

The European Content Industries

Market trends and public incentives for growth

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Oktober 1999

Dieser Eigenbericht der Salzburg Research Forschungsgesellschaft m.b.H. (vormals Techno-Z Forschung & Entwicklung GmbH) beruht z.T. auf einer Studie für das portugiesische Multimediaunternehmen Grupo Forum über die wichtigsten Trends und Kennzahlen zu den europäischen Medienmärkten und über Förderungsinstrumente für die "Content Industry". Der Bericht gibt zunächst einen Überblick über Sektoren der europäischen Inhalteindustrie, gegliedert in die Sektoren Print, Rundfunk, interaktive Dienste und audiovisueller Sektor (Film, Musik). Der zweite Teil befasst sich mit den Förderinstrumenten der EU und der Mitgliedsstaaten für die Inhalteindustrie.

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Preface

This report deals with developments in the European content industries. Firstly, it describes the four main markets within this industrial conglomerate and analyses emerging trends in these markets. Secondly, the report provides an overview of public incentive mechanisms which have been established in member states to foster a development which is beneficial to society.

Although the term "content industry" is widely used, it is increasingly difficult to define exactly the markets that make up this industry. The convergence of the telecommunications, audio-visual and computing industries is blurring the lines between formerly separated industries. "Content" can no longer be separated from communication services. Digital services include elements of traditional "content" (texts, images, video, sound) and combine it with interactive features. This changes the nature of information and communication services.

On the other hand, in some cases the "digital revolution" of the media sectors has been proclaimed too early, it seems, and now turns out to be a rather evolutionary change. Interactive television may serve as an example. The still very limited success of newspapers to successfully exploit online media is another example where some forecasts which have been too optimistic need to be revised.

For the purpose of this report, the authors have chosen a rather conservative approach of segmenting the "content industries" according to traditional media industries, i.e. the print industry, the audio-visual industry, the online and multimedia industry and the film industry. After describing the trends in each of these markets, a separate chapter provides a synthesis which presents an overall scenario.

The geographic scope of the study has been defined as Europe. Due to the short time and the limited budget available for this study, the report cannot provide an in-depth analysis of the industry on country level. However, the authors have tried to indicate basic differences between European "media landscapes" such as, for example, the Nordic countries or the Mediterranean countries. It is essential to make such a differentiation in order to understand the big picture, and in order to understand some fundamental differences of the European content industries to the counterparts in the USA and Japan, where cultural and lingual differences are less important or not even existent.

The second part of the report addresses public incentives to support the content industries, both on membership level and on European level. The chapter suggests a matrix that can be used to classify different approaches and objectives of various actions taken by the EC or by individual member states. Some of these incentives have been selected as representative examples and are described in more detail.

On the whole, the report provides a bird's-eye view picture of the content industries in Europe and its main emerging trends. Policy makers and industry representatives can use it as a quick reference guide, providing an overview before searching for more detailed information on some issues scratched in this paper.

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October 15th, 1999

1 Executive Summary: European trends

1. Redefining "media": Fragmentation vs. integration in an increasingly digital environment

Communication experts argue that we live in a "post-media age". The average citizen spends more time than ever consuming media services, and yet the fragmentation of the media has reached a point where the term "mass media" seems no longer appropriate. Digital technology gives rise to personalised media instead.

On the other hand, the digitisation of the media production and distribution processes can be viewed as an integration process rather than a fragmentation process. Traditionally, specific types of content were delivered in specific outlets, clearly separated from each other. The term "daily newspaper" included three semantic components: a physical product, a specific information service and the company that produced the service and the product.

In the digital environment, the same content (e.g. "daily information") can be delivered in different outlets – e.g. in a newspaper or online. This is the integration of different "media", with consumers having the choice which delivery channel and platform they prefer in a given situation.

2. Fragmentation of markets differs according to content: national information markets, but international entertainment markets

It has often been stated that European media markets are fragmented by lingual and cultural barriers. However, whilst this holds true for periodic and information oriented services, it does less so for entertainment oriented services. Cinema film production, for instance, works in a national as well as in an international dimension. Video games tend to have international target markets, too.

The divide between (mainly) national information markets and (increasingly) international entertainment markets will remain valid in the digital age. Different types of content are working on different cultural levels. Europeans from different countries will continue to see the same movies in the cinema / on TV without an erosion of cultural differences.

3. Two basic modes of audience behaviour towards content: (Inter)active usage vs. passive consumption decides about formats.

