retrenchment of US firms has continued in the last years, especially in Asia-Pacific. In Europe, venture capital firms have invested heavily in a bid to streamline existing operations, particularly in UK and Spain, and mirroring the situation in North America. Following considerable change at the top of Europe's largest cinema chains in the last years, the degree of corporate activity has slowed to a certain extent (*Screen Digest*, 2006b: 334-335; *Screen Digest*, 2007b: 303).

We should also remark that the multiplex boom has had a mixed effect on the European film industry. Attendance has exploded, but the huge increase in available screens hasn't resulted in a hoped-for increase in European films being shown. After its initial success the screen boom has begun to oversaturate the exhibition market, as screen construction grows at a far faster rate than audiences do. This has caused fierce competition among exhibitors for smaller profits. At the same time the glut of movie production in Europe makes it harder than ever for distributors to make profits, because there are not enough screens available to show all the movies made.

In a clear difference from the Production and Distribution sectors, the US is hardly present among the top leading exhibition companies in Europe. Only 2 out of the top 30 are Hollywood subsidiaries (EAO, 2006: 123), none of them in the top 10, as table 4 reflects.

Table 4.
Top 10 European Film Exhibitors by Operating Revenues
(in € thousands)

| Rank | Company | Country | 2001 | 2002 | 2003 | 2004 | 2005 |
|------|--|---------|---------|---------|---------|---------|---------|
| 1. | United Cinemas International ¹ | NL/GB | 494,057 | 457,652 | 409,162 | n/a | 474,841 |
| 2. | Terra Filma Investments (Odeon) ² | GB | 254,042 | n/a | n/a | 402,454 | n/a |
| 3. | Cineworld Group ³ | DE | 188,182 | n/a | n/a | 54,513 | 397,369 |
| 4. | Europalaces | FR | 351,000 | 374,301 | 380,019 | 407,728 | 381,237 |
| 5. | UGC | FR | 392,054 | 331,426 | 315,442 | 198,642 | n/a |
| 6. | Kinepolis | BE | 221,484 | 213,474 | 198,072 | 203,386 | 194,643 |
| 7. | Constantin Kinobetriebe GmbH | DE | 127,306 | 131,214 | 114,316 | 246,915 | 190,000 |
| 8. | CinemaxX AG | DE | 214,334 | 207,332 | 187,093 | 188,148 | n/a |
| 9. | VUE Cinemas (UK) | GB | 73,361 | 105,631 | 121,930 | 140,321 | 136,267 |
| 10. | CGR Cinemas | FR | 87,100 | 95,861 | 99,661 | 103,541 | 109,597 |

Notes:

¹ Data from 2001 to 2003 belong to United Cinemas International Multiplex N.V. (NL) and data for 2005, to United Cinema International Acquisitions (UK).

² In 2004 Terra Firma acquired Odeon Equity Co.

³ In 2004, Cineworld acquired sole control of UGC Cinema Holding.

Source: Adapted from EAO, 2006: 123.

3. Factors to Explain Hollywood's Supremacy

The previous chapter has illustrated, as a general overview, the current scenario of the European and the US film industries and markets. Now it is time to point out, in a more systematic way, the main competitive differences between both contenders.

During the last decades, a number of authors have addressed this issue (De Grazia, 1989; Dale, 1997; Hoskins, McFadyen, & Finn, 1997; Litman, 1998; Augros, 2000; Kindem, 2000b; Jäckel, 2003; Wasko, 2003; Buquet, 2005; Miller et al., 2005; Scott, 2005; McDonald & Wasko, 2008b). Janet Wasko, for example, in trying to explain why Hollywood dominates the world film markets, offers a multiple perspective based on historical, cultural, political and economic factors. Using her approach as a basis, and completing the correspondent features with other contributions, I am summarize the most significant issues in the table 5.

This table presents in a concise way some of the principal differences between both industries and, by extension, the reasons for an ongoing imbalance. Therefore, it acts as an ideal framework for analyzing them comparatively.

Let us comment further on some of these features in order to add more insights. As we have paid brief attention to the historical factors, I will concentrate on some of the remaining aspects –with a special emphasis on business management issues, as the core approach of this text.

Table 5.

Hollywood vs. Europe

| | HOLLYWOOD | EUROPE |
|---------------------------|---|---|
| Historical Factors | <ul style="list-style-type: none"> • Commercially oriented industry from the very beginning (entertainment). • Benefited from World Wars. | <ul style="list-style-type: none"> • After a initial commercial impulse, soon became more artistically and politically oriented (work of art, propaganda). • Damaged by the World Wars. |
| Cultural Factors | <ul style="list-style-type: none"> • U.S. as a nation of immigrants. Universal appeal of film stories. • Ideology of optimism and hope. Escapism and happy endings ('dream factory'). • 'Americanization' of international audiences' taste; driven by star-system. • Access to audiences through advertising and marketing. • Circuits: Multiplex, Commercial TV. | <ul style="list-style-type: none"> • National cultural boundaries. Different audiences. • Tragic realism, pessimism, existentialism. • 'Auteurism' (driven by authors) and distance from European audiences' taste. • Access to audiences through film critics. • Circuits: Art-house, Public TV. |
| Economic Factors | <ul style="list-style-type: none"> • Industrial mode of production (film as standardized commodity). • Serially produced (studio system) • Free trade model economy. Financed by private and risk capital. • Economies of scale through vertical integration, industry concentration, and diversification. • Large and wealthy home market. • Conquest of foreign markets. International distribution system. Unfair distribution and exhibition practices. | <ul style="list-style-type: none"> • Artisanal mode of production (film as a unique work of art). • Independently produced, on one-off basis. • Mixed-model. Public funds (subsidized). • Not economy of scale. Inexistence of a united European film industry. • Fragmented market. Failure in creating a common European film market. • Failure at conquering international markets. Difficulty to offer cross-border films. Lack of pan-European distributors. |
| Political Factors | <ul style="list-style-type: none"> • Politics based primarily on economic factors. • State intervention: effective industry-government alliances. Movies as strategic industry (money and power). • Offensive rather than defensive politics: 'Selling America to the world': film as international medium. U.S. ambassadors for trade and democracy. | <ul style="list-style-type: none"> • Politics based primarily on cultural factors. • State intervention: protectionist measures (both supportive and restrictive). Movies as cultural industry. • Defensive rather than offensive politics: Major efforts trying to avoid US cultural dominance instead of selling national culture to the world. |

Source: Own elaboration on Wasko (2003), Kindem (2000a), Trumbour (2002), Miller et al. (2005), Elsaesser (2005), and other sources.

3.1. Hollywood's Competitive Advantages

Among the reasons for the US film industry's competitive position over the European one from the economic point of view the following should be mentioned:

- Increasing efficiencies and economies of scale achieved through vertical integration (mainly production plus distribution, and in some cases also exhibition circuits), industrial concentration, and diversification through mergers, conglomerates, and multinational corporations. Other key features include trans-nationalization of ownership, global dispersal of production and the freelance market for creative and craft labor (Kindem, 2000a: 367; McDonald & Wasko, 2008a: 4). As a consequence, as indicated before, American conglomerates dominate the world film industry (Chalaby, 2006).
- The existence of a large and wealthy home market, which allows the industry to recoup a significant part of its investment in its own territory (Hoskins, McFadyen, & Finn, 1997: 38).
- The increasing importance of international markets for Hollywood studios' global turnover. Currently, between 50% and 60% of Hollywood's theatrical grosses come from the international market (Trumbour, 2008). Consequently, Hollywood has reinforced its appeal to foreign audiences through the importation of foreign talent and the so-called 'runaway productions' (Kindem, 2000a: 368; Wasko, 2003: 174).
- In relation to the previous point, huge marketing and distribution costs –both in domestic and foreign markets– and relevance of market research in order to design effective marketing campaigns (Drake, 2008). According to the Motion Pictures Association of America (MPAA), marketing costs (prints and advertising) of an average Hollywood movie have escalated from US\$ 19.8 million in 1996 to US\$ 35.9 million in 2007 (MPAA, 2007: 2).
- Film as a multiplatform commodity, based on 'high concept' elements and with franchise potential. A Hollywood movie is no longer just a movie, but also a product suitable for all kind of commercial windows. In this sense, the Hollywood film industry

fundamentally remains in the business of exploiting intellectual property rights (McDonald & Wasko, 2008a: 6-7; Bettig, 2008; Wyatt, 1994).

- The universal appeal of American stories and American values. The tastes of worldwide audiences have been ‘americanized’, thanks to the classic narrative structure and filmmaking style of Hollywood films, together with their powerful marketing machinery (Miller et al., 2005: 5; Trumbour, 2008).
- The creation of a ‘star system’, as a key tool to attract audiences from all over the world. In this sense Hollywood stardom remains as a sign of commercial value in cinema and popular culture, controlled by a small clusters of firms (agencies) (McDonald, 2008).
- State/industry partnership, and, more in detail, the alliance between the MPAA and the US Department of Commerce. Very early on, the film industry was declared a ‘strategic industry’ by the American government. Since then, Hollywood has received constant support from the political sphere (Pendakur, 2008).
- Questionable trade practices and policies used by US distributors in international distribution and exhibition agreements. Apart from abusive demands in sharing box office grosses –mostly in the cases of big blockbusters– as well as blind-bidding and block-booking practices in exhibition, they have restricted the exhibitors’ freedom by overlapping in contracts concerning systems of liquidation, pricing, collections, control of ticket sales, advertising of films, selection of theatres, time of exhibition and the delivery and return of copies –in some cases acting as a cartel in a given country (Pardo, 2002: 61-62; Frater, 2004).

3.2. Europe’s Weaknesses

In clear contrast to the Hollywood approach to film business, European cinema suffers from several endemic illnesses, such as the following:

- ‘Auteurism’ or the celebration of the director as the main (and sometimes unique) artist, making films that rarely garner enough of

an audience to recoup their investment. In this sense, films are mainly understood as an artwork with clear cultural implications. This approach has the danger of converting European cinema into a 'cultural ghetto' (Dale, 1997: 165-181; Vincendeau, 1998: 444-445; Jäckel, 2003: 28-29).

- A lack of business sense, which leads to a wrong economic and commercial approach: instead of matching 'budgets to markets' (or costs to revenues), the European film industry is used to matching budgets to easily available funds, mainly subsidies and television pre-sales. The negative effects are, on one hand a certain 'subsidy mentality' believed to create non-commercial, non-competitive productions; on the other, to focus on stories excessively oriented to television audiences (Illot, 1996: 2-3; Dale, 1997:182-224).
- Whereas Hollywood studios, thanks to their higher degree of vertical integration and economies of scale, have various sources of finance and income and can be therefore more flexible with their cash-flow projections, invest more in development and marketing and sustain a reasonable number of failures, European producers usually work on a single project without having the resources to develop new projects nor investing in marketing. Thus, the risk is much higher (Janiesch, 1993: 23-25, Dale, 1997:182-224).
- In relation with the previous points, there are no regular and efficient financing sources, especially from private capital funds. Tax-shelter schemes and risk-capital firms only operate in some countries and/or for a specific budget-level project. In this sense, the financing situation of the European film industry tends to be fragile and inconsistent for many producers (Janiesch, 1993: 23-25; Coopers & Lybrand, 1992; IMCA, 2002).
- High fragmentation in the production sector, which leads to a low output of film productions per company. According to some estimates, 80% of EU production companies do not accomplish more than one film per year. This means that average European producers cannot rely on strong production structures –like the Hollywood system– to make movies on a regular basis. In fact, some production firms are created on a project basis, to cash in on grants and subsidies (Henning & Alpar, 2005: 235-236).

- Little attention to the development phase of filmmaking. Too many European projects enter into production without having undergone a thorough development process (script rewriting) and financial strategy (business plan). This in turn hampers marketability and economic viability. On average, the European audiovisual industry invests less than 5% of production investment totals in a given project, compared with 10% invested in the United States (Finney, 1996: 1-8; Pardo, 2002: 52-53).
- A fragmented market that is very difficult to treat as a whole. Linguistic and cultural barriers impede the smooth and regular travel of European films (Janiesch, 1993: 25-26; Henning & Alpar, 2005: 238). Only 20% of the films annually produced in Europe achieve distribution outside the main country of production, which represents only a 7% share of the market (Fattorossi, 2000). In the case of EU produced films, they achieve an average 35% of grosses in other EU countries outside national market (EAO, 2006: 71).
- Distribution is the weakest sector of the European film industry, and the low level of vertical integration makes the development of integrated strategies for commercial exploitation difficult. Europe is still very fractured, despite its political unification, and audiences have little taste for other European cinema, especially from small countries. European producers do not have much negotiation leverage when faced with the US distributors' considerable power in selecting the type of movies to distribute and market. This creates the necessity for strong European distribution. Nevertheless, pan-European distributors have never managed to survive. Hollywood also seeks to buy off especially successful local distributors, and it usually succeeds (Buquet, 2005: 279-280; Henning & Alpar, 2005: 236; Lange, Newman-Baudais, & Hugot, 2007: 9-12). A significant percentage of European films do not have a theatrical release in their own territory within one year of production –between 50% and 60% of British films, 30% of German and Italian films, around 25% in the case of Spanish and French films (Jäckel, 2003: 99-100; 137-138).
- In addition to this, there is also a lack of investment in distribution and marketing costs –prints and advertising– as a consequence of

film companies' lack of capitalization. Across Europe, it is common for promotional costs to outweigh print costs in the distributor's outgoings for a film campaign. Generally speaking, the average release promotion costs for a blockbuster in Europe runs from € 400,000 to 2 million, whereas an independent movie can be in the region of € 15,000-400,000, a figure very far away from the US\$ 25-39 million in the case of an average Hollywood movie (*Screen Digest*, 2006a, 2006c; Finney, 1993).

- Misdirected and/or inadequate protectionist measures at the European level, especially those regarding direct subsidies instead of incentives. Generally speaking, most of the public aids are production-oriented instead of distribution-oriented. The relationship between cultural values and market competition remains highly contentious in the context of European film policies (Jäckel, 2003: 88-89; Herold, 2004; Henning & Alpar, 2005).
- Lastly, the lack of a European 'star system' makes difficult the international appeal of movies led by European actors and actresses, although it is true at the same time that some European film directors work as 'brand names' internationally (Europa-Cinemas, 2006: 21, 23). In this regard, as will be addressed later, some European talents have emigrated to Hollywood and they have built up their international stardom there.

4. Coopetition: Theoretical Framework

The perennial relationship of cooperation and competition between Hollywood and other territories overseas has called the attention, in one way or in another, of several authors from different fields. Some of them, with a background in film studies, have specifically addressed the interaction between Hollywood and Europe as rivals or contenders. Others, from a geographical-organizational basis, have studied the process of decentralization of film production ('runaway productions') and the internationalization of capital and human resources, where Europe is playing a crucial role for the Hollywood studios. Finally, I am including the main contributions of some business management experts who have directly addressed the issue of 'coopetition' in the case of multinational companies in a global scenario.

4.1. Film Studies Approach

From the cinema studies field, in recent times, several authors have remarked on the Europe-Hollywood interaction, with more or less emphasis. This is the case of Andrew Higson (2000), Mike Wayne (2002) and Thomas Elsaesser (2005) among others. Without specifically approaching this issue from a business perspective, these scholars have identified some of the economic and managerial strategies derived from the obliged coexistence of both film industries.

In his chapter about the British film industry included in the volume *The International Movie Industry* (2000), edited by Gorham Kindem, Andrew Higson differentiates three economic strategies adopted by the United Kingdom in response to American cinema's domination: a) *collusion* with Hollywood in distribution and exhibition agreements; b) *competition* in the international market, through the production of high-standard films; and c) *product differentiation* in the domestic

territory, promoting local cinema. He then adds a fourth one (d) referred to those attempts to create similar economies of scale via *international cooperation* among European countries (Higson, 2000: 240-241). Not without irony, this author argues that “these policies have rarely been developed for purely patriotic reasons: Increased profitability for British companies has always been at least as prominent a goal” (ibid.: 240).

In relation to collusion, Higson points out as an example the deals between British exhibitors and American distributors to exploit the UK market in a joint enterprise –in other words, British companies circulating American films– as well as British firms encouraging American majors to buy shares in their outfits (ibid.).

Regarding the direct competition to challenge American market supremacy, Higson mentions the production of Hollywood-style international films by larger British companies. Nevertheless, he rapidly unveils the collateral damages implicit in this strategy:

Ironically, such companies could invest profits gained from the distribution and exhibition of American films in expensive productions designed to break into the American market. Ideally, the end result is a strong, well-capitalized, and tightly controlled national film economy. But, of course, the buoyancy of that national economy depends on a competition with Hollywood in the international arena... and collusion in the domestic market to exploit the box office potential of American films. Either way, British companies were forced to operate more or less on Hollywood’s terms –and those terms rarely extended to offering full American distribution for British films (ibid.).

The third strategy based on product differentiation is the more self-conscious patriotic, according to Higson. This attempt to focus on indigenous cultural traditions and identities implies the problem of the smallness of domestic markets and, as a consequence, the correlative budgetary limitations. For this reason, film companies working on this front have specialized in catering for niche audiences. Fortunately enough, as Higson concludes, such areas are generally considered of marginal interest (profitability) by the US majors (ibid.: 241).