Even in a digital environment, not all types of services will be "interactive". TV will, to a large extent, remain a service for relaxation and passive consumption. The TV box will merge with computers in a technical sense, e.g. it can be used for Internet access – but it is unlikely that traditional television content will face significant competition from interactive services in the near future.

4. The big players from the analogue content industry are in the drivers' seat to run the digital show as well, even as new players come along. It is not possible to create an attractive content offering from a zero base.

Regarding content creation and packaging, established media companies are in an advantaged position compared to newcomers, both in the online and offline markets. It is a myth that economies of scale are no longer valid in the web-based digital economy. Newcomers starting from zero will have a difficult time to compete with established content brands, especially since the majority of online services is not profitable for operators yet if isolated from their core business. Digital ventures, in their early stages, will in most cases need to be backed by traditional publishing activities, or be extensions of them.

5. **Public incentives and national support mechanisms for the content industry are a tightrope walk between violation of current EU regulations and national desires to preserve ones cultural and linguistic identity.**

Public incentives on the national level are an oddity – at least if considered on the background of current EU-regulations which prohibit any incentives granted by national governments which may favour individual market players or distort competition.

As such, public incentives are incompatible with Article 87 (ex Article 92) Paragraph 1 of the Treaty on establishing the European Community. Paragraphs 2 and 3 list exemptions and possible exceptions to this general rule. Accordingly, state governments are entitled to support culture under certain conditions, given that existing trade and competition regulations are not violated to a degree that interfere with the common good of the Community.

6. **The European Union completely revised its perspective on assistance programmes in ICT research and development. The focus changed from a technology-driven towards a content-driven approach. European content providers can benefit from this development, and can seek financial support in a variety of community programmes.**

This development was based on a change in perception. In the first phase, the “European information economy” and the objective to strengthen the related infrastructure industries was at the centre of attention. In the new approach of European information policy, the Information Society is the focal point. New policies focus on the social dimension and reflect the need to expand knowledge and achieve greater clarity about how the Information Society is going to be shaped in the future.

7. **In all European countries, motives for public incentives are two-dimensional: besides an economic motive, there is always a strong cultural motive. A particular state might lean more towards the one or the other, yet both motives are always present.**

Public funding policies attempt to find a balance between economic objectives and the cultural ambitions inherent in selective support. In most countries, these two factors coincide regularly. Since selective funding is often used to “correct” supposed ill-functioning of the market by supporting new creative talent as well as artistic experiment in film production, the cultural aspect is predominant.

8. **National models of public incentives may vary considerable. While some countries take a rather non-interventionist approach and hardly support their content industry directly, other countries proactively provide financial aid to companies and projects.**

9. **EU countries have established rather sophisticated support mechanisms for traditional content industries (print and audio-visual), yet they rarely provide direct help to the interactive digital media industry, since national governments have adopted the European Commission’s view that ICT market development will be carried by the private industries. In this context, content providers are not directly supported but can apply for grants within national technology funding schemes.**

10. **The audio-visual industry and the press can rely on the most sophisticated direct funding mechanisms.**

2 Market development and trends

Digitisation & convergence . . .

Digitisation is the major trend common to all media markets, redefining and transforming both the creation of content and its delivery. In the near future, all contents will be produced and copied in digital format. Increasingly, delivery is processed along digital channels as well, with the exception of print media which will continue to exist in an otherwise digital media environment. As a consequence, there is an increasing diversity of outlets for the delivery of content services to consumers.

. . . but traditional categories remain valid

Although the underlying technologies are convergent, it is still possible and makes sense to differentiate between different outlets. For the time being, the traditional categories still provide a fairly useful basis to describe and analyse media industries.

The following matrix describes the categories this study uses. In all of the four categories, the scope of the study is limited to the core markets of the industry, only making peripheral notes about related markets (e.g. corporate publishing). The underlying infrastructure (e.g. network providers) and hardware markets (equipment) are not being dealt with.