In addition, and very related to the second strategic response –competition on the international arena– Higson adds a fourth economic policy based on international cooperation, established to emulate those Hollywood studios’ economies of scale. As mentioned in the historical chapter, a first pan-European attempt created to mirror Hollywood’s film production and distribution machinery was the “Film Europe” movement in the 1920s. More recently, there were the efforts to develop a common efficient audiovisual policy for the European Union. Effectively, as Higson remarks, co-productions between companies from different nation-states imply enormous advantages, like the possibility of high-budget filmmaking and the extension of the potential audience. Nevertheless, he adds, “language barriers between different European countries have hampered this sort of pan-national cooperation” (ibid.).

These four strategies outlined by Higson, particularly referred to the case of the British film industry, can be applied, in some way or another, to most of the Western European countries –leaving apart the question of common or different language. Effectively, as will be further developed in the following chapter, national film industries in Europe are searching for the right balance “to ensure reasonable levels of profitability”, on the one hand, and “to resist relinquishing the domestic market altogether with American interests” on the other (ibid.).

On his part, Mike Wayne, in his book *The Politics of Contemporary European Cinema: Histories, Borders, Diasporas* (2002) offers a different set of terms to explain the “unavoidable, unequal but, nonetheless, often productive cultural dialogue” between Europe and Hollywood (Wayne, 2002: 73). As he further explains,

Hollywood cinema has become the dominant paradigm by which films engage with popular culture. Thus when a European film articulates some relationship to popular culture, it at one and the same time strikes up a dialogue with Hollywood (ibid.).

Under this framework, this author develops three types of possible engagement: a) *emulation* or following a successful pattern; b)

translation or migration of talent and creativity; c) and *rejection* or defense against cultural dominance (ibid.).

According to Wayne, the first one takes place “where European cinema adopts the cultural model of the Hollywood film, its narrative strategies, its generic markers, its use of stars, and so on” (ibid.), and he mentions the case of *The Name of The Rose* (J. J. Annaud, 1986), the adaptation of the Umberto Eco’s novel, set up as a French-Italian-German co-production, starring Sean Connery and Christian Slater, directed by a French talent and shot in the English language.

The second mode –translation– “also seeks some engagement with popular culture as defined by Hollywood”, but at the same time “emulation gives way to a reworking of such cultural materials, making them ‘other’ to what they once were and thus claiming them as in some way distinctly European” (ibid.: 73-74). To illustrate this trend, Wayne mentions the pioneer example of the French New Wave in the late 1950s and early 1960s, and the work of some German filmmakers from the 1970s, like Rainer Werner Fassbinder or Wim Wenders.

Finally, in relation to rejection, this occurs when “European cinema adopts a mode of film practice that rejects dialogue with Hollywood” and favors instead “filmic models, which appear to be embedded in European culture and untouched by American cultural influence” (ibid.: 74). As examples, Wayne refers the cases of Krzysztof Kieslowski and Lars Von Trier.

Wayne’s contributions clearly arise from a cultural rather than economic approach. Nevertheless, as we will see in the following pages, this unequal but at the same time productive cultural dialogue between Hollywood and the European cinema takes the form of precise business strategies.

Finally, in a less systematic but nonetheless inspiring way, Thomas Elsaesser largely addresses the regular interaction between Hollywood and Europe in his collection of essays *European Cinema: Face to Face With Hollywood* (2005). This book is a good example of how deep and complex the exchange between Europe and Hollywood is, and offers

an integrated view of the creative, social, cultural, geographic and economic dimensions. To begin with, he is very much against the 'Europe versus Hollywood' dualism, stating that "what unites Europe and America is more than what divides them, not least of all because each needs the other: the insistence on the division often strengthens the underlying dynamism of the system of alliances" (Elsaesser, 2005: 28). And developing this idea further, he adds:

...[T]he re-appraisal of national cinema and the emergence of a European cinematic space turns its attention to the Europe-Hollywood-Europe divide, emphasizing the extent to which this usually binary relation of buried antagonism and resentment actually functions not only as a two-way traffic, but acts as an asymmetrical dynamic of exchange, whose purpose it is to stabilize the system by making both sides benefit from each other, paradoxically by making-believe that their regular and ritual stands-offs are base on incompatible antagonisms (ibid.).

Elsaesser's book is full of insights and thought-provoking reflections about this "two-way traffic [and] asymmetrical dynamic of exchange" between Europe and Hollywood. For the purpose of this research, I would like to point out just few of them. First of all, with an insistence on the convenience of avoiding dualistic approaches, this author defends the inadequacy of considering the European cinema as auteur-driven (versus the audience-driven Hollywood-style), nationally limited (versus the international appeal of American movies) and hostile to Hollywood by definition (ibid.: 485-494). As he concludes,

The dualistic schemes outlined above for the relation Europe-Hollywood can have no object validity or disinterested status: they are heavily Euro centered and self-interested... Were one to take the inverse view, and look at Europe from Hollywood's perspective, ...the impression would be that the vast majority of cinema audiences in Europe are happy with Hollywood, and that far from shifting diversity, the success of Hollywood films has created niched markets and opportunities for European filmmakers on all levels (ibid.: 494).

Hollywood's dominance of worldwide film markets is beyond argument. Nevertheless, as Elsaesser points out, Hollywood's huge budgets have made it so dependent on foreign box offices that, to some

extent, it can be argued that “Hollywood has itself been ‘colonized’ by its ‘European’ or ‘national’ audiences” (ibid.: 40).

On the collaborative level, the sequence ‘Europe-Hollywood-Europe’ proves that European cinema –and filmmakers– benefits from its interaction with Hollywood. Thus, using the example of some contemporary German film directors, Elsaesser explains:

Until an American major had put money into distributing a Wenders or a Herzog film world-wide, their films could not be seen by German audiences. In a sense, they had to become Hollywood (or at least Miramax or Buena Vista), before they could return home to Europe as representatives of their national cinema (ibid.: 39).

In addition, Elsaesser remarks on the creative exchange, not only in the case of talent (directors and stars), but also on remakes. “The highest compliment Hollywood can pay a film from Europe is to remake it”, he assesses (ibid.: 493). Examples he mentions are Wim Wenders’ *Wings of Desire* as *City of Angels*, Alejandro Amenábar’s *Abre los ojos* as *Vanilla Sky* or George Sluizer’s *Spoorloos* as *The Vanishing*.

On the competitive front, Elsaesser defends the necessity of producing European films able to compete with Hollywood movies on the international arena using the co-production formula. “Co-productions have become the norm, rather than the exception”, he explains, “and contemporary auteurs feel neither called upon to be ‘artists’ nor to play the role of nationally representative figures”. And he adds: “what matters is how well local/national provenance can communicate with global/transnational audiences” (ibid.: 491). In this sense, he also points out the need for a more popular storytelling, like the ones of Tom Tykwer (*Run Lola Run*), Roberto Benigni (*Life is Beautiful*) or Jean-Pierre Jeunet (*Amélie*). These filmmakers “have made powerful and striking films... without being less European or less concerned with important issues” (ibid.: 487).

In my view, Elsaesser’s contributions are very much at the core of the issues discussed here, and throw some new lights that help to understand the complexity of the Europe-Hollywood relationship.

4.2. Geographical and Organizational Approach

Another interesting perspective for studying the connections between the American and the European film industries is the geographical and organizational approach. Under this focus, I am namely referring to the geography of economic activity –how the structure and dynamics of modern production systems have contributed to the emergence of massive agglomeration of capital and labor, creating different clusters of activity around urban centers, and the effects of globalization. In this sense, the film industry –and particularly Hollywood– as a cultural-product manufacturer, has caught the attention of many experts from this field in recent times, either from a comprehensive perspective (Scott, 2005; Newman, 2008) or from specific points of view, like the decentralization of film production (Goldsmith & O’Reagan, 2005a; Elmer & Gasher, 2005), the new dynamics of cultural labor (Miller et al., 2001; 2005), or the creative talent exchange (Morrison, 1998; Behlil, 2007). I will briefly comment on some of the most significant contributions for the purpose of this research.

Allen J. Scott is probably one of the most recognized experts on this topic. His book *On Hollywood: The Place, The Industry* (2005) has become an obliged reference when studying the geography of economic activity, especially in the case of cultural-products industries (motion pictures, television, music, etc.). As he assesses from the very beginning, Hollywood has become “one of the most highly developed agglomerations of productive activity anywhere, and a major urban phenomenon in its own right” (Scott, 2005: xi). Nevertheless, he goes on to argue that, “despite the huge amounts of literature that have been written about Hollywood... its development and functions as an operating industrial system, tightly bound up in both local and global relations of reciprocity and competition, are comparatively little understood” (ibid.). And he continues:

As current processes of globalization run their course, the cultural and economic power of Hollywood is evoking a growing number of complex political responses in different parts of the world. At the same time, perhaps ironically, globalization is making it possible to raise a question... namely, is it plausible to think that other centers of

cinematographic production in other parts of the world might rise to challenge Hollywood's hegemony? (ibid.: xii)

As a response, Scott argues in favor of a “new geography of cultural production”, aimed at a new audiovisual landscape, “more polycentric and more polyglot” (ibid.: 167-175), based on the emergence of three factors:

One... is the resurgence of motion picture production complexes in several different countries in Europe and Asia... Another is the increasing visibility and international competitiveness of non-American firms with interests in media and entertainment. Yet another is the great expansion of niche markets for cultural products in all of the main capitalists countries, and, more specifically, the recent growth in these countries of audiences for films and television programs made in places other than Hollywood (ibid.: 168).

These “local and global relations of reciprocity and competition” propelled by the “current processes of globalization” are precisely what this research is all about, as we will see in the next chapters. In this scenario, Scotts also mentions the need to promote “distinctive differences” between Hollywood and non-Hollywood film industries on the one hand, and the need of common production strategies –like “films with high production values that appeal to global audiences”– on the other (ibid.: 170-71).

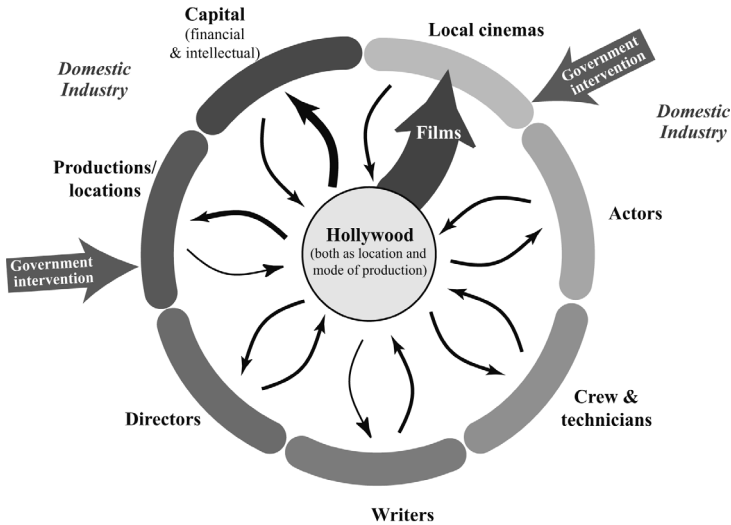
On his part, David Newman (2008), studying in particular the connections between Hollywood and Australia-New Zealand, offers a center-periphery model as a theoretical framework to analyze the relationships between Hollywood and non-Hollywood industries. As this author recalls, in the early days, Hollywood was a geographical place denoting not only a center of filmmaking activity, but also a style of production. Nowadays, he adds,

Hollywood continues to be centered in a geographical location, but the label carries more weight as a *mode* or *form* of production, as production locations increasingly are situated at a considerable distance from the geographic centre of Hollywood and the US (Newman, 2008: 298).

According to this author, this interaction occurs on a number of levels, “with the local industries gaining in recognition and power as an

increasing number of variables flow between the Hollywood center and the periphery” (ibid.: 296).

Figure 11.
Center-Periphery Model for Hollywood/non-Hollywood Industries



Source: Newman, D. (2008). "Australia and New Zealand: Expats in Hollywood and Hollywood South". In P. McDonald & J. Wasko (Eds.), *The Contemporary Hollywood Film Industry*. Malden (MA): Blackwell Publishing (p. 297).

As Newman explains, this process begins with the continuous flow of movies from Hollywood towards local cinemas all over the world. The success of these films in the periphery creates a multi-fold effect. First of all, a *talent migration* to Hollywood (stars, writers, directors), moving from the periphery to the epicenter of the industry in search of career advancement. The same applies for crew and technicians. As this author points out, "in each of these categories, there may be a flow back into the domestic industry from Hollywood", although it is also possible to find "Hollywood people moving out to smaller industries, drawn by the opportunities they represent" (ibid.). Secondly, he refers to the *runaway productions*, or those "Hollywood productions [based] themselves in a local

industry/location”, although “this is more likely to happen if there is an existing infrastructure in place with trained (and experienced) crews”, Newman explains. And he remarks, “[a]s the local industry develops and becomes more skilled and experienced, it may become possible for it to attract internationally mobile productions looking for unique scenery and cost savings” (ibid.: 297).

As this author keeps on saying, this filmmaking activity outside the US “may lead to closer relationships between Hollywood and the local industry”, more particularly through an *exchange of financial and intellectual capital* –“with financial capital flowing into the local industry from Hollywood, and ideas or intellectual capital flowing back into Hollywood” (ibid.). In addition, distribution exchanges may also occur, as “films themselves from the local industry may flow back into the Hollywood market” (ibid.). A final component of the model in relation to the non-Hollywood national industries, according to Newman, is *local government’s policies*, “who may intervene to restrict or enhance the flows between Hollywood and the local non-Hollywood domestic industry” (ibid.).

As a last remark, Newman assesses that

Although the model used here is a two-level center-periphery model, it is evident that there is a semi-periphery in operation... in some areas of the world, or alternative centers where a local cinema has regional prominence or dominance (such as China, South Korea and India) (ibid.).

As mentioned at the beginning of this section, many of the aspects described by Scott and Newman have been largely studied by others authors. This is the case of Morrison (1998) and Behlil (2007) in respect to talent migration; Goldsmith & O’Reagan (2005) and Elmer & Gasher (2005) in relation with the productions studios worldwide and runaway productions; and Miller et al. (2001; 2005) with regard to the exchange of financial, intellectual and labor capital. It would be beyond this research scope to further expand on all these scholars. In the next chapters, I will return to some of them for specific references.

4.3. Business Management Approach

As is easily understood, all the previous contributions refer, in one way or another, to the opposite though intertwined dynamics of cooperation and competition, as they are usually described from the business management perspective. In this regard, I consider it quite adequate to summarize the current status of the Europe-Hollywood relations, as well as offering an integrated view of the different visions described before.

It is probably not a mere coincidence that Ray Noorda, founder of the networking software company, Novell, coined the word of “coopetition” in 1993. At least in the communications world, the 1990s are historically considered the decade of the digital and global revolution (Hoskins, McFadyen, & Finn, 1997; Litman, 1998; Balio, 1998; Vogel, 1998). As reviewed at the end of the first chapter, that decade witnessed an unprecedented tendency towards concentration and diversification of communication and entertainment companies through mergers and buy-outs, giving birth to the current large conglomerates and multinational corporations. In some way, this natural growth and adaptation process mirrored those from other business and industrial sectors.

For the purpose of this research, I am also relying on the contributions of three authors from the business management field: on the one hand, Adam Brandenburger and Barry Nalebuff (1996), and on the other, Yadong Luo (2004). Paraphrasing Noorda, the former explained that, in the current scenario of world businesses, companies “have to compete and cooperate at the same time... The combination makes a more dynamic relationship than the words ‘competition’ and ‘cooperation’ suggest individually” (Brandenbruger & Nalebuff, 1996: 4-5).

Applied to the business world, rival companies act as “complementors in making markets and competitors in dividing up markets” (ibid.: 34). Under this basic premise, adopted from the game theory, both authors develop a paradigm called “The Net Value”, where a given company or product is presented as the crossing point of two axles, the vertical one being determined by the consumer-supplier relationship and the horizontal one by the competitors-complementors tenseness (ibid.: 17).

On his part, Yadong Luo (2004) offers a very complete and practical analysis of coopetition strategies in the context of multinational enterprises working on a worldwide scale. According to this author,

Coopetition is a new philosophy, strategy or approach that goes beyond the conventional rules of competition and cooperation to combine the advantages of both (ibid.: 11).

Coopetition means cooperating to create a bigger business pie while competing to divide it up. In doing so, however, each global player has a unique position in the game of coopetition, requiring peculiar tactics to respond to forces of cooperation and competition so as to secure maximum returns from the game... Coopetition is attributed to increasing interdependence between global players and heightened needs for collective actions, risk sharing, strategic flexibility, and prompt response to market demands (ibid.: 201-202).

Within this framework, this author speaks of four different types of competitive relationships: a) with global rivals, b) with foreign governments, c) with alliance partners and d) within a multinational enterprise.

The coopetition *with global rivals* occurs when they work together to “collectively enhance performance by sharing resources and committing to common tasks goals in some domains (e.g. product-market or value-chain activity)”. At the same time, “they compete by taking independent action in other domains to improve their own performances” (ibid.: 11). In the case of *foreign governments*, coopetition exists “both domestically and internationally, because governments create the rules by which business must abide and business creates the capital to fund a stronger nation” (ibid.: 57). A friendly host government can offer “better investment infrastructure, easier market access, more financial privileges and greater institutional support”. On its part, cooperative multinational companies can act as “important assets to host governments, positively affecting indigenous economies... through employment and training, technology transfer and product innovation” as well as contributing to “foreign exchange earnings and taxation incomes” (ibid.: 58). Regarding the coopetition *with global alliance partners*, it occurs in “those cross-border joint ventures or contractual alliances operating in a highly uncertain

environment”. In this case, competition “is manifested in control –each party competes for the power or authority to be used for controlling joint decisions or alliance operations...” On the other hand, cooperation means “mutual forbearance and commitment in the allocation and exploitation of resources” from which all the parties benefit (ibid.: 102). Finally, in relation with the coopetition *within a multinational enterprise*, working on a global scale demands “geographically dispersed yet internally differentiated foreign subunits, whether they be joint ventures, cooperative alliances, wholly-owned subsidiaries, branch offices, or other forms”. As a consequence, “a transnational solution that combines both global integration and national responsiveness is essential to maximizing consolidated economic returns contributed by globally scattered subunits” (ibid.: 161).

Although neither Hollywood nor the European film industries can be considered a single multinational enterprise, this brief summary of Luo’s contributions will help us to understand how their relationship mirrors the model of coopetition on several levels, at least in an analogical way.

4.4. Hollywood and Europe as Global Rivals

Effectively, it could be possible to analyze the strategies developed by Hollywood and Europe as global rivals, as they have been for more than a century, trying to conquer the international film market. The same could be asserted in relation with foreign governments, since Hollywood has needed to develop diplomatic strategies to overcome national barriers raised up by European countries. In addition, as the business and the industrial processes are being globalized and decentralized, coopetition with international alliance partners (e.g. US-European co-productions and distribution agreements) as well as within multinational enterprises (Hollywood majors’ subsidiaries in Europe) is necessary.

Having said that, and advancing one of the hypothesis to be discussed, I am also proposing that the consideration of Hollywood and Europe as global rivals is an especially apt one. Effectively, the history of the relationships between both film industries is one of extreme rivalry

and, from time to time, some collaboration (Guback, 1969; Thomsom, 1985; De Grazia, 1989; Jarvie, 1992; Ellwood & Kroes, 1994; Segrave, 1997; Higson & Maltby, 1999b; Trumbour, 2002). As Brandenburger & Nalebuff say, “[b]usiness is War and Peace. But it is not... endless cycles of war followed by peace followed by war. It’s simultaneously war and peace” (Brandenburger & Nalebuff, 1996: 4-5). The metaphor of alternate periods of confrontation and calm perfectly applies to the Europe-Hollywood relationship according to its historical evolution. Effectively, terms like “cultural invasion” (Jarvie, 1998: 42) or “cultural imperialism” (Miller et al., 2005: 64) have been spread over the years among those opposed to the American hegemony. Moreover, these conflictive relations have also been defined as an “undeclared war” (Puttnam & Watson, 1997), where the powerful Hollywood army tries to assault ‘Fortress Europe’ and get a bigger percentage of the European film market share.

Describing the coopetition between global rivals, Luo points out the following properties: 1) it implies coexistence of cooperation and competition between the same global rivals; 2) it differs from the mere cooperative alliance between global rivals; 3) rivals associated with coopetition can be either foreign or local, but they must compete in global markets; 4) it is characterized by the simultaneity and dualism of cooperation and competition; in other words, these opposed strategies take place at the same time; and 5) it may occur at corporate, division or subsidiary levels, depending on strategic intents and organizational needs (Luo, 2004: 13-16). Keeping these characteristics in mind, we will be able to conclude at the end if they are applicable to the Europe-Hollywood case or not¹.

¹ In his book, Luo offers a detailed analysis of coopetition between multinational companies acting as global rivals. He not only mentions those reasons and factors that generally foster coopetition, but also details the conditions when cooperation and competition increase. In addition, he develops two possible scenarios of this sort of coopetition, the first one applicable to the case of intensity of coopetition with a major global rival and the second one illustrating the diversity of coopetition with multiple global rivals. In each one of them, he describes a typology of companies depending on their specific role or tactic. This further analysis, though interesting, is not very applicable to our topic, at least in this first approach.

4.5. Hypotheses and Methodology

With the previous theoretical framework in mind, the three main hypotheses this research will try to demonstrate are:

- 1) The current Europe-Hollywood relationship could be defined as a form of coopetition, at least in an analogical way. This coopetition takes place through a wide range of simultaneous cooperative and competitive strategies.
- 2) Among the different types of coopetition described by Luo, the competition between global rivals matches better with the current status of the Europe-Hollywood dynamics, although it maintains some peculiarities that convert it into a very special case.
- 3) At the same time, under the geographical-organizational point of view, this coopetition between Hollywood and the European film industry fits into the center-periphery model proposed by Newman, although in a more sophisticated way.

In order to accomplish this task, I am relying on a two-step methodology. Firstly, using the contributions from the cinema studies authors (Higson, Wayne and Elsaesser) and the geographical-organizational approaches (Scott and Newman) as a basis, and adapting them to the business management perspective (Luo), I have identified some of the main cooperative and competitive strategies currently present in the Europe-Hollywood exchange. They are summarized in table 6.

Of course, although I will focus on them separately, some of these strategies take place in an intertwined way. For instance, many of the distribution agreements imply also a sort of co-production formula. In a similar way, many big European production movies could be used at the same time as examples of European blockbusters and of European English-language films. Or when talking about the production of local movies as a competitive strategy, we should not forget that a few of them are being produced by the Hollywood majors too.

Secondly, in relation to the bibliography, I have looked for recent examples of these trends (2000 onwards) using well-known trade papers like *Screen International* and *Variety* –in their online version–

as a main source of information, together with many other news items, some reports and other references.

Table 6.

The Europe-Hollywood Coopetition

| | |
|---|---|
| <p>Strategies of COOPERATION</p> | <ul style="list-style-type: none"> • Distribution Partnerships • Financial Co-Productions • Exchange of Talent and Creativity (Remakes) • Runaway Productions and Foreign Service Production |
| <p>Strategies of COMPETITION</p> | <ul style="list-style-type: none"> • European ‘Blockbusters’ • European English-Language Films • Emulating Hollywood: Sequels, Franchising, Comic Adaptations and Company Branding • Pan-European Public and Private Financial Initiatives • Pan-European Distribution Attempts • Promoting National / Local Cinema |

Source: Own elaboration.

The next two chapters describe the cooperative and competitive strategies summarized in this table in some detail and provide examples from several European territories. It must be noted that these coopetitive trends are still under a process of consolidation –illustrative cases appear in trade papers on a daily basis– so the following must be considered a first approach to the issue.

5. Strategies of Cooperation

Hollywood majors are facing the reality of the limited although still dominant appeal of their movies and the growing popularity of local films around the world. Nevertheless, rather than trying to fight against competition, the studios are joining it, eager to engage in partnerships to produce and distribute local films both to earn back some of its lost market and to help to ameliorate its “Evil Empire” image by creating the impression of “giving back” to local industry (Tartaglione-Vialatte, 2001). For this reason, in the last few years the American majors have created specific divisions (Miramax, Fox Searchlight, Sony Classics, Warner Independent Movies, Paramount Classics) or developed joint ventures with local companies to produce and distribute films in languages other than English. As a consequence, some Hollywood majors have gone through a process of internationalization of resources –talent, capital and local infrastructure– as part of this process of interaction (Wasko, 2003: 182; Klein, 2003).

In the case of Europe, on the one hand Hollywood’s market share has stagnated recently as European films come more into the mainstream, giving the majors added incentive to move into the local industry to obtain new revenues to offset the ever rising costs (Guider, 2004). On the other, some of these partnerships often provide a lifeline for struggling independents rocked by the fragmentation of the European industry and in urgent need of secure channels of financing, content, or distribution. It must be underlined that cooperation between these two rival industries reflects mutual economic interests, taking priority over nationalistic interests –in the case of Europe– and adopting many forms.

Within this framework, the four main strategies of cooperation between Europe and Hollywood proposed here are: 1) distribution partnerships, 2) financial co-productions, 3) exchange of talent and creativity, and 4) runaway productions.

5.1. Distribution Partnerships

At the distribution level, US majors seek to strengthen their positions in European distribution markets through mergers and alliances with local distributors, aimed at maximizing revenues while circumventing quotas and restrictions. As one observer explains,

This move derives from studio executives' suspicion that Hollywood films may have reached the limits of their overseas appeal... [Therefore] Hollywood is finding ways to turn into profit on the desire of local audiences to see local films; rather than trying to bear competition, the studios are joining it. In the last few years, Columbia, Warner Brothers, Disney/Buenavista, Miramax and Universal have all created special divisions or partnerships to produce and distribute films in language other than English –including German, Spanish, French, Italian, Brazilian, Korean and Chinese (Klein, 2003).

For example, 20th Century Fox has developed joint venture deals with Warner and Sony in Europe, together with local partners in France (UGC) and Spain (Hispano Foxfilm). At the same time, European distribution groups have formed alliances with the Hollywood majors. Examples of this are the Gaumont joint venture with Buenavista International (GBVI) and UGC with Fox (UFD) in France; Mediaset with Castle Rock Entertainment and BIM with Columbia in Italy; or Lauren Films with Buena Vista and Sogecine with Warner Bros in Spain (both extinct right now). As a consequence, these major groups are distributing not only American blockbusters but also a large yearly percentage of Europe's most successful films and some of the more promising European art-house titles, leaving few business opportunities for the small independent distributors (Carver, 1997; Jäckel, 2003: 109-110). Nevertheless, this formula seems to be falling into disfavor, since most of the previous deals are no longer in place (Lange, Newman-Baudais, & Hugot, 2007: 15).

In addition, independent European distributors frequently seek to enter into partnership with Hollywood majors to distribute their films in certain territories. In some cases this results in European companies buying film rights directly from Hollywood producers (like the Lauren-Miramax deal in Spain or the Entertainment Film Distributors-New Line agreement in England), and in other cases it means joining forces with a

major's already extant European distribution arm as mentioned before. While these expensive partnerships provide valuable content access in an increasingly competitive distribution market, they can become a double-edged sword, damning the company to dependence on Hollywood for success. In this case, when Hollywood producers decide to pull out of the deal (say, to distribute through their own in-house distributors) the company can find itself in more trouble than before –as happened, for example, to Spanish Lauren Films, which found itself bankrupt after Miramax cut off its deal (Halligan, 2004).

At the same time, Hollywood distributors –to some extent the only true international distributors in Europe– have begun distributing European films with greater frequency than ever before. As the potential of the local film market in Europe has clarified, the majors have begun to move more aggressively to cherry pick the most promising local titles (Carver, 1997). The studios' international infrastructure is evolving to accommodate a trend that has been around for years and is poised to explode. “The international marketplace is still growing whereas it's clearly stabilised in North America”, says Universal Pictures co-president David Linde (Kay, 2007a). As a matter of fact, this US major formally announced during the 2007 Cannes Film Festival the launching of its international production outfit, Universal Pictures International (UPI), aimed at worldwide acquisitions and local production programs outside North America and the UK to back a slate of international stories and local language films. Among other agreements, UPI signed a local production and distribution deal with Russian director Timur Bekmambetov and his Bazelevs Productions (Goodridge, 2007b).

As a consequence, a large yearly percentage of Europe's most successful films are handled by Hollywood, especially in Spain and the UK, where they distribute over 50% of the year's top ten local films. Films like *Love Actually* (2003), *Johnny English* (2003), *The Sea Inside* (*Mar adentro*, 2004), *Volver* (2006) and *The Orphanage* (*El orfanato*, 2007) reach local and international audiences alike through Hollywood distributors. England, especially, is an exceptional case. Hollywood distributors account for over 95% of the market share of local films, and local distributors for local films garner an incredible 0.4% of the overall British box office (Guider & McNary, 2006: 3).

Table 7.

Top 20 European Movie Hits by Distributor (2000-2005)

| | Title | Year | Origin | Admiss | GB | FR | DE | ES | IT |
|----|-------------------------------------|------|--------|--------|-------------------|--------------|---------------|------------------|-------------------------|
| 1 | Bridget Jones' Diary | 2001 | GB | 28,808 | UIP | Mars | UIP | UIP | UIP |
| 2 | Astérix & Obélix: Mission Cleopatre | 2002 | FR | 21,525 | Pathé | UIP | Tobls Studio | Tripictures | UIP |
| 3 | Le fabuleux destin d'Amélie Poulain | 2001 | FR | 19,925 | Momentum | UFD | Prokino | Vértigo | BIM Distribuzione |
| 4 | Bridget Jones: The Edge of Reason | 2004 | GB | 19,474 | UIP | Mars | UIP | UIP | UIP |
| 5 | Love Actually | 2003 | GB | 15,390 | UIP | Studio Canal | UIP | UIP | UIP |
| 6 | Los Otros | 2001 | ES | 14,376 | Buenavista Inter. | Bac | Senator | Warner-Sogefilms | Lucky Red / Eyes Screen |
| 7 | Johnny English | 2003 | GB | 13,649 | UIP | Mars | UIP | UIP | UIP |
| 8 | Der Schus des Manitu | 2001 | DE | 13,905 | Constantin | : | : | Universal (DVD) | : |
| 9 | Billy Elliot | 2000 | GB | 12,380 | UIP | UIP | Mars | UIP | UIP |
| 10 | Taxi 2 | 2000 | FR | 12,185 | Tobls Studio | Tripictures | ARP Sélection | Metrodome | Cecchi Gori |
| 11 | Les Choristes | 2004 | FR | 11,650 | Alta Classics | Pathé | Pathé | Constantin | : |
| 12 | Les Bronzés 3: amis pour la vie | 2006 | FR | 10,780 | : | Warner Bros | : | : | : |
| 13 | About a Boy | 2002 | GB | 10,181 | UIP | Mars | UIP | UIP | UIP |
| 14 | Goodbye, Lenin! | 2003 | DE | 10,530 | Wanda | Océan Films | UGC | X Verleih AG | Lady Film |
| 15 | (T)Raumschiff Surprise -1 | 2004 | DE | 10,371 | Constantin | : | : | : | : |

Notes:

- Admissions (in 000s) in the European Union (25 countries).
- Movies produced in Europe with US inward investment excluded.
- Code: Light grey color represents US major distributors in each country. Dark grey represents joint-ventures between a US major and a local distributor. Non-colored companies means independent distributors.

Source: Own elaboration based on Lange's study (Lange, 2003: 15).

In this sense, table 7 shows how a significant percentage of the recent European ‘blockbusters’ –especially among the top 10– have been distributed either by one of the Hollywood majors’ subsidiaries or by a national distributor with a distribution agreement with a US company (as in the cases of GBVI, UFD or Warner-Sogefilms, mentioned before). It should be mentioned that this table does not include successful franchises as James Bond, Harry Potter nor Aardman Animation’s last movies. Neither does it include other European films with US inward investment (like *Kingdom of Heaven* or *Sahara*).

These US-European distribution deals also cover the home entertainment market. In France, for instance, the recently formed Universal Pictures International Entertainment and Studio Canal have created a joint venture to handle home entertainment titles in France. The new entity is named Universal Studio Canal Video GIE and has become the market leader in the French home entertainment market. Similarly, Paramount Home Entertainment France and Gaumont Video has signed an agreement which allows the former release the French major’s films in the French DVD sector (Mitchell, 2007b; Tartaglione-Vialatte, 2007).

In addition, many production companies –even large media enterprises– partner with Hollywood distributors in the form of output deals. As budgets and risk rise, European production companies frequently seek out Hollywood distributors to handle their films (Foreman, 2001b). Their size, breadth and marketing expertise give them enormous leverage with producers, and their ability to secure distribution internationally –even in the coveted American market– provide Hollywood distributors with strong advantages when it comes to attracting content (Minns, 1997). Nevertheless, this is not only a question of European companies taking advantage of Hollywood ‘know-how’, but also the US distributors getting local financial support for marketing costs. This is the case of Medienstream, a German fund which has invested more than € 740 million in financing 20th Century Fox’s marketing campaigns, including big hits like *The Fast and the Furious* (2001), *The League of Extraordinary Gentlemen* (2003) or *I, Robot* (2004) (Blaney, 2003a).

5.2. Financial Co-Productions

Within this category it should be mentioned not only the American majors co-financing European movies through specific divisions (Miramax, Fox Searchlight, Sony Classics, Warner Independent Movies, Paramount Classics) as mentioned before, but also European companies –mainly French and German– investing in Hollywood films. In these agreements, partners seek to gain a measure of control over content and secure rights packages (Dawtre & Foreman, 1999; Foreman, 1999, 2001a; Buquet, 2005: 166-170). Nevertheless, for some critics, the risk for a European company is inevitably finding itself as the minor partner, spending money but getting little real power in return (Foreman, 2001b). It can be argued as Elsaesser suggests, that through this strategy Hollywood is, “in a sense masquerading as ‘national cinema’”. Nevertheless, the counter effect is, that also “national cinemas are now acting as ‘world cinema’” (Elsaesser, 2005: 502).