Scope of the study and market structure of the content industries:

	Print publishing	Broadcasting	Interactive services	Cinema & audio-visual
Focus markets of this study	<ul style="list-style-type: none"> • newspapers • magazines • books 	<ul style="list-style-type: none"> • television programmes • radio programmes 	<ul style="list-style-type: none"> • Internet (content services only) • Online services • VoD 	<ul style="list-style-type: none"> • cinema • video rental and sales • music
Related markets (peripherally covered)	<ul style="list-style-type: none"> • corporate publishing (catalogues etc.) 	<ul style="list-style-type: none"> • business TV 	<ul style="list-style-type: none"> • e-commerce (in general) • corporate multimedia • navigation systems 	
Basic infrastructure (related industries) (not covered)	<ul style="list-style-type: none"> • print industry 	<ul style="list-style-type: none"> • satellite operators • cable operators • equipment (TV sets etc.) 	<ul style="list-style-type: none"> • telecommunications • ICT & computing • network economics 	<ul style="list-style-type: none"> • equipment (VCR / DVD players)

2.1 Print publishing

Definition of the scope of the publishing industry

The "publishing industries" comprise the newspaper, magazine and book markets and the market for corporate publishing. It is understood that these sectors diverge in terms of the economic and social functions they fulfil and that they operate in different market configurations (dual markets, public good functions).

Publishing industries in Europe face a number of key new challenges and have to contend with new market forces. The 'continentalisation' of industries has progressed rapidly in recent years with the emergence of a small number of transnational companies setting the pace.

Supply industries both in the material production chain as well as the digital technology domain have concentrated as well, and the impact of electronic production processes and distribution channels forces firms to view markets increasingly different. Convergence of underlying technologies and markets are the result, and industries have to approach and deal with their customers in new ways.

Major trends

The digital extension of print markets

All print publishing sectors undergo profound transformations due to the impact of the digital information and communication technologies. The resulting market pressure is to enlarge material goods production to electronic service delivery. "E-books", "e-newspapers" and "e-zines" are verbal expressions for such extensions, referring to publishing alike services in off- and on-line media.

Whilst this is a development not directly leading to the substitution of printed formats, substitution will occur in very specific corners of the market. For example, it is expected that newspapers will increasingly compete with internet based services in the classified market, once the diffusion of internet access in households has reached critical mass (i.e. about 30% of households). Newspapers are therefore struggling to exploit these electronic markets in a way of "self-cannibalisation" before competitors successfully establish themselves in the electronic market place.

Changing the business model

"Publishing" will therefore no longer be a synonym for producing a printed newspaper or magazine, but rather for delivering a bundle of services to a specific user community. The (r)evolution in the publishing industry must be regarded in the context of the development of the information society. As long-term socio-economic trends will restructure the technological, regulatory and economic environments and the demographic structure of the European societies, publishing companies will have to move along by catering to their audience in different channels.

In this context, the competitiveness of the publishing industries and sectors cannot solely be measured in the traditional industrial terms of creating jobs, increasing market shares, making profits. Rather, it is becoming obvious that taking the lead in implementation of sophisticated technologies and the development of new products will lead the publishing industries to move into the delivery of electronic services.

Print advertising markets: growth, but internal competition

Due to the general economic growth, overall advertising budgets have increased over the last four years, after severe depression in the late eighties and the beginning of the nineties in some European countries, especially in Scandinavia and U.K.

In recent years, the number of titles that compete for growing but still limited advertising budgets has increased dramatically through further diversification and specialisation of titles in the magazine market. The Internet will add to the competition for advertising budgets, albeit in a less dramatic amount than it was anticipated before.

Basic principles and value chain**A kaleidoscope of national markets**

The European publishing industry is a diverse and heterogeneous industry. Hence, it is a difficult and hazardous task to generalise statements about market size, consumer preferences, regulatory issues, and the overall structure of the media landscape. Existing language barriers and cultural differences are the primary reasons why the European publishing market is a kaleidoscope of national markets with only minor cross boarder activities. Unlike companies in the United States, European publishing houses need to cope with many distinct markets that are small in size, divers in language and heterogeneous in culture.

The cultural differences determine consumer preferences, and companies are forced to publish national or even regional editions to satisfy consumer demands in small and distinctive markets. Even large European publishing companies such as Bertelsmann AG, Hachett Group, Fininvest or Reed Publishing concentrate their publishing activities essentially on the national markets. As a result, economies of scale find their limits at the national boundaries of the individual European states.