In one direction, Hollywood is increasingly investing in European film productions. To accomplish this goal more easily, US majors have created international production divisions or partnered with existing companies in some of the main Western European countries, using local talent to produce slates of local movies (Wasko, 2003: 182; Macnab, Mitchell, & Gubbins, 2007). These films can then be distributed (by their distribution companies) throughout the country and, if successful, they have a better chance to take off internationally. Films like France’s *A Very Long Engagement* (*Un long dimanche de fiançailles*, 2004), Italy’s *What Fault Is This of Ours?* (*Ma che colpa abbiamo noi*, 2003), both financed by Warner Brothers, or Spain’s *Di que sí* (2004), by Columbia, can often easily recoup their small budgets through the local box office. They provide the majors with a low-cost source of revenue in a sector of the market they could not otherwise access, and they provide European filmmakers with the opportunity to work with bigger budgets and more marketing power than they would get independently. On the other hand they take profits out of European hands and help Hollywood establish little vertically-integrated mini-studios within

each country. In fact, there is increasing competition from the studios and the bigger US independents, which have acquired a voracious appetite for local content, once reserved for the independent sector (Macnab, Mitchell, & Gubbins, 2007).

In each case, a major studio has played an integral part in the production process. Warner Brothers' vast experience with local-language co-productions, for instance, helped Spain's *The Orphanage* (*El orfanato*, 2007) become the biggest Spanish-language release in the territory. José Antonio Bayona's supernatural drama cost approximately US\$ 4 million to make and has grossed more than US\$ 33 million so far, which demonstrates the potential profitability of local-language partnerships. "We look at each country on its own merits and do whatever is good for that country", says Richard Fox, Warner Brothers Entertainment's executive vice-president of international. "If we have a film like *The Orphanage* or *A Very Long Engagement* that will travel, we go for it" (Kay, 2007a). In this sense, Warner Brothers is moving into co-production in Russia, France, Germany, Italy, Spain and Netherlands –apart from Brazil, Mexico, Japan, India and China.

Similarly, following the success of releases such as the Spanish-language *Alatriste* in 2006, Fox International has spent much of this year consolidating and developing its production partnerships. "With the continued growth in market share of local films and the improvement in the quality of local production, it's clear the production of local-language films will be an important business for us", say co-presidents Tomas Jegeus and Paul Hanneman (ibid.). Fox's releases for 2008 include *Krabat* in Germany.

On its part, Sony Pictures Entertainment's (SPE) International Motion Picture Production Department is developing an extensive network of global ties, including upcoming ventures in Germany and Russia. The company is planning to make films with Matthew Vaughn and Kris Thykier's Marv Films in the UK, and is also preparing comeback to the production of German-language feature films after acquiring the film rights to Tommy Jaud's best-selling second novel *Resturlaub*, to be released in 2009. In Russia, SPE has a one-year-old joint venture

company, Monumental Pictures, in which it is teamed with German-born distributor Michael Schlicht and exhibitor Paul Heth, whose Soquel Ventures is a partner with National Amusements in fast-growing multiplex circuit Rising Star Media. Monumental has already completed two films, Yevgeny Bedarev's *Awaiting A Miracle* and Igor Shavlak's horror thriller *Trackman*, released in 2007. "Whether we partner with people on the ground or do it on our own, we believe in each territory and never want to homogenize product", says president Deborah Schindler. "The mandate is to make local product with local people and talent in each territory" (Kay, 2007a; Blaney, 2007h; Goodridge, 2007a).

In the reverse direction, European monies feeding Hollywood production coffers have run for years. It would be enough to think of Crèdit Lyonnais, Le Studio Canal Plus and Vivendi in the past, together with the international joint venture Mutual Film Company and the German Neuer Market. The lively Canal Plus for instance entered into agreements with Mandalay, Warner's Bel Air and Spyglass Entertainment, among others (Miller et al., 2005: 184-204). Whereas some of these initiatives were mostly successful (Crèdit Lyonnais and Le Studio Canal Plus), others ended up as unexpected failures. Vivendi-Universal had trouble uniting both ends of its media empire and had trouble turning competition between European and Hollywood companies into cooperation as Universal's UIP distributor clashed with Studio Canal's own in-house European system (Frater & Brown, 2000). Consequently, not only did the merger provide little tangible benefit for the European film industry, but it also ravaged Canal Plus and reinforced Europe's inferiority complex with regards to Hollywood (James, 2003). In a similar way, the now defunct German-Italian Epsilon entered into a co-finance deal with Spyglass Entertainment, agreeing to invest millions of dollars in their productions in return for territory rights in Europe. However, the results of this strategy have been uneven at best (Blaney, 1997, 2003a).

More recently the Hollywood studios have been relying on what is called equity markets for financing slates of films, like some German tax funds and investment capital firms and the UK sale and leaseback

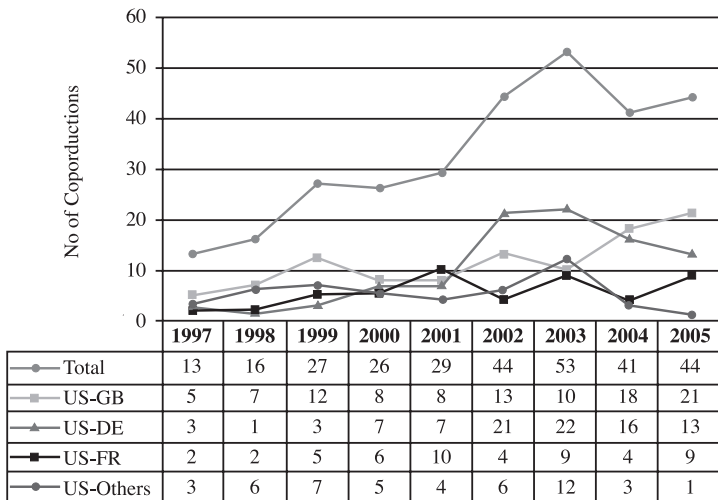
schemes. According to some analysts, these initiatives provided the core finance of many Hollywood blockbusters –as much as 20%-30% of their gigantic budgets. It must be remarked that some of these British and German financial schemes are no longer in place. Governments in Europe are increasingly against funding mechanisms through which global investors shelter their tax liabilities at the expense of the public (Gubbins, 2007b, 2007d).

In the case of Germany, some local companies have acted as intermediaries between American studios and German cinemas and television. Furthermore, some risk-capital funds have acted as limited liability companies (or GmbH in German) for Hollywood studios, under the umbrella of German tax incentive schemes (Krämer, 2008: 243-245). Examples of these are Hannover Leasing, linked to Universal, and Alcas/KG, tied to Paramount. In the same way, the German bank Dresdner Kleinwort created in 2006 a fund of US\$ 300 million called Melrose 2 as a part of its film finance arrangement with Paramount. A similar case is the renewed theatrical slate financing agreement between Fox Filmed Entertainment and Dune Entertainment, recently extended, by which the latter has committed to invest more than US\$ 500m in Fox films over the next three years. Significantly enough, Dresdner Kleinwort (German) and Societé Générale Corporate (French) acted as joint mandated lead arrangers and financing facility for Dune Entertainment. Also in regard to France, US home entertainment distributor Genius Products has signed a three-year revolving credit facility arranged by Societé Générale for an initial commitment of US\$ 30 million rising to a total of US\$ 70 million based on expected incremental commitments. The debt will be used to provide working capital and to finance acquisitions, production and co-productions, distribution and marketing. Finally, in the case of the UK, the Royal Bank of Scotland recently signed a two-year co-financing package contract with New Line Cinema (linked to Warner Brothers) worth US\$ 350 million for the production of 20 films (Bensi, 2004; Brass, 2007a; Gubbins, 2007b; Kay, 2007c, 2007d).

For this reason, as figure 11 illustrates, the number of the US-Europe co-productions has increased dramatically, thanks mainly to

the favorable British and German investment policies mentioned above, although there was also a significant decrease in 2004, when some of these initiatives disappeared or were transformed. It is not a coincidence that many of these Euro-American co-productions are among the most successful films in Europe as well as in the US and, in fact, they are hardly identified as European movies, as table 8 shows. For example, apart from franchises like James Bond, Harry Potter or Star Wars, recent US-British co-productions include *Black Hawk Dawn* (2001), *Troy* (2004) and *Batman Begins* (2005). Other movies like *We Were Soldiers* (2002), *American Wedding* (2003) or *Fantastic Four* (2005) are US-German co-productions, the same as the Bourne series. And, to mention some extreme examples, hits like *Lara Croft: Tomb Raider* (2001) or *Terminator 3* (2003) were co-produced between US, UK and Germany, the same as *Kingdom of Heaven* (2005) with the addition of Spain as the main co-producing country. Also, *Alexander* (2004) was designed as a co-production among US, Netherlands, UK and France, with German funding too.

Figure 12.
US-EU Co-productions (1997-2005)



Source: Own elaboration on EAO.

Table 8.

Top 20 US-EU Co-Productions by Admissions in EU (2000-2005)

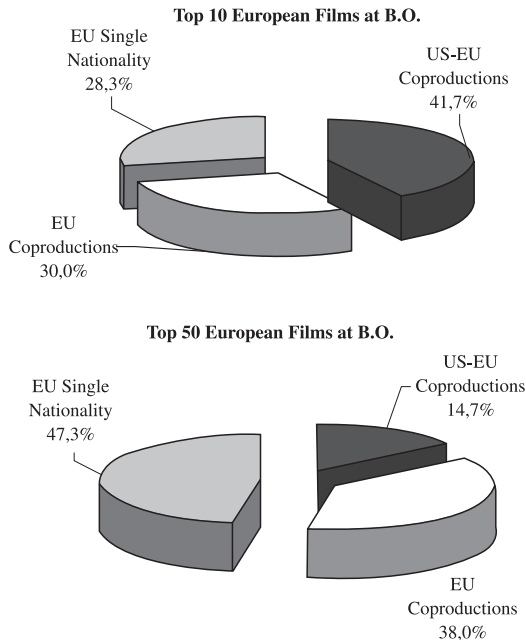
| No. | Title | Year | Nationality | EU (25) | % | USA | % | USA+EU |
|-----|--|------|------------------------|------------|-------|------------|-------|------------|
| 1 | Bridget Jones's Diary | 2001 | GB / US | 28,808,910 | 68.5% | 13,273,363 | 31.5% | 42,082,273 |
| 2 | Troy | 2004 | US / GB / MT | 24,769,976 | 53.6% | 21,458,776 | 46.4% | 46,228,752 |
| 3 | Bridget Jones: The Edge of Reason | 2004 | GB / US / FR / DE / IE | 19,474,790 | 75.2% | 6,421,578 | 24.8% | 25,896,368 |
| 4 | Charlie and The Chocolate Factory | 2005 | GB / US | 19,823,399 | 38.1% | 32,208,904 | 61.9% | 52,032,303 |
| 5 | Terminator 3 | 2003 | US / DE / GB | 16,873,349 | 40.4% | 24,935,040 | 59.6% | 41,808,389 |
| 6 | Love Actually | 2003 | US / GB | 15,390,449 | 61.0% | 9,840,135 | 39.0% | 25,230,584 |
| 7 | Chicken Run | 2000 | GB US | 15,375,110 | 44.2% | 19,424,466 | 55.8% | 34,799,576 |
| 8 | Lara Croft: Tom Raider | 2001 | US / GB / JP / DE | 13,652,719 | 35.9% | 24,335,448 | 64.1% | 37,988,167 |
| 9 | Johnny English | 2003 | US / GB | 13,649,945 | 74.6% | 4,641,560 | 25.4% | 18,291,505 |
| 10 | American Wedding | 2003 | US / DE | 13,471,830 | 43.8% | 17,312,158 | 56.2% | 30,783,988 |
| 11 | Wallace & Gromit: The Curse of the Were-Rabbit | 2005 | GB / US | 13,250,226 | 60.2% | 8,747,043 | 39.8% | 21,997,269 |
| 12 | Van Helsing | 2004 | US / CZ | 12,509,070 | 39.3% | 19,335,426 | 60.7% | 31,844,496 |
| 13 | Kingdom of Heaven | 2005 | GB / DE / ES / US | 10,943,272 | 59.7% | 7,394,448 | 40.3% | 18,337,720 |
| 14 | Fantastic Four | 2005 | US / DE | 10,920,772 | 31.2% | 24,133,553 | 68.8% | 35,054,325 |
| 15 | Red Dragon | 2002 | US / DE / GB | 10,841,455 | 40.4% | 16,026,796 | 59.6% | 26,868,251 |
| 16 | Sahara | 2004 | US / GB / ES | 10,793,188 | 50.2% | 10,713,248 | 49.8% | 21,506,436 |
| 17 | King Arthur | 2004 | GB / US | 10,333,355 | 55.3% | 8,354,589 | 44.7% | 18,687,944 |
| 18 | About A Boy | 2002 | GB / US / FR / DE | 10,181,709 | 59.2% | 7,014,351 | 40.8% | 17,196,060 |
| 19 | Gangs of New York | 2002 | US / DE / IT / GB | 9,516,815 | 45.0% | 11,615,657 | 55.0% | 21,132,472 |
| 20 | Alexander | 2004 | GB / FR / NL / US | 8,832,469 | 61.7% | 5,475,040 | 38.3% | 14,307,509 |

Source: Own elaboration on EAO.

If we think in box-office terms, these US-European co-productions accounted for 41.7% on average out of the top 10 European films (from the admissions point of view) for the period 2000-05, and 14.7% out of the top 50 (see figure 13).

Figure 13.

Breakdown of Top European Films by Admissions (Average 2000-05)



Source: Own elaboration on EAO.

It must be noted that some of these British and German financial schemes are no longer in place. Governments in Europe are increasingly against funding mechanisms through which global investors shelter their tax liabilities at the expense of the public, as already mentioned. In the German case, there is an ongoing debate about revoking favorable tax legislation, taking into account that the first years of the present decade have seen German film funds investing

more than US\$ 1 billion annually, mostly in Hollywood (Meza, 2005; Krämer, 2008: 245). Nevertheless, other financial sources have substituted them, through bank financing and private-equity investors, together with more efficient tax policies, as we will explain later on (Brass, 2007a; Gubbins, 2007a, 2007c).

According to some industry insiders, the European-American film co-productions are going to increase –as well as Asian-American ones– due to the internationalization of the film business. At present, the American domestic market represents only one third of the total box office grossed by Hollywood movies. David Linde, co-chairman of Universal studios, asserts that nowadays “audiences are hardly asking for more [movies] from America. Films are made everywhere, set everywhere and tell stories about people everywhere” (Gubbins, 2007a).

Recent examples are the agreements between European and US film companies. In the UK, for instance, Working Title joined Universal Pictures back in 1999. Some of its recent films, designed as US-British-French co-productions, are *Nanny McPhee* (2005), directed by Kirk Jones and starring Emma Thompson, co-produced also with MGM and Studio Canal (France), with an estimated budget of € 30 million; and the acclaimed *United 93* (2006), directed by Peter Greengrass and co-produced, also with Studio Canal, on a US\$ 15 million budget. In a similar way as Working Title, the Spanish production outfit KanZaman was created to co-produce internationally –mainly with US and UK. Among their last films co-produced with US companies are *Sahara* (B. Eisner, 2005), *Kingdom of Heaven* (R. Scott, 2005) and *Basic Instinct 2* (M. Caton-Jones, 2006).

Other illustrative cases would be the latest Milos Forman’s film, *Goya’s Ghosts* (2006), starring Javier Bardem, Natalie Portman and Stellan Skasgard, co-produced between the American independent producer Saul Saentz and the Spanish company Xuxa, with an estimated budget of € 29 million. And the latest Coppola film, *Youth Without Youth* (2007) a co-production between American Zoetrope and Pathé, shot in Bucarest (Green, 2005b; Tartaglione, 2005).

Lastly, the recent agreement between the Swiss-based production, financing and sales company Omega Entertainment and the US-based film production firm Baldwin Entertainment Group also proves the consolidation of this trend. Both companies aim to act as a single global financing, production and sales outfit, producing and distributing up to 10 films a year in the US\$ 10-60 million range (Kay, 2007b).

5.3. Exchange of Talent and Creativity (Remakes)

Hollywood also moves to appropriate foreign talent when it can, drawing promising actors and directors from all over the world to work on its projects, on a mutual benefit agreement (Behlil, 2007: 24-35). In the case of European talents, such high profile European stars as Hugh Grant, Antonio Banderas, Jude Law, Javier Bardem, Catherine Zeta-Jones, Penélope Cruz, Sophie Marceau, Franka Potente, Monica Bellucci or Diane Kruger now form part of the Hollywood constellation. The same could be affirmed in relation to a number of European film directors (British aside), some of them considered ‘commercially-driven’, like Wolfgang Petersen, Paul Verhoven or Renny Harlin, and some others who could fit more into the category of ‘auteurs’, like Jean Pierre Jeunet, Wim Wenders or Theo Angelopoulos. It could be said that almost every promising European director has received ‘a Hollywood offer’ after his or her outstanding directorial debut (Morrison, 1998). In recent times, directors like Tom Tykwer (*Run, Lola Run*, 1998) or Peter Greengrass (*Bloody Sunday*, 2002) have initiated their Hollywood tenure. In addition, many of the recent Hollywood blockbusters have been directed by European talent like Ridley Scott (*Gladiator*, 2000), Sam Mendes (*American Beauty*, 1999) and Roland Emmerich (*The Day After Tomorrow*, 2004) –a fact that is becoming a standard (Goodridge, 2000).