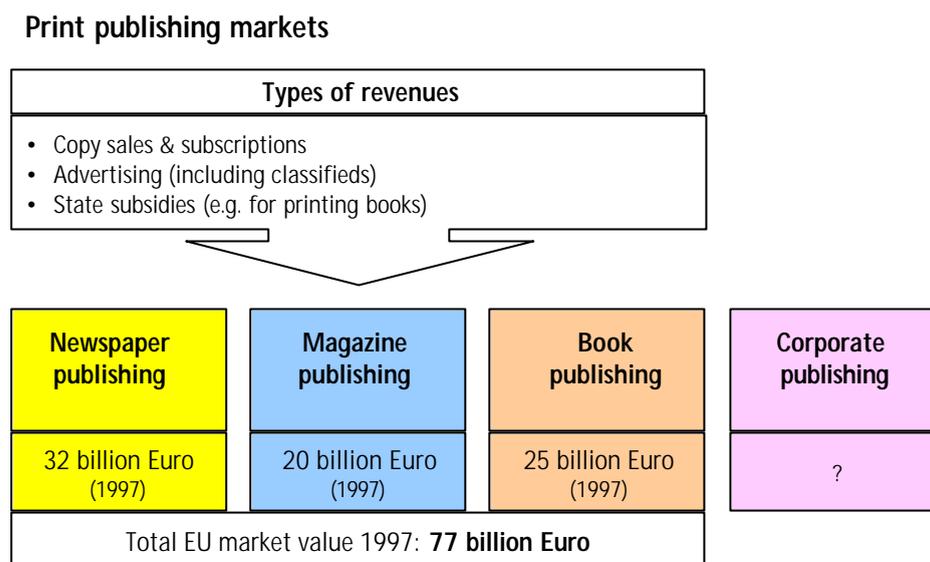
Business objectives & fulfilment of public good functions

The core business of publishing companies is in the industrial production of printed material – ink on paper –, be it for corporate or public use. However, they operate in different market configurations with quite different revenue structures and streams. The dual market principle (revenues have to be generated in the audience market and in the advertising market) is a most important factor governing the newspaper and magazine markets.

In some of these sectors, e.g. newspapers, the compensations for the fulfilment of public good functions play an important economic role and are key factors in taxation and cash flow management.

The total market value of sales and advertising revenues in the EU member states was about 77 billion Euro in 1997.¹

¹ Estimate by Techno-Z Forschung & Entwicklung GmbH, based on European advertising and sales revenue figures provided by FIEJ and other sources.

Figure 1: Market size of the European print publishing industry

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: FIEJ, other sources

Facts and figures

Overview

This chapter has been structured by breaking down the publishing industry into its main sub-industries, i.e. the newspaper, magazine and the book industry. Corporate publishing, which is the largest market in terms of production value, is not being considered in this study.

NEWSPAPERS AND MAGAZINES

The European newspaper industry accounted for a total volume of 32 billion Euro in 1997.² It varies significantly in its role and structure across Europe. It is the one publishing sector that best fits the picture of a “kaleidoscopic” market place where regional and local markets are more important than the national market.

Newspapers

On a European scale, the newspaper market is mature and stagnant. The number of titles has decreased from 1170 (1992) to 1128 (1996), and also the circulation has dropped.

Although the newspaper industry still receives the largest piece of the advertising pie among all media, income from advertising revenues has remained static over the last couple of years. The decrease in readers in the early 1990s and, since then, the stagnation in readership are primary factors for the declining share in advertising revenues in the intermedia competition. On the whole, newspaper publishers all over Europe could only credit meagre growth in revenues. Similarly to advertising, revenues from sales / subscriptions have also been stagnant over the years.

State subsidies

A third source of revenues is in many EU member states the provision of state subsidies to off-set the public good costs and assure a diversified offering of contents to the public. Data show that state subsidies account for

² Estimate by Techno-Z Forschung & Entwicklung GmbH, based on European advertising and sales revenue figures provided by FIEJ and other sources.

up to 48% of overall revenues for small newspaper publishers in some countries.

Electronic services

It is from the electronic media that the producers of news contents face the greatest competition. In many cases, the competitors are not traditionally publishers but new players from different industries who have been able to benefit from the relatively low entry costs of producing and delivering news and information contents over the Internet.

Today, only a few electronic newspapers are able to harvest some revenues from their online ventures. Again, branding is a major issue for success. As soon as diffusion of Internet connections in homes become substantial, readers will ask for added value services through internet based offerings. Thus, even if not directly profitable, it will become more important for newspapers to provide electronic services.

Magazines

Unlike the European newspaper industry, the European consumer magazine market has seen tremendous growth concerning the number of titles and the diversification of products. The most developed European markets for consumer magazines are the UK, France and Germany, and the whole sector is worth about 20 billion Euro.³

10.000 titles

The technological ability of the magazine publishers to support small print runs and produce more and more offshoots has led to a "micro-segmented", title-rich market, with about 10.000 different consumer magazines Europe-wide.