In her recent and complete research focused on foreign directors working in the US, Melis Behlil stipulates that around 10-20% of the new films yearly released in the US are directed by foreign

talent, being the majority percentage European (Behlil, 2007: 30). According to this author, “Hollywood wants and needs the global talent for a number of reasons”. First of all, “for producing high-quality output in entertainment industries” and specially in regard to those directors “who have already demonstrated a full grasp of the Hollywood style”. In addition, “to weaken various local film industries that can pose a threat”. And at the same time, as a way of “servicing the local markets of the filmmakers’ native countries” (ibid.: 34).

This ‘talent traffic’ is also two-way, especially in the case of actors and actresses. The presence of American stars in European movies has also been regular. Recent examples are Nicole Kidman (*The Others*, 2001, and *Dogville*, 2003), Adrien Brody (*The Pianist*, 2002; *Manolete*, 2007), Viggo Mortensen (*Alatriste*, 2006) or Dustin Hoffman (*Perfume: The Story of a Murderer*, 2007).

The US majors’ presence in European production and distribution allows them to better identify potential talent that can then be incorporated into the Hollywood system. Miramax smartly hired producers David Aukin and Colin Leventhal from the UK’s Channel 4 to start their own production house in Britain, and Hollywood’s on-the-ground presence in local countries has helped them find talents like screenwriter/director Richard Curtis and Spanish starlet Paz Vega (Laporte, 2004; Minns, 1997). In this sense, note must be taken of the effort of some European initiatives to promote young European stars and to help them travel across national boundaries. One of such efforts was the European Film Promotion’s Shooting Stars launched in 1997. Nonetheless, the argument about the existence of a real European star-system remains open (Macnab, 2007d).

Hollywood also scours European films for remake possibilities, seeking rights to films that have the potential to be converted into big-budget American films (Seguin, 2002b). According to Elsaesser, as mentioned before, far from being a negative phenomenon, this tactic should be taken as a high compliment towards European creativity (Elsaesser, 2005: 493). On her part, Behlil explains why these days are witnessing an increase of remakes:

Although Hollywood's interest in remaking films from other countries has been a constant part of the business since the very early days of sound film, this tendency has increased visibly with the advent of 'New Hollywood', or the 'blockbuster era'... the popularity of remakes in this era is related to the studios' desire to use sources that are 'presold' in other media, that have already proven their popularity in other markets... The blockbuster era saw an increase in these 'safe' productions (Behlil, 2007: 94-95).

Among the remake possibilities, European films have been frequent mirror for Hollywood. In this regard, Behlil adds:

As a source of inspiration and talent from the 1920s on, Hollywood has followed Europe... The dualities between Hollywood and Europe that uphold the European films as 'unique work of art' versus Hollywood's 'standardized commodities' reappear in much of the discourse surrounding these remakes, despite the fact the European originals are popular genre films. Looking toward Europe in search of new ideas had been standard practice for Hollywood... (ibid.: 98)

Table 9 includes some examples taken from the last two decades. Disney scooped up French *Un Indien dans la Ville* (1994) to make *Jungle 2 Jungle* (1997), Spanish *Open Your Eyes* (*Abre los ojos*, 1997) was bought by Paramount to serve as the basis for *Vanilla Sky* (2001) and the German-Italian-Austrian-Swiss co-production *Bella Martha* (2001) became *No Reservations* (2007). Other cases include *The Ladykillers* (1955, 2004), *The Italian Job* (1969, 2003), *Willy Wonka and the Chocolate Factory* (1971, 2005). Very recently The Weinsteins Company announced the English-language remake of the German film *The Lives of Others* (2006), winner of the Academy Award for Best Foreign Film of the year, to be produced by Anthony Minghella and Sidney Pollack (Mirage Productions). Also Sony Pictures Entertainment acquired rights to Handmade's US-based remake of British gangland classic *The Long Good Friday* (1980) (Kay, 2007f; Macnab, 2007c). A more unusual case is the European remake of a Hollywood film, although there are also some examples like *E' gia ieri* (2004), an Italian-Spanish remake of *Groundhog Day* (1993) (Seguin, 2002a; Stanley, 2005).

Table 9.
Examples of US remakes of European Films

| Remaked Film | Year | Country | Director | Original Film | Year | Country | Director |
|-----------------------------------|------|------------|---------------|---------------------------------------|------|---------|------------------|
| The Vanishing | 1993 | US | G. Sluizer | Spoorloos | 1988 | DK | G. Sluizer |
| The Birdcage | 1996 | US | M. Nichols | La cage aux follies | 1978 | FR, IT | E. Molinaro |
| Jungle 2 Jungle | 1997 | US | J. Pasquin | Un Indien dans la Ville | 1994 | FR | H. Palud |
| Night-watch | 1998 | US | O. Bordenal | Natteva-gen | 1994 | DK | O. Bordenal |
| City of Angels | 1998 | DE, US | B. Silberling | Der Himmel über Berlin | 1987 | DE | W. Wenders |
| Just Visiting | 2001 | US, FR | J. M. Poiré | Les Visiteurs | 1993 | FR | J. M. Poiré |
| Vanilla Sky | 2001 | US | C. Crowe | Abre los ojos | 1997 | ES | A. Amenábar |
| The Italian Job | 2003 | US, FR, IT | F. Gary Gray | The Italian Job | 1966 | UK | P. Collinson |
| Alfie | 2004 | UK, US | C. Shyer | Alfie | 1966 | UK | L. Gilbert |
| The Ladykillers | 2004 | US | Cohen Bros. | The Ladykillers | 1995 | UK | A. Mackendrick |
| Taxi | 2004 | US, FR | T. Story | Taxi | 1998 | FR | G. Pirés |
| Charlie and the Chocolate Factory | 2005 | US, UK | T. Burton | Willy Wonka and the Chocolate Factory | 1971 | FR | M. Stuart |
| Sleuth | 2007 | US | K. Brannagh | Sleuth | 1972 | UK | J. L. Mankiewicz |
| No Reservations | 2007 | US, AU | S. Hicks | Bella Martha | 2001 | DE, IT | S. Nettelbeck |

Source: Own elaboration on imdb data.

It is interesting to observe in this table how some of these European remakes are in fact “autoremakes”, as Behlil points out (ibid.: 96-97). According to the small number of cases, although they usually imply ‘the first Hollywood opportunity’ for the respective directors, the end results don’t use to garner critical or commercial success.

Finally, it is worth mentioning the singular remake strategy of Icelandic producer Joni Sighvatsson, based in Los Angeles, whose production credits include *Wild at Heart* (1990), *Basquiat* (1996) and *K-19: The Widowmaker* (2002). Sighvatsson has recently packaged an English-language remake of the acclaimed 2004 Danish film *Aftermath* (*Lad De Sma Born*) to be directed by Russian Vadim Perelman –whose films include the 2003 Oscar nominated *House of Sand and Fog*. Similarly, Sighvatsson recently announced the remake of Susanne Bier’s 2004 Danish hit *Brothers* (*Broder*) that Jim Sheridan will direct (Kay, 2007g). In my view, this last case –a Scandinavian producer based in Hollywood and remaking European local hits in the US aimed at the international English-language market– exemplifies the intricate mixture of creative exchange and sharing of know-how between Europe and Hollywood.

5.4. Runaway Productions and Foreign Service Production

Another major area of cooperation is the Hollywood ‘runaway production’. More and more, Hollywood seeks to produce many of its films overseas for economic (tax incentives and reduced labor costs), creative (exotic locations) and even marketing reasons (shooting as a ‘local event’), taking into account “the hypermobility of contemporary film production” (Goldsmith & O’Reagan, 2005a: 9-10). According to a recent report by the US Center for Entertainment Industry Data & Research, international locations account for more than half of all film shootings (McNary, 2006).

Ben Goldsmith and Tom O’Reagan, in their comprehensive study of film studio facilities around the world, explain that this global dispersal

is a product of three interconnected factors, which reflect mutual benefits:

First, the further development of the blockbuster as a project-based system of production has allowed diverse inputs from a more globally defined industry than has been hitherto possible. Second, a large number of locations have been able to form and pursue a location interest and provide the package of studios, other facilities, services, and natural and built environments necessary for blockbuster production... Third, the combination of the design interest of the Hollywood majors in developing projects and the location interest of places in securing projects has given rise to interrelated dynamics of global geographic dispersal at the level of the production shoot, and concentration in Los Angeles at the level of production design... The design and location interests therefore coincide in their mutual aim to transform “episodic project collaboration” into “more enduring project networks” (Goldsmith & O’Reagan, 2005a: 19)

All these strategic and logistical movements related to film production –the establishment of studio facilities as well as provision of effective production infrastructures, direct and indirect governmental support, development of clusters and creative industries, synergies between local and international industries– illustrate, as some authors have pointed out, the growing interest of the so-called ‘foreign film production services’ (Goldsmith & O’Reagan, 2005c: 59-63).

In this sense, Canada, Europe, Australia, Mexico and East Asia have become the destination of significant Hollywood investments. Canadian production, for example, nearly tripled to US\$ 1.2 billion; production in the UK and Ireland rose 66% to US\$ 809 million; spending in Australia and New Zealand more than quintupled to US\$ 717 million; and Eastern European production soared from US\$ 30 million to US\$ 308 million (McNary, 2006).

In Europe, particularly, old film studios have been rebuilt, improved and even merged in order to attract big American productions. This is the case of Pinewood-Shepperton Studios and Elstree Studios in

the UK, Cinnecità in Rome, Studio Babelsberg in Berlin or Barrandov Studios in Prague (Goldsmith & O'Reagan, 2005a: 109-149). Other Eastern European countries have developed competitive studio facilities and services, like Hungary (Sándor Korda), Bulgaria (Boyana Studios) and Romania (MediaPro Studios). In addition, new film studio complexes have been built up from scratch, like the so-called Ciudad de la Luz in the Mediterranean coast of Spain or the big film studio set up by Dino De Laurentiis in Morocco (Rodier, 2005a; Vivarelli, 2007). National and local government support –from direct investment in film studio refurbishing to tax breaks and indirect subsidies– has facilitated this policy in many cases (Goldsmith & O'Reagan, 2005b: 44-54). By way of example, in the present decade Cinnecità has hosted the shooting of *U-571* (2000), *Gangs of New York* (2002) or *The Passion of the Christ* (2003). Barrandov Studios were chosen for *The Bourne Identity* (2001), *XXX* (2002) and *Hellboy* (2003). Babelsberg was the facility for *Around the World in 80 Days* (2004), starring Jackie Chang, or *The Bourne Supremacy* (2004). Pinewood-Shepperton was hired for *Die Another Day* (2002), *Lara Croft-Tomb Raider: The Cradle of Life* (2003) and *Sahara* (2005). Finally, La Ciudad de la Luz has been the production facility for *Manolete* (2007), starring Adrián Brody and Penélope Cruz and will be probably hosting *Pompeii*, originally to be directed by Roman Polanski (scheduled for 2009).

As table 10 reflects, after becoming a new filmmaking frontier a decade ago, Eastern Europe is now flourishing as a main center of film activity, being a main competitor for Western European studio facilities. The region has the infrastructure and skilled crews to attract a great number of big-budget Hollywood productions and, on top of that, Hollywood producers are saving below-the-line dollars converted to local currencies –between 20% and 40% of production costs, according to some sources (Vivarelli, 2007). Besides basic costs, facility quality and crew expertise, the other attractive incentives are tax rebates, regional funds and easy access to previously off-limit spots to mirror famous Western European buildings and monuments. The battle to lure outside productions to European locations and studios is getting fiercer.

Table 10.
Hollywood 'Runaway Productions' in Europe

| Title | Director | Year | Film Studio | City / Country |
|---|-----------------|------|---------------------|--------------------|
| U-571 | J. Mostow | 2000 | Cinecittà | Rome, Italy |
| Dungeons and Dragons | C. Solomon | 2000 | Barrandov | Prague, Czech Rep. |
| The Bourne Identity | D. Liman | 2001 | Barrandov | Prague, Czech Rep. |
| Blade II: Bloodlust | G. del Toro | 2001 | Barrandov | Prague, Czech Rep. |
| Gangs of New York | M. Scorsese | 2002 | Cinecittà | Rome, Italy |
| Hart's War | G. Hoblit | 2002 | Barrandov | Prague, Czech Rep. |
| Bad Company | J. Schumacher | 2002 | Barrandov | Prague, Czech Rep. |
| XXX | R. Cohen | 2002 | Barrandov | Prague, Czech Rep. |
| Die Another Day | L. Tamahori | 2002 | Pinewood | Iver Heat, UK |
| The Passion of the Christ | M. Gibson | 2003 | Cinecittà | Rome, Italy |
| Hellboy | G. del Toro | 2003 | Barrandov | Prague, Czech Rep. |
| Lara Croft-Tom Raider: The Cradle of Life | J. de Bont | 2003 | Pinewood | Iver Heat, UK |
| Around the World in 80 Days | F. Coraci | 2004 | Babelsberg | Berlin, Germany |
| The Bourne Supremacy | P. Greengrass | 2004 | Babelsberg | Berlin, Germany |
| Beyond the Sea | K. Spacey | 2004 | Pinewood/Babelsberg | UK, Germany |
| Sahara | B. Eisner | 2005 | Pinewood | Iver Heat, UK |
| The Cave | B. Hunt | 2005 | MediaPro | Bucharest, Romania |
| The Black Dahlia | B. De Palma | 2006 | Boyana | Sofia, Bulgaria |
| Casino Royale | M. Campbell | 2006 | Barrandov/Pinewood | Czech R., UK |
| The Black Dahlia | B. De Palma | 2006 | Boyana | Sofia, Bulgaria |
| The Contract | B. Beresford | 2006 | Boyana | Sofia, Bulgaria |
| Eragon | S. Fangmeier | 2006 | Pinewood | Iver Heat, UK |
| The Golden Compass | C. Weitz | 2007 | Pinewood | Iver Heat, UK |
| The Bourne Ultimatum | P. Greengrass | 2007 | Pinewood | Iver Heat, UK |
| The Seeker: The Dark is Rising | D. Cunningham | 2007 | MediaPro | Bucharest, Romania |
| Town Creek | J. Schumacher | 2008 | MediaPro | Bucharest, Romania |
| Hellboy 2: The Golden Army | G. del Toro | 2008 | Sándor Korda | Eytiek, Hungary |
| Valkyrie | B. Singer | 2008 | Babelsberg | Berlin, Germany |
| The Shepherd: Border Patrol | I. Florentine | 2008 | Nu Image | Sofia, Bulgaria |
| Transsiberian | B. Anderson | 2008 | LKS | Vilnius, Lithuania |
| Defiance | E. Zwick | 2008 | LKS | Vilnius, Lithuania |
| Speed Racer | Wachowski Bros. | 2008 | Babelsberg | Berlin, Germany |
| Quantum of Solace | M. Foster | 2008 | Pinewood | Iver Heat, UK |

Source: Own elaboration on different sources.

James Bond installment *Casino Royale* defected to the East last year, when most of the movie was shot at Prague's Barrandov Studios and on locations in the Czech Republic, against the initial plans to shoot at London's Pinewood. Then Barrandov and Pinewood have been vying to become the main center for the last Bond movie *Quantum of Solace* (2008) –although this time the British studio won. Prague has also hosted the sequel of *The Chronicles of Narnia (Prince Caspian)* and Luc Besson's *Babylon A.D.*, an action-science fiction movie starring Vin Diesel –both to be released in 2008.

Hungary, Bulgaria and Romania are also starting to attract Hollywood productions. Joel Schumacher's horror picture *Town Creek* (2008) has been shot at Bucharest's MediaPro Studios. On the same lot, Walden Media and Fox's US\$ 50 million fantasy *The Seeker: The Dark is Rising* (2007) has been produced there with local technicians. Other American productions shot in Romania are *Adam Resurrected* (2008) a Holocaust-related movie directed by Paul Schrader and starring Willem Dafoe and Jeff Goldblum, as well as *Mirrors* (2008), a thriller starring Kiefer Sutherland –both co-produced by local Castel Films. Also Francis Ford Coppola used a Romanian crew for *Youth Without Youth* (2007) his micro-budget return to student-style filmmaking, shot entirely in the region.

Bulgaria is also increasing its film activities through Boyana Studios, where Brian De Palma's *The Black Dahlia* (2006) and Bruce Beresford's *The Contract* (2006) were shot. Another Bulgarian studio facility, Nu Image, has hosted Jean-Claude Van Damme starrer *The Shepherd: Border Patrol* (2008). This country is such a good option that US producer Phillip Roth is building a huge stage complex and a back lot outside Sofia. Regarding Hungary, Budapest is hosting Guillermo del Toro's *Hellboy 2: The Golden Army*, for which Universal will benefit from Hungary's 20% tax refund.

Even Lithuania, with LKS film studios, is becoming a player. This country has been hosting *Defiance* (2008), a World War II action movie recounting the story of a Jewish resistance movement in the Polish-Belarusian forests, produced by Ed Zwick and Pieter Jan Brugge. This US\$ 50 million film was a major victory for Lithuania, a

country of 3.4 million people, which beat out bigger Poland and Romania as potential shooting sites. Also the Brad Anderson's last horror picture, *Transsiberian* (2008) starring Woody Harrelson and Ben Kingsley, was entirely shot in Lithuania and China.

For all these post-communist economies, international movie production is a bonanza. According to Dusana Chrenekova, spokeswoman for Barrandov Studios, foreign movie productions brought some US\$ 76 million to the Czech Republic in 2006. On his part, Bogdan Moncea, marketing director of Castel Film in Romania, said foreign film studios over the past five years have injected over US\$ 183 million into the local economy (Vivarelli, 2007; Dapkus, 2007).

Western Europe, however, has risen to the Eastern challenge. Germany recently launched a 20% tax rebate that Warner Brothers will take advantage of for the Wachowski brothers' *Speed Racer* to be shot in 2008 at Berlin's Babelsberg Studios instead of other possibilities. "Within Europe, it is always a mixture of reasons where a film goes", says Carl Woebcken, CEO and president of Studio Babelsberg. "One important issue, of course, is the overall cost. The new subsidy from the German Federal Film Fund (DFFF) helps because the above-the-line costs are also incentivised. On *Speed Racer*, for example, the US\$ 12.2 million (€ 9 million) rebate is more than the total costs for the stages and the complete set construction" (Blaney, 2007d). In Spain, greater tax breaks are promised under a new cinema law. Meanwhile, the government of region of Valencia launched a cash incentive program in 2007, offering up to US\$ 7 million for those film productions which spend three weeks of shooting in Valencia, including two at Alicante's new Ciudad de la Luz studios. Similarly, a 20% tax credit is available to films spending 25% of their budgets in the UK. For that reason, among others, *The Golden Compass* (2007) and *The Bourne Ultimatum* (2007) stood firm at London's Pinewood (Vivarelli, 2007).

Nevertheless, competition also exists among premier Eastern European countries, where each studio does what it can to entice foreign productions, particularly now that the region has become considerably more expensive. Filming costs are 20% lower in

Romania, Bulgaria and Lithuania than in the Czech Republic or Poland, although they lack in some cases the proper infrastructure and high-quality specialists (ibid.).

In order to keep this regular flow of Hollywood productions, Eastern European countries must improve in technology, experience and even tax reductions. Government support can mean the difference. In Hungary, the government has approved a 20% tax break for movie productions, and Romania may follow suit. Incentives like these show to what extent countries are willing to go to keep producers returning and why film-making is here to stay (Vivarelli, 2007; Dapkus, 2007).

There is of course a negative side of the runaway productions. From the 'host country's' standpoint, it must be said that Hollywood productions overseas help bring money into local industries, but also makes them dependent on a fragile foundation. The amount of foreign production is generally insufficient to provide business for everyone, and American runaway production levels are very dependent on currency fluctuations, tax break schemes and labor costs. Countries compete to undercut each other with better film schemes instead of working together, and an entire national industry can be critically destabilized if foreign production leaves (Nadler, 2004a, 2004b). In the case of Europe, as already mentioned, Western countries like the UK or Ireland, long the choice spots for Hollywood productions, are being abandoned by productions that are enticed to Eastern countries with even more extensive aid schemes, like the Czech Republic, Hungary, Romania or Bulgaria (Macnab, 2006; Schwinke, 2006). Tellingly, England's loss of the production of the *Star Wars* franchise from its Pinewood studios in 2001 was seen as a more important turn of events than anything that happened in its local production sector. In a similar way, as remarked earlier, Pinewood-Shepperton Studios have been struggling against Barrandov Studios to retain one of the most successful film franchises, the Bond series –the last installment, *Casino Royale* (2006) was shot in UK and Czech republic after hard pressure from both production facilities (Macnab, 2007b; Parker, 2002).

From the US point of view, runaway productions have had a very negative impact on several levels. According to the report mentioned before, "the lure of foreign incentives –and their aid to the bottom line–

for feature films has cost the U.S. economy 47,000 jobs per year since 2000, and US\$ 23 billion in economic benefits” (McNary, 2006). There has been a great debate in the US with political pressure on Hollywood producers to shoot on American soil. Nevertheless, as Goldsmith and O’Reagan points out,

[t]hese controversies might be best thought of as signs of the difficult adjustment by American-based production to the circumstance of an increasingly globalized design and production regime in which Los Angeles –and American more generally– are simply other possible locations pitching for production (Goldsmith & O’Reagan, 2005a: 177).

In any case, as competition for production increases and tax break policies overseas scale down in some countries, many US states have been fast to launch competitive and even innovative tax incentive programs. States like Michigan, Washington, Mississippi, North Carolina or Iowa offer a straight refund of between 10% and 30% of local expenditures, with a cap of US\$ 1 to 5 million (Hazelton, 2007). Very recently, Sony Pictures Imageworks –the special effects branch of Sony-Columbia– announced that they had decided to move more than 100 jobs from Culver City to New Mexico, where they have built a 100,000-square-foot satellite facility. This movement will allow them to substantially cut costs amid heightened competition from rivals in Canada, England and other countries that offer production incentives that are unavailable in California. New Mexico, on the contrary, provides a combined 25% rebate on taxable production and post-production expenses (Verrier, 2007).

At the same time, the EU has recently cut back on the amount that countries can benefit from public subsidies by determining that only 50% of work needs to be done in any one country to qualify for local aid programs. According to some analysts, this may calm some of the divisive competition or it may further weaken the already fragile local industries (Stern, 2004). On the contrary, as mentioned earlier, some European countries are very willing to attract foreign film productions and compete by offering better tax break conditions and low production costs (Macnab, 2006; Schwinke, 2006; Gubbins, 2007d).

6. Strategies of Competition

The second major set of strategies for the European film industry is competition. Rather than working with Hollywood, these tactics seek ways to beat them at their own game, creating commercially viable filmmaking structures that will allow Europeans to fight for control of the audiovisual marketplace. There are six main strategies in this category: 1) production of European ‘blockbusters’; 2) production of English-language European films; 3) emulating Hollywood strategies of sequels, comic adaptation and company branding; 4) pan-European private and public financial initiatives; 5) strong distribution companies (also pan-European size) and 6) promotion of national or local films as different products from mainstream Hollywood movies.

6.1. European ‘Blockbusters’

Hollywood’s dominance of the worldwide markets has led many in the European film industry to advocate the production of internationally-aimed, big budget films that can compete for audiences on the world stage. These films are generally too expensive for all but the largest vertically integrated European producers, and they frequently require the international co-production formula. At their best, these European “blockbusters” are able to compete directly with their Hollywood counterparts and earn similar international grosses. Nevertheless, by putting themselves in direct competition with Hollywood, they risk looking poor by comparison as well (De Pablos, 2004).

In any case, the European film industry is firmly eager to compete with Hollywood in the international arena, encouraging co-productions among different European countries and/or seeking the support of American partners. In the first case, the danger of the so-

called “europuddings” –those film productions made as an artificial and unnatural mixture of European elements, trying to be ‘all things to all Europeans’, and therefore being rejected by everyone– very frequent some years ago, are currently avoided (Jäckel, 2003: 108). Good examples of successful multi-national European blockbusters would be *The Barber of Siberia* (1998), co-produced by Russia, France, Italy and Czech Republic; *Enemy at the Gates* (2001), a co-production among Germany, UK, Ireland and US; *The Pianist* (2002), co-produced by France, UK, Germany and Poland; and *Perfume: The Story of a Murderer* (2006), a German-Spanish-French co-production.

There has also been pressure to film in English, rather than in local languages, along with pressure to use recognizable –and marketable– stars. This is the case of Bruce Willis speaking in English in France’s *The Fifth Element* (*Le cinquième élément*, 1997), Nicole Kidman in the Spanish film *The Others* (*Los otros*, 2001), Jude Law and Ed Harris in the US-European co-production *Enemy at the Gates* (2001) or Adrien Brody in the Polish war drama *The Pianist* (2002). Nevertheless, there are also other examples of big European productions shot in local languages with no stars at all, like the successful *Life is Beautiful* (*La vita è bella*, 1999), *Amélie* (*Le fabuleux destin d’Amélie Poulain*, 2001), *The Downfall* (*Der Untergang*, 2004) or *Alatriste* (2006).

Interestingly, some of these big productions designed to compete with Hollywood are now actually made with Hollywood support. Almost all high budgeted British films are made jointly with American majors, and throughout the European continent producers are looking to get Hollywood to put up money for distribution in foreign territories. Thus Miramax funded a portion of Italy’s *Life is Beautiful* (*La vita è bella*, 1997) and Spain’s *The Others* (*Los otros*, 2001) for example, securing them lucrative releases in the United States. In recent years, as explained before, most of US majors have developed a strategy of co-producing locally overseas, and in many cases making possible big-budget projects (Kay, 2007a).

Table 11 lists some examples of these European blockbusters, including admissions in European territories as well as in the US.

Table 11.
Examples of European 'Blockbusters'

| Title | Director | Year | Budget (US\$ m) | Country | Domestic ¹ | Admis. EU (25) ² | US | Total |
|------------------------|-----------------|------|-----------------|----------------|-----------------------|-----------------------------|------------|------------|
| The Fifth Element | L. Besson | 1997 | 90.0 | FR | 7,514,000 | 20,207,134 | 13,607,714 | 41,328,848 |
| Life is Beautiful | R. Benigni | 1997 | 25.0 | IT | 5,725,955 | 19,168,097 | 11,545,930 | 36,439,982 |
| Asterix and Obelix | C. Zidi | 1999 | 48.0 | FR | 9,090,000 | 20,987,331 | 256,703 | 30,334,034 |
| Enemy at the Gates | J.J. Annaud | 2001 | 70.0 | US, DE, GB, IE | : | 4,064,117 | 9,536,504 | 13,600,621 |
| The Others | A. Amenábar | 2001 | 17.0 | ES | 6,356,679 | 14,416,606 | 17,907,734 | 38,681,019 |
| Amelie | J.P. Jeunet | 2001 | 13.5 | FR | 9,290,535 | 20,696,885 | 5,921,234 | 35,908,654 |
| The Pianist | R. Polanski | 2002 | 35.0 | GB, DE, FR, PL | : | 8,739,120 | 5,231,024 | 13,970,144 |
| Cold Mountain | A. Minghella | 2003 | 79.0 | GB, US, RO, IT | : | 6,198,077 | 15,610,596 | 21,808,673 |
| A Very Long Engagement | J.P. Jeunet | 2004 | 55.0 | FR | 4,230,000 | 4,476,543 | 427,214 | 9,133,757 |
| The Downfall | O. Hirschbiegel | 2004 | 13.5 | DE | 4,521,903 | 5,295,204 | : | 9,817,107 |

Notes:

¹ In case of multi-national co-productions, domestic admissions are referred to the main co-producing country.

² Domestic admissions excluded.

Source: Own elaboration on EAO-Lumiere and Boxoffice mojo databases.

In view of some of the next film projects announced, this tendency to produce big-budgeted European movies is going to continue. Apart

from *Goya's Ghosts*, directed by Milos Forman and designed as a European-US co-production, one could also mention *Memoirs of Hadrian* (2007) a € 21 million movie directed by John Boorman, co-produced by Italy's Movieweb and France's UGC, starring Spanish actress Paz Vega (Rodier, 2005c).

Also in connection with this trend is the resurgence of the epic (and biopic) genre in Europe, usually designed as high budget period-piece film productions. Examples of recently released titles are Spanish *Alatriste* (2006), starring Viggo Mortensen, which cost around € 24 million, Paul Verhoven's *Black Book* (*Zwartboek*, 2006), budgeted at € 16 million, and Sergei Bodrov's historical epic *Mongol*, a € 15 million co-production of several countries, presented as a first installment of a Genghis Khan biopic, shot in the Mongolian language. Other coming European biopic films include Margaret Von Trotta's movie about the poet, composer and theologian Hildegard von Bingen; Renny Harlin's portrait of Finnish historical legend CGE Mannerheim, in the € 10 million budget range; and Michael Hoffman's € 12 million Tolstoy drama *The Last Station* with James McAvoy, Helen Mirren and Christopher Plummer. Another coming epic family story is the Heinrich Breloer's lavish adaptation of Thomas Mann's Nobel Prize-winning novel *Die Buddenbrooks*, a € 15 million production led by the veteran actor Armin Müeller-Stahl (Blaney, 2007a, 2007b, 2007c, 2007i; Rossing Jensen, 2007b; Wendt Jensen, 2007).

6.2. European English-Language Films

English-language filmmaking was once seen as necessary for real international success, as much for its popularity with buyers as with audiences. Filming in English allows filmmakers to avoid the stigma of "Europeanness" for audiences looking for Hollywood-type fare (Frater, 1996). As the language of Hollywood, English is the language of international filmmaking, and it is the language most universally understood by Europeans. In addition, this strategy solves the problem identified by Higson, when he remarks that "language barriers between different European countries have hampered this sort of pan-national cooperation" (Higson, 2000: 241).

Distributors are much more apt to pick up foreign films –and to pay more money for them– if they are made in English, though English is no guarantee for box office success (Kemp, 1998). As a consequence, there is an increasing number of European films shot in the English-language every year, from big productions like *Manolete* (M. Meyjes, 2008, Spain) to very ‘auteristic’ titles like *Dogville* (L. Von Trier, 2003, Denmark), not to mention period pieces like *Dina* (O. Bordenal, 2002, Norway) and *Tea with Mussolini* (F. Zefirelli, 1999, Italy) or simple dramas like *The Secret Life of Words* (I. Coixet, 2005, Spain).

Following this trend, 2007 has been quite a prolific year for English-language debuts of well-known European film directors. To begin with, during the Cannes Film Festival that year, the veteran Finnish film director Abbas Kiarostami announced his first English-language production. The US\$ 6 million *Certified Copy*, starring Juliette Binoche and produced by Marin Karmitz’s MK2, was shot in Italy with a European crew. Similarly, the Greek master Theo Angelopoulos has undertaken his first film in English, *The Dust of Time*, the second part of the trilogy initiated three years ago with *The Weeping Meadow*. This US\$ 12.3 million multi-national co-production (Germany-Russia-France-Italy) relies on a first-class international cast including Irene Jacob, Willem Dafoe, Bruno Ganz and Harvey Keitel. Other examples are German Sandra Nettelbeck, who shot in Canada the drama *Helen*, starring Ashley Judd, Goran Visnjic and Lauren Lee Smith. And the Swedish Lukas Moodysson, who directed *Mammoth* a Swedish-German-Danish co-production shot in New York, Thailand, The Philippines and Sweden (A. Carver, 2007; Macnab, 2007a; Grivas, 2007 ; Kay, 2007e). A final example –although not properly a debut– is Menno Meyjes’ next film *Last Battle Dreamer*, a US\$ 20 million Viking epic adventure starring Ryan Phillippe, Abbie Cornish and Sean Bean, co-produced by UK and Germany, and backed by Future Films with Handmade Films International handling international sales (Mitchell, 2007a).

As mentioned earlier, this trend coexists with an opposite one. European producers are also by-passing English in favor of a more authentic local-language sensibility, even for internationally-aimed

films, as occurs with the series of *Asterix and Obelix* (1999, 2002, 2007), the Spanish *Alatriste* (2006), or the German *The Downfall* (*Der Untergang*, 2006).

In addition, some European production companies have re-oriented their production output to accomplish this goal or have been directly created for this purpose. This is the case, for instance, of the above mentioned Spanish firm KanZaman, very active in these last years; or the Berlin production powerhouse X Filme, whose recent international production credits include Maria Schrader's *Love Life* (*Liebesleben*, 2006) and Bille August's *Goodbye Bafana* (2007). X Filme has launched a subsidiary company, X Filme International, to concentrate on the production of one to two international co-productions per year for the global market, in a budget range of US\$ 6.4 million-12.8 million (€ 5-10 million). Its first project has been Michael Haneke's English remake of his *Funny Games*, with France's Celluloid Dreams, the UK's Tartan Films and Halcyon Pictures. Likewise, Filmax, a Spanish production firm, is aimed at the international market, and its recent titles include *The Machinist* (2004), starring Christian Bale, and *Transsiberian* (2007), with Emily Mortimer, Woody Harrelson and Ben Kingsley, both directed by Brad Anderson (Blaney, 2003b, 2006b).