The growth in titles however, did not go hand in hand with a growth in readership. More and more special interest magazines are now competing for a readership that is not willing to spend substantially more on magazines. As a consequence, the average circulation has decreased and accordingly the relative income that derives from sales and advertising.

Advertising market

Advertising revenues stagnated after the end of the big magazine boom in the 1980s and have picked up again in most European countries in the mid-nineties.

The increasingly segmented magazine landscape has forced the advertising industry to disperse their expenditures across a growing number of publications to reach their target audience, increasing the competition for advertising money among magazine publishers.

To counterbalance this effect, larger publishing houses increasingly work on strategies to horizontally integrate their magazine business in an effort to gain economies of scale by leveraging marketing and distribution channels. Today, these companies often control a large number of magazine products in many different areas of interest. They publish branded magazines across national borders or license product names for publications to reflect the peculiarities of the various European cultures and language communities.

This phase of industry consolidation has led to further ownership concentration with a few players controlling the top ranking magazines in the European market.

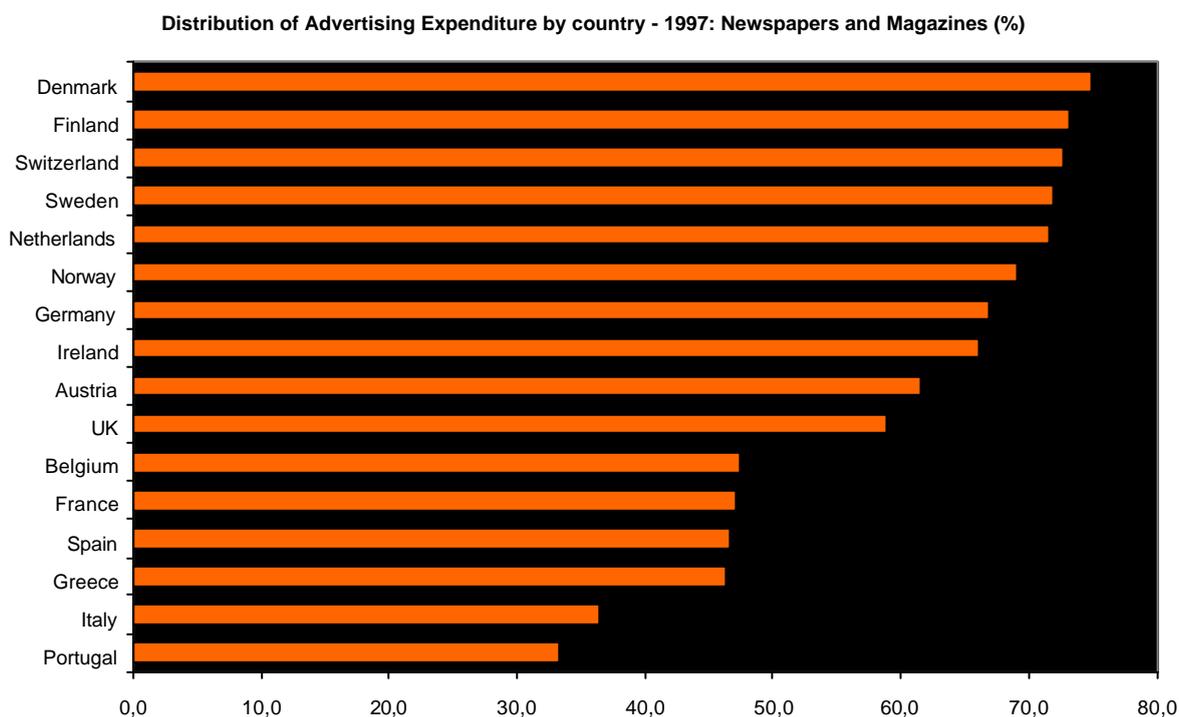
³ Estimate by Techno-Z Forschung & Entwicklung GmbH, based on European advertising and sales revenue figures provided by various advertising and print associations.

Table 1: Advertising share (%) of newspapers and magazines in European countries (1997)

Country	Total Advertising Expenditure (million EURO)	Newspapers and Magazines (million EURO)	%
Austria	1.529	942	61,6
Belgium	1.565	741	47,4
Denmark	1.381	1.031	74,9
Finland	1.016	743	73,1
France	8.888	4.184	47,1
Germany	18.402	12.299	66,8
Greece	961	445	46,4
Ireland	669	443	66,1
Italy	5.640	2.058	36,5
Netherlands	3.182	2.279	71,6
Norway	1.093	755	69,0
Portugal	849	283	33,4
Spain	4.241	1.978	46,6
Sweden	1.781	1.281	71,9
Switzerland	2.225	1.618	72,7
UK	15.090	8.888	58,9

no data available for Luxemburg

Source: Young & Rubicam

Figure 2: Advertising share (%) of newspapers and magazines in European countries (1997)

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: Young & Rubicam

*STM – Scientific,
technical & medical
publishing*

For STM journal publishers, the issues are different. Many countries cut down on educational expenses and also university and specialist libraries face severe budget cuts. Librarians are forced to be very selective in journal and periodicals acquisition. However, as subscriptions are the primary revenue source for STM-publishers and advertising playing only a very minor role,

STM publishers are looking at a stagnant market.

For STM publishers, the challenge has been to look for ways to cut down on operational costs. Unlike the consumer magazine market, diversification of titles and micro-segmentation of markets have not really been a viable alternative for this publishing sector. Yet, in the academic publishing sector, there exist the most immediate possibilities to publish electronically due the hardware base available in most academic institutions and the ease of access offered by electronic systems. For SMT publishers, the ability to utilise new electronic delivery systems has become the decisive factor with regards to retaining market share.

Today, the challenge is to develop and employ workable business models to create new revenue streams from electronic delivery. At present, the applied business models vary considerably and include micro payment mechanisms to pay for the download of individual articles as well as monthly or annual subscription fees.

As English is the major language in science, foreign competition especially from United States publishing houses is very strong.

BOOKS

The overall European market is worth about 25 billion Euro, with Germany being the single largest market in Europe, followed by the UK and France.⁴

Today, all of the major European players in this area are not only print publishers but also run multimedia studios. Like in other publishing sectors too, the book publishing market will be influenced by the publishers' ability and desire to apply present skills and strengths to the new technological inventions that are just around the corner.

Digitisation takes place in the distribution process of printed books as well as in the distribution of "book-like" content using media devices other than books.

Distribution channels

At this point however, it is still traditional bookstores who are accounting for most of the book sales in Europe. In Italy, for example, 49% of all books are sold in bookstores, in Germany even 61%, the rest being ordered or sold at other places than bookstores.

E-books – a niche market not yet taking off

There is some debate to what extent the "book" itself will be substituted by digital devices. Earlier attempts to launch electronic book systems in the early 90s such as Sony's Data-Discman have not been successful. Today, several providers are aiming to (re-)launch electronic book systems. Nuvomedia ("Rocket-E-Book") Everybook, Libirius ("Millenium Reader") and Softbook have announced to present their "book-players" on the US market in 1999. Most systems display content in HTML based formats. Everybook, providing a double display, uses Adobe's PDF technology.

The question if electronic books will be a substitute for printed books clearly depends on three success factors:

- **Usability:** There is some debate if digital books can compete with the touch and feel of printed books, and if they are as user friendly.

⁴ Estimate by Techno-Z Forschung & Entwicklung GmbH, based on figures from various market studies and annual reports by national associations.

- **Price:** Assuming that printed books and their digital counterparts are equally attractive to users, it will simply be a matter of price for which option consumers decide. Once e-books manage to be considerably cheaper than printed books, their chance to succeed will dramatically increase.
- **Critical mass of content:** In addition to these factors, the majority of potential users will only be willing to purchase a "book-player" once a "critical mass" of content is available. This will require that major publishers agree on a common standard. Initiatives are underway (see fact box below). Consumers will not be willing to buy three or more different players.

It is not to be expected that e-books will conquer a substantial market share within the next three years. They will remain a niche market, as long as the large European publishers (at least within one language area) have not agreed on a common standard and do not promote digital books to their customers. On the content side, the players will remain the same as in the printed world.

FACT BOX**Rocket-E-Book system: Will it be the standard for electronic books?**

More than 50 publishing companies worldwide, including large US publishers such as Random House, McGraw Hill, Penguin Putnam, Simon & Schuster support Nuvomedia's Rocket-E-Book system. The objective is that in the near future all new publications of these companies will also be offered as a "Rocket edition", in some cases even prior to publication of the printed edition.

In Germany, Bertelsmann will offer Rocket-E-Book to members of its book-club. The application has been announced to be launched at Frankfurt Book Fair 1999.⁵

Policy issue: fixed book pricing

While the proponents of fixed book pricing in Europe fear for the quality, quantity, variety and availability of the cultural output, the opponents argue that fixed