6.3. Emulating Hollywood: Sequels, Franchising, Comic Adaptations and Company Branding

From the growth in merchandising and product placement to the rise of the movie franchise, branding has become central to the modern blockbuster economy under the emergent principle of 'total entertainment' (Grainge, 2007). Hollywood knows very well that, in the contemporary movie business, the logic of branding has propelled specific kinds of approach to the status and selling of film. In this regard, the European film industry has also looked to emulate this Hollywood tactics as it seeks to increase revenue and competitiveness, especially in the case of sequels, adaptations from comics, creation of franchises and the company branding.

Sequels in Europe are now more frequent than ever before, as producers try to tap into the built-in audiences that Hollywood has so successfully exploited (*Variety*, 2001). Producers have increasingly relied on the repeat success of films like the trilogies of *Taxi* and *Les Bronzes* in France, the *Torrente* films in Spain and the *Natale* saga in Italy.

In relation to comic adaptation, there are examples from different countries like France or Spain, which include national best-sellers like the *Asterix & Obelix* series (1999, 2002, 2008), *Les Dalton* (2004) and *Blueberry* (2004) in France; *Mortadelo y Filemón* (2003, 2008) and the upcoming *Captain Thunder* in Spain.

The emphasis on franchises reflects a growing understanding of the potential of the international market. Franchising is increasingly important in Europe as well, though often with a distinctly different twist. On the one hand, the previous examples of sequels and comic adaptations are also examples of franchises. On the other, whereas franchises in Hollywood mainly refer to successful movies like *Spiderman* or *Pirates of the Caribbean*, for Europeans, harkening back to their auteurist traditions, franchises usually take the shape of individual filmmakers like Lars Von Trier, Pedro Almodóvar, Wim Wenders or Nani Moretti. As Thomas Elsaesser has pointed out, *auteurs* in Europe are brand names by themselves (Elsaesser, 2005: 51-52).

Regarding the strategy of company branding, some recent examples can be found. In 2001, the Spanish production company Filmax created Fantastic Factory for 'B serie' internationally appealing (English) horror movies. More recently, UK-based financing, sales and distribution company Intandem Films recently joined efforts with three other UK production companies (Spice Factory, Studio of the North and Ballpark Productions) to create a new production brand named FearFactory, also aimed at producing horror films and psychological thrillers. In a similar way, Danish major Nordisk Film's Norwegian subsidiary, which has become a market leader in local film and television production has launched a new production outfit, Neo Film, to concentrate on smaller projects, still mainstream-oriented, for the more critical audience. Two more examples already mentioned are the case of the German production company X Filme launching a

subsidiary company X Filme International focused on international co-productions and Xuxa Producciones, a spin-off of the Spanish KanZaman, also aimed at multinational films (*Screen Daily*, 2007e).

Table 12.
Examples of European Sequels and Franchises

| Orig. | Title | Year | Director | Admissions | | |
|--------|---|------|--------------|------------|-----------|------------|
| | | | | Domestic | EU (25) | Total |
| France | • Asterix 1 (against Cesar) | 1999 | C. Zidi | 8,737,422 | 2,895,053 | 11,632,475 |
| | • Asterix 2 (Mission Cleopatre) | 2002 | A. Chabat | 14,313,142 | 7,212,799 | 21,525,941 |
| | • Asterix 3 (in the Olympic Games) | 2008 | F. Forestier | n/a | n/a | n/a |
| | • Taxi 1 | 1998 | G. Pirés | 6,516,614 | 1,089,458 | 7,606,072 |
| | • Taxi 2 | 2002 | G. Krwaczyk | 10,235,516 | 1,950,205 | 12,185,721 |
| | • Taxi 3 | 2003 | G. Krwaczyk | 6,087,159 | 1,253,494 | 7,340,653 |
| Spain | • Torrente 1 (El brazo tonto de la ley) | 1998 | S. Segura | 2,849,259 | 29,436 | 2,878,695 |
| | • Torrente 2 (Misión en Marbella) | 2001 | S. Segura | 5,299,617 | 0 | 5,299,617 |
| | • Torrente 3 (El protector) | 2005 | S. Segura | 3,573,244 | 0 | 3,573,244 |
| | • Mortadelo y Filemón 1 (La gran aventura...) | 2001 | J. Fesser | 4,980,281 | 80,851 | 5,061,132 |
| | • Mortadelo y Filemón 2 (Misión: salvar...) | 2007 | M. Bardem | 1,218,386 | n/a | 1,218,386 |
| | | | | | | |
| Italy | • Natale 1 (Vacanze di Natale '95) | 1995 | N. Parenti | 859,516 | 0 | 859,516 |
| | • Natale 2 (Natale sul Nilo) | 2002 | N. Parenti | 5,742,264 | 62,876 | 5,805,140 |
| | • Natale 3 (Natale sul India) | 2003 | N. Parenti | 3,723,693 | 0 | 3,723,693 |
| | • Natale 4 (Natale a Miami) | 2005 | N. Parenti | 3,767,813 | 0 | 3,767,813 |
| | • Natale 5 (Natale a New York) | 2006 | N. Parenti | 2,947,812 | 0 | 2,947,812 |

Source: Own elaboration on EAO-Lumiere database.

6.4. Pan-European Public and Private Financial Initiatives

With the same tendency of emulation, Europe is trying to encourage the increase of financial support for the film industry, both from public and private funds, in order to compete with Hollywood big budgets. As mentioned earlier, the financing situation of the European film industry tends to be fragile and inconsistent for many producers due to the lack of regular and efficient financing sources, especially from private capital funds. For this very reason, some well-oriented initiatives have been accomplished during the last decades. On the one hand, the European Union has developed specific aid programs at many levels. On the other, some European countries have promoted attractive tax-shelter schemes, favoring some risk-capital firms to invest in film financing.

On the public side, the European Union has been regularly supporting the film industry on a multinational scale, thanks to well-known schemes like Eurimages and Media programs aimed at production, distribution and exhibition. Since its establishment in 1989, Eurimages has supported 1,142 European co-productions for a total amount of more than € 334 million (an average € 15-20 million per year), in addition to supporting distribution and exhibition of European films across Europe. On its part, Media Program has been very active in providing funds for preproduction and post-production activities (including distribution and promotion). The budget for the current edition (Media 2007-13) is up to € 755 million, spread out over seven years (the previous budget being as much as € 453.6 million). Despite this strong injection of money, the efficiency of the results is still in question (Henning & Alpar, 2005: 248-249).

Attracting private investment remains a vital part of the film financing formula and even generous production incentives from government make up only part of the equation. In any case, tax shelter legislation is being a 'hot topic' in Europe nowadays. After the UK and German recent changes, every government is being watchful of tax leakage and there is a general push across Europe at the moment to close off tax avoidance. There has been a change in the language and emphasis in the film finance world, turning away from tax and towards finding ways to make film an attractive investment and, more importantly, a sustainable

investment. In UK, for instance, the easy money schemes of the sale and leaseback era have been substituted by ‘Gaap partnerships’, where investors have the opportunity to defer tax payments on a loan-supported investment by writing down expected losses on a film production. Netherlands, as another case, has now come up with a ‘matching fund’ scheme to allow producers with two-thirds of their budget in place to apply for the final third of their film’s financing (Gubbins, 2007c).

According to these policies, some European regional governments are offering generous sums of money to attract film shootings in their respective territories (mainly European co-productions, although some also include US runaway productions). This is very much the case of Germany, the most active country in this sense. For instance, in 2006 regional public fund Filmstiftung NRW distributed over US\$ 9.3 million (€ 7 million) to 29 German-European co-productions. Three other German regional public funds, FFF Bayern, FilmFoerderung Hamburg and MDM, supported 6 films with a total amount of US\$ 5.3 million (€ 4 million) for 6 films. Finally, Medienboard Berlin-Brandenburg put US\$ 9.3 million (€ 7 million) for another 26 co-productions (Blaney, 2006a, 2007b, 2007g). In addition, in 2007, thanks to the currently boom in national and international production, the Berlin Senate has announced plans to make US\$ 85 million (€ 60 million) available until 2013 for state-backed guarantees to boost region’s attractiveness for film productions. Similarly, other state-backed guarantee schemes for the film industry in other German federal states, like Brandenburg and Saxony.

On top of that, in January 2007, German Government launched the German Federal Film Fund (DFFF) with an annual budget of US\$ 81.9 million (€ 60 million) for the next three years. The fund reimburses 20 cents of every euro spent in Germany up to a maximum of 80% of a qualifying film’s total production costs. At present, there is a cap of US\$ 5.5m (€ 4 million) on the amount that can be awarded to a single project, although this can be increased to US\$ 13.6 million (€ 10 million) if the German spend amounts to at least 35% of a film’s total production costs. While some German producers are privately critical of the big studio projects attracting large sums of DFFF cash, one of the fund’s stated aims is to promote Germany’s international

competitiveness for location and studio shoots –as it has been the case of many of the recent Hollywood ‘runaway productions’. The potential of the DFFF for the wider German economy has already been recognized and the Government is thinking of extending the fund beyond the present cut-off period of 2009 (Blaney, 2007d).

In a similar way, the Italian regions of Lazio and Piedmont have allocated important sums of money to be handed out to international co-producers who shoot in their regions: as much as US\$ 12.8 million (€ 10 million) in the case of Lazio, and over twice that figure, US\$ 33.1 million (€ 25 million), in the case of Piedmont. Turin, Friuli Venezia Giulia and the island of Sardinia are also operating film funds (Rodier, 2006; Jennings, 2007). On its part, the Irish government has pledged US\$ 188 million (€ 145 million) to support the Irish Film Board’s work until 2013, one of its main tasks being to market Ireland as film location (*Screen Daily*, 2007d). Finally, Norwegian Government has decided to strength its film policy by creating a new film institute, with a US\$ 6.1 million (€ 4.6 million) support budget (Rossing Jensen, 2007a).

On the private hedge money side, some representatives of the European film industry have been calling for the adaptation of the recent US private equity investment initiatives on this side of the Atlantic. Effectively, the US film industry has benefited in recent years from institutional funding worth US\$ 9 billion. This includes the US\$ 500 million deal between Legendary Pictures and Warner Brothers, the US\$ 490 million agreement between The Weinsteins Company and Goldman Sachs, as well as the US\$ 600 million contract between Relativity Media and Sony and Universal. This new formula is also being applied on a lesser scale to independents. Michael London’s Groundswell Productions, for instance, closed a US\$ 205 million deal with global investment firm TPG-Axon Capital. And Montecito Picture Co., run by Tom Pollock and Ivan Reitman, sealed a US\$ 200 million deal with Merrill Lynch (Brass, 2007a).

These financial agreements had never been possible without the banks’ involvement. Banks have long been involved in film financing on a smaller scale, but now they are also taking major stakes at these slate-financing deals, marking a key change in the banking community’s attitude towards an industry that has often been regarded as too risky

for big-money involvement. According to some reports, within the last two years approximately, more than US\$ 11 billion has been raised for the film industry through slate financing, and another US\$15 billion will be raised within the next year, with around US\$ 10 billion of it coming from banks (Brass, 2007b). Conversely, the negative effect is that whereas banks' involvement in huge slate-financing deals has been growing, their activity in more traditional hunting grounds in the film industry has reduced. According to the same report, banks' participation in single-picture financing and project financing has declined sharply, particularly in the last year.

In this sense, some European banks are being also more active in trying to position themselves for the possible development of a thriving equity-funding market for Hollywood studios and also for the local film industry. This is the case of the French Société Générale, the Scottish Royal Bank and the German bank Dresdner Kleinwort, as already mentioned. The latter, apart from investing in Hollywood through its deal with Paramount, is willing to establish a new private equity wave worth US\$ 100-130 million slate-financing aimed at institutional investors. Given that there are no entities on the Hollywood scale in Europe, they are trying to create a multi-company slate of 18-30 films pooling the bigger independent European projects. As a final example, Goldman Sachs and Deutsche Bank recently pulled out of a commitment to underwrite a US\$ 1 billion Metro-Goldwyn-Mayer (MGM) slate deal in the wake of a credit crunch in global markets. The planned deal aims to attract private equity, hedge fund and institutional investors to back MGM productions and co-productions (Brass, 2007a; Gubbins, 2007b; *Screen Daily*, 2007b).

Also in the private sector, the Belgian media fund Motion Picture Investment Group (MIG) raised US\$ 21.4 million (€ 16.5 million) to back 18 films in 2006. This company was founded in 2005 following the creation of tax shelter legislation by the Belgian government one year earlier (*Screen Daily*, 2007a). In Germany, the film financing and fund management group Entertainment Value Associates (EVA) decided to acquire a majority interest in the Munich-based family-run sales company Atlas International Film through its subsidiary EVA Finance. The sales outfit manages a catalogue of more than 500 titles.

In addition, EVA's co-shareholder Odeon Film acquired a majority stake in the film & TV production company Hofmann & Voges Entertainment and launched Hanover-based Waterfall Productions to specialise in the production of quality genre feature films with small to medium budgets for the international market (Blaney, 2007f).

6.5. Pan-European Film Distribution Attempts

As mentioned in the third chapter, distribution is the weakest sector of the European film industry. The low level of vertical integration makes quite hard the development of integrated strategies for commercial exploitation. US distributors control the market access and European producers are usually in a difficult position in the battle for screen time. The necessity for a strong distribution infrastructure has been a constant challenge for the film industry in Europe.

In this sense, many European companies are seeking to form pan-European connections to increase their leverage with Hollywood. By controlling multiple territories under one umbrella they can approach majors from a more powerful position, offering the ability to access and distribute across several different markets all at once. Still, efforts to form multinational conglomerates between European companies have proved difficult (Jäckel, 2003: 99-100; Buquet, 2005: 279-280). Different European countries still have very different business customs, and the strain can be very great (Lange, Newman-Baudais, & Hugot, 2007: 9). European companies often cannot recoup expensive failures or handle instability as well as the Hollywood majors. Thus, last years have seen the remains of failed pan-European ventures littering the industry landscape, from PolyGram and Signpost to the Kirch-Mediaset-Epsilon venture and countless smaller ones (Rodier, 2001).

More recently, the French sales and financing outfit Wild Bunch set up a new distribution subsidiary intentionally named Pan-Europeenne intended to distribute big budget films of all nationalities. Nevertheless, it must be said that among the partners of this joint-venture there is an unnamed American group not previously involved

in cinema. In addition, the French company announced its intention to buy other distribution companies in Western European countries, as a strategy to establish a European distribution network. Effectively, few months ago, Wild Bunch and German Senator Entertainment agreed to form a joint distribution venture in Germany as part of a broader agreement that will see the partners collaborate on co-productions and financing. This distribution deal comes after Wild Bunch acquired 50% of Senator's shares of distribution subsidiary Central Film Verleih GmbH. With this move, Wild Bunch has already taken hold in France, Italy and the Benelux territories, apart from Germany (Tartaglione-Vialatte, 2005b; Kay, 2007h). On a much more lesser scale, the Swiss Omega Entertainment has also been acting as a pan-European rights trader before upgrading to the global scale after its agreement with an American partner (Kay, 2007b).

Connecting these two last trends –seeking formulas for private hedge funds and attempts to control European distribution– we can draw attention to an emerging phenomenon, and this is the mergers and partnerships between European production and distribution companies, in the need to scale up and compete with their Hollywood counterparts. One recent example has been the merger of two of the most relevant production-distribution companies in Europe, the French Celluloid Dreams (run by Hengameh Panahi) and the British HanWay (run by Jeremy Thomas). The resulting company, Dreamachine, has become one of the world's leading groups in film sales and potentially, one of the leading European distributors as well (Macnab, Mitchell, & Gubbins, 2007). In a similar move, German distributor Kinowelt has recently founded its production arm, Neue Kinowelt Filmproduktion (NKF), aimed to become involved in between three-to-five co-productions a year and two-to-three in-house projects as well as working on TV movie commissions from German public and private broadcasters. All of the cinema films will be released in Germany by Kinowelt's theatrical arm Kinowelt Filmverleih and on DVD by Kinowelt Home Entertainment (*Screen Daily*, 2007c).

Other example of this attempt to create stronger alliances on a multinational level within Europe is the recent launching of a new production-distribution company by German FremantleMedia,

through its German subsidiary UFA, and the RTL Group. The new outfit, UFA Cinema, is aimed to deliver feature films for the local market. Plans are also in place to eventually establish an in-house theatrical distribution infrastructure. According to the UFA CEO, Wolf Bauer, this move is the first step towards the establishment of further film production companies in other European markets, like France and Spain, as the base for a European major studio (Blaney, 2007e).

6.6. Promoting National / Local Cinema

Finally, another tack European filmmakers take in relation to Hollywood is to create content that doesn't compete directly with Hollywood blockbusters but, rather, aims at finding a distinctly local audience by creating smaller films that cater to local tastes. These small-scale 'country specific' films are becoming an important basis for the sector as it looks to differentiate its product from Hollywood.

As Higson points out, this effort to produce a distinctively national cinema focused on indigenous cultural traditions and identities implies the problem of the domestic markets' modest size and, as a consequence, the correlative budgetary limitations. For this reason, film companies working on this front have specialized in catering for niche audiences (Higson, 2000: 241).

Taking into account the difficulty European films have in crossing borders, these films are designed to earn their money back within their local markets. They aim to appeal to audiences through their treatment of local themes, using local stars and local languages to take advantage of territory unfilled by American Hollywood blockbusters (Guder & McNary, 2006). They are far cheaper –and therefore far less risky– than big international films, and in rare cases local hits can turn into international phenomena, earning huge profits for their producers as happened with Britain's *Billy Elliot* (2000), France's *Amelie* (2001), Germany's *Goodbye Lenin!* (2003), Czech Republic's *Empties* (2007), or Spain's *El orfanato* (*The Orphanage*, 2007). Table 13 includes some of the recent European 'national' hits. Current trends in film markets

all over the world show a renewed interest for local films. According to *Screen Digest*, domestic films accounted for one third of film revenue worldwide in 2006 (*Screen Digest*, 2007c).

Table 13.
Examples of European 'National' Hits

| Country | Title | Year | Director | Domestic | Admiss. EU (25) | US | Total |
|----------|-------------------------------|------|------------------|------------|-----------------|-----------|------------|
| Spain | El otro lado de la cama | 2002 | E. Mtnez. Lázaro | 2,804,999 | 2,895,053 | : | 5,700,052 |
| | Mar adentro | 2004 | A. Amenábar | 3,998,550 | 1,143,750 | 306,154 | 5,448,454 |
| | El orfanato | 2007 | J.A. Bayona | 4,363,856 | : | : | 4,363,856 |
| UK | Billy Elliot | 2000 | S. Daldry | 3,893,407 | 12,266,304 | 4,017,320 | 20,177,031 |
| | Bend It Like Beckham | 2002 | G. Chadha | 2,441,074 | 2,286,909 | 9,840,135 | 4,727,983 |
| | Love Actually | 2003 | R. Curtis | 7,543,045 | 15,745,910 | 5,396,923 | 12,939,968 |
| France | Amelie | 2001 | J.P. Jeunet | 9,290,535 | 20,696,885 | 5,931,234 | 35,918,654 |
| | Chouchou | 2003 | M. Allouache | 3,800,000 | 3,937,287 | : | 7,737,287 |
| | Le Chorists | 2004 | C. Barratier | 8,360,000 | 10,128,760 | 324,798 | 18,813,558 |
| Germany | Der Schuh des Manitou | 2001 | M. Herbig | 11,719,169 | 2,562,410 | : | 14,281,579 |
| | Goodbye, Lenin | 2003 | W. Becker | 6,574,961 | 10,498,297 | 654,428 | 17,727,686 |
| | (T)Raumschiff Surprise 1 | 2004 | Michael Herbig | 9,150,736 | 1,221,257 | : | 10,371,993 |
| Italy | L'ultimo bacio | 2001 | G. Muccino | 3,153,779 | 544,277 | : | 3,698,056 |
| | Natale in India | 2003 | N. Parenti | 3,723,693 | 3,723,693 | : | 7,447,386 |
| | Il paradiso all'improvviso | 2003 | L. Pieraccioni | 4,777,342 | 50,719 | : | 4,828,061 |
| Czech R. | Empties | 2007 | J. Sverak | 1,254,282 | : | : | 1,254,282 |
| Greece | Politiki kouzina | 2003 | T. Boulmetis | : | 556,767 | : | 556,767 |
| Denmark | Italiensk for begyndere | 2000 | L. Scherfig | 819,553 | 2,775,021 | 767,719 | 4,362,293 |
| Turkey | G.O.R.A | 2004 | O.F. Sorak | 3,932,315 | 360,178 | : | 4,292,493 |
| Romania | 4 luni, 3 saptamâni si 2 zile | 2007 | C. Mungui | : | : | : | : |

Source: Own elaboration on EAO (Lumiere Database).

These films usually trade on the areas of the film market left unsatisfied by Hollywood exports. Comedy is the most prominent example, since it is one of the most local genres and has proved the most stubbornly difficult for Hollywood to export (Groves, 1999). A large percentage of the most successful local European films employ locally popular comedians, for example. This is the case of the *Torrente* saga in Spain, the *Natale* franchise in Italy, *Les Bronzés* in France, or titles like *Der Schuh des Manitou* and *(T)Raumschiff Surprise 1* in Germany.

Local filmmakers can also take advantage of cultural differences between America and Europe by addressing some topics that are not political corrected in Hollywood. Some recent examples are Danish *After the Wedding (Efter brylluppet, 2006)*, directed by Susan Bier and nominated for Best Foreign Film, and Romanian *4 Months, 3 Weeks, 2 Days (4 luni, 3 saptamâni si 2 zile, 2007)*, directed by Christian Mungui and winner of the Palm d'Or at Cannes 2007.

Local films deal with social or historical issues that affect their home audiences but do not grasp Hollywood's attention. Spain found success with their ETA terrorism based *El Lobo* and Germany's *Goodbye Lenin!* and *The Lives of Others (Das Leben der Anderen, 2006)*, dealing with post-Soviet unification, pulled in huge revenues. The Second World War is also a revisited genre of increasing popularity, as can be seen with *Life is Beautiful (La vita e bella, 1999)* in Italy, *The Downfall (Der Untergang, 2004)* and *Sophie Scholl: The Final Days (Sophie Scholl: Die Letzen Tage, 2005)* in Germany, *The Back Book (Zwartboek, 2006)* in Netherlands, and *Days of Glory (Indigènes, 2006)* in France.

Nevertheless, as was explained before, Hollywood has learnt the business potential of local-language cinema and most of the majors have created special divisions aimed at increasingly investing in national films through the co-production formula (Kay, 2007a).

7. Conclusions and Discussion

It is time to make some concluding remarks and offer some thoughts for further discussion.

As was recalled in the first chapter, the history of the relationship between Europe and Hollywood has been one of ‘love’ and ‘hate’. Nowadays, thanks to the new global economy as well as the internationalization of resources and markets, it has become a ‘marriage of convenience’. In fact, as explained with some detail and numerous examples in the previous two sections, this peculiar romance is sustained by paradoxical strategies of cooperation on one hand and competition on the other –especially in the case of Europe.

This dialectic set of tactics between Europe and Hollywood clearly resembles, in my opinion, the “two-way traffic [and] asymmetrical dynamic of exchange” referred to by Elsaesser, as well as the “local and global relations of reciprocity and competition” mentioned by Scott. In addition, they form part of those “increasing number of variables [which flow] between the Hollywood center and the periphery”, in Newman’s words.

Therefore, regarding our first hypothesis, we can properly define the current Europe-Hollywood relationship as a form of cooperation, as it is understood by business management theory and especially according to Yadong Luo’s proposals. Effectively, both film industries work together to collectively enhance performance by sharing resources (capital, production facilities, talents) and committing to common tasks goals in some domains (mainly Europe). At the same time, they compete by taking independent actions in their domestic and international film markets. This is noticeable in the case of Europe, combining protectionist measures and competitive strategies. In other words, Europe needs Hollywood’s production and distribution machinery as well as its business expertise. At the same time,

Hollywood needs European money and creativity, apart from a significant share of the European film market.

Nevertheless, since the Hollywood and the European film industries cannot be considered as single multinational companies, Luo's theories can only be applied in an analogical way. Being so, they are still useful to explain the current business strategies developed by some key players from both film industries.

Responding to our second hypothesis, we should stress that among the different types of coopetition described by Luo, the consideration of Hollywood and Europe as global rivals fits especially well. According to this author, this kind of coopetition views the relationship "as a simultaneous, inclusive interdependence containing cooperation and competition as two separate yet interrelated continua" (Luo, 2004: 12). At the same time, "the interdependence entails competing and collaborating elements, with rivalry as well as collaborative aims, vis-à-vis each other, in the course of winning global reach, expansion and profit" (ibid.). Finally he adds that competition and cooperation between global rivals coexist "because they realize the potential of synergy (financial, technological or operational) creation through cooperation but meanwhile they encounter conflicts arising from different goals, rivalry instinct and resource bargaining and they face certain zero-sum conditions in market competitions" (ibid.: 13). According to my view, the previous description of strategies developed by Europe and Hollywood very much exemplifies this reality.

Explaining the cooperation between global rivals in greater depth, Luo asserts that:

It is not limited merely to cooperative alliances such as international joint ventures, outsourcing agreements, licensing or franchising, R&D consortia, co-production and co-marketing, but extended to all types of collective efforts such as improving a host country's industry infrastructure, pressing local authorities for market access or fair competition, uniting together against uncompensated leakage of proprietary knowledge to local firms, sharing common suppliers or global distribution channels, and forming clusters for production, development, or supply resources at home and abroad (ibid.: 12).

I do think that many of the strategies described above are good examples of this business strategy. Effectively, the Hollywood and the European film industries have not only been relying on joint ventures, distribution and co-production agreements, exchanges of talent and creativity or outsourcing production agreements (runaway productions), but also the local industry infrastructure has benefited—at least in the European case—forming clusters for production and development, sharing resources and global distribution channels.

Regarding some peculiarities of this form of cooptation, we should recall Luo's enumeration of features. In the first place, he notes the coexistence of cooperation and competition between the same global rivals, and these opposed strategies must occur at the same time. In our case, this is what happens: Hollywood and Europe cooperate and compete with each other at the same time. Nevertheless, I should point out that it does not occur under the rules of balance, as happens with many multinational companies when they join forces. If cooptation between multinational companies usually requires a sort of parity, this is not the case of the film industry on both sides of the Atlantic. From the industry point of view, the production and distribution power of Hollywood studios is still hardly matched by the European film companies. From the market perspective, American movies dominate by far European screens, whereas European cinema is scarcely present on American screens. In other words, there is a significant—and probably insuperable—difference between these two cooptitors.

Secondly, no explains that rivals associated with cooptation could be either foreign or local, but they must compete in global markets. Here we find another significant difference. In our case, the cooperative and competitive strategies developed by Europe and Hollywood do not take place on the international markets—like Asia or Latin America—nor even on both domestic territories (US and Europe), but only within the European borders. Europe has become the main battlefield so far for the cooptation strategy. The effect of it outside the European borders is still unnoticeable.

Finally, Luo points out that cooptation differs from the mere cooperative alliance between global rivals and may occur at corporate,

division or subsidiary levels, depending on strategic intents and organizational needs. Both features apply in the case of the Europe-Hollywood relationship, especially at the company level.

Although I have stressed so far the convenience of considering the Europe-Hollywood coopetition from the perspective of global rivalry, I must admit that a sort of hybrid model, drawn from the four types described by Luo, could also be considered. Effectively, the different cooperative and competitive strategies explained on the previous pages illustrate not only the role of Hollywood and Europe as global rivals, but also the importance of foreign governments dealing with US companies. In the same way, some American-European initiatives could be considered as a coopetitive alliance of international partners, and we could also underline the existence of coopetition at the corporate level within multinational enterprises, as is the case with the Hollywood majors' subsidiaries in Europe.

With regard to our third hypothesis, it can be concluded that the center-periphery model used by Newman for explaining the dynamic flows between Hollywood and non-Hollywood film industries fits particularly well in the case of Europe. All the main elements he identifies in this feedback movement are also present here: the flow of technical and creative talent (not only actors or directors, but also composers, directors of photography, art directors or special-effects technicians), the Hollywood productions shot on European soil (both in Western and Central-Eastern countries), the exchange of financial and intellectual exchange (monies and ideas), and the local government's policies –not only restrictive (screen quotas) but also incentive (tax-shelter schemes). It is important in my view to insist on the asymmetry in this two-way traffic, as Elsaesser does. The intensity of 'flood' is sensibly different depending of the direction (from Hollywood to Europe or the other way around) and the variables in place. And not always is there a corresponding feedback. For instance, many European film directors and actors who break into the Hollywood system do not return to their country of origin afterwards –they belong to the 'international talent' status. However, the financial exchange, as seen, can be more balanced and mutually beneficial.

I am quite conscious of the limitations that some of these conclusions have, especially when considering Europe as ‘one country’, ‘one industry’ and ‘one market’ suitable for comparison with the US as a whole, without taking into account the fragmented but at the same time enriching reality of their different idiosyncrasies. Nevertheless, I do think this premise permits one to gain an interesting wider picture of both territories, struggling to be present on the international arena and fighting to control the entertainment industry worldwide. Although there are partial researches on the influence of Hollywood in particular European countries (like the ones included in the volume co-edited by McDonald and Wasko), this book –and, more particularly, the set of strategies described here– pretends to serve as a blueprint for further studies, either applied to specific territories (the way in which these cooperative and competitive strategies take place in a given European country) or to specific issues (runaways productions, distribution strategies, European blockbusters or franchises in European cinema).

To conclude, I would like to offer some other thoughts for discussion, in an attempt to forecast the future shape of the global film industry, where the Europe-Hollywood coepetition is going to play a significant role –together with the Asia-Hollywood coepetition and, on a lesser scale, the Europe-Latin America coepetition.

In my view, the future for both industries rests on a mixed model of ‘international picture’, often designed as a co-production –either financial or creative– between two apparent contenders, aimed at the worldwide market and including talent and capital from everywhere. Recent examples are *Alexander* (2004), a US-EU (French-German-Dutch) co-production, directed by an American top director (Oliver Stone), shot in Thailand and Morocco at Warner’s initiative, with an international cast and post-produced in France (EAO, 2005a: 4); the last Coppola film, *Youth Without Youth* (2007) a co-production between American Zoetrope and Pathé, shot in Bucarest with lines in six European languages –Sanskrit included– (Tartaglione, 2005); and, finally, the participation of KanZaman a Spanish production company, in a Hollywood sequel, *Basic Instinct 2* (2006) (Green, 2005a). At the same time, of course, it will be important to promote idiosyncrasies. Not only will market fragmentation permit or demand

both, but also small local films will be ranked at the top box office from time to time as well.

In this sense, even on the conceptual side, some authors like Thomas Elsaesser propose to replace the traditional duality of ‘European movies’ versus ‘Hollywood movies’ with the unique and generic term of ‘World Cinema’ (Elsaesser, 2005: 485-511). As we have mentioned before, not only is Hollywood producing European national films, but also the number of European ‘blockbusters’ aimed at the international market is growing to the point of becoming a standard. The promotion of these “national-international films”, as Elsaesser named them (ibid.: 506) together with the creation of “global branding” and the appearance of the “international cinemagoer”, as described by Acland (Acland, 2003: 11) are transforming the current film market. In this sense, the borders between the US and the European film industries are becoming blurred. As a consequence, the film production strategies will be ordered according to a new “more polycentric and more polyglot audiovisual landscape”, as Scott has pointed out (Scott, 2005: 171).

In this regard, the difficulties that some European movies have faced in being considered as ‘national’ films in their own countries are also very significant of this new order. This is the case, as is well known, of the French film *A Very Long Engagement* (2004) –which obliged the authorities to change the subsidies policy in France, due to its US finance– or the Italian movie *Private* (2004) which was disqualified as an Italian representative for the Oscars® for being spoken in Arabic, Hebrew and English only (Tartaglione-Vialatte, 2005a; Rodier, 2005b).

Will the Hollywood’s dominance on the world film markets change in this near future? Probably no. As Scotts suggests, “[o]ver the last century, Hollywood has displayed remarkable durability, and it will doubtless continue to do so on the basis of its accumulated sunk costs..., its potent internal synergies, and its enormous creative energies” (Scott, 2005: 175). Nevertheless, as he also speculates, “as other cultural-products agglomerations continue their rise around the world, Hollywood is also likely to face intensifying competition whose net result may well be some erosion of the disproportionate dominance

on the international markets” (ibid.). On the contrary, other authors defend that, “rather than erode Hollywood’s power as the center of the international commercial film and television industry, the externalization of production could very well reinforce Hollywood’s global dominance”, because “[a]s countries increase the economic benefits they derive from Hollywood’s hegemony, they are less likely opposed politically to American films’ box-office dominance” (Elmer & Gasher, 2005: 15). Two imponderables must be kept in mind in this regard, according to Scott. On the one hand, it cannot be taken for granted that “producers of motion pictures and policy makers in other parts of the world will seize the opportunities that now lie before them”; and on the other, “producers in Hollywood will hit upon a fresh trump card... that carries them forward to new rounds of commercial and cultural supremacy over their actual and potential rivals in other places” (ibid.).

In any case, the movie industry will achieve a further international development in the years to come, thanks to globalization and the digital revolution. Hollywood majors will convert the filmmaking industry into a progressively more worldwide business, through the exchange of capital, talent and resources of any sort. In a similar way, some European film companies will build up more international synergies aimed at being more present in Hollywood and at tightening links with former colonies –especially in the case of France, Spain and Portugal– to create language-oriented markets.

In summary, the relationship between Europe and Hollywood will evolve in this scenario, adopting new forms but without avoiding the cooperation-competition dynamic. Using another analogy, it is as if the European film industry needed these two movements of cooperation and competition –as opposed as they are– to keep on breathing, like the inhalation-exhalation routine. And Hollywood knows that “Europe has always been the ‘hidden half’ of the American film equation. The Majors... have always been highly dependent on European talent and revenues”, as Martin Dale concludes (Dale, 1997: x). The *quid* of the question, of course, is to determine up to what point this ‘marriage of convenience’ is really based on mutual reciprocity or if it could be described more like a kind of ‘sleeping with the enemy’ situation.

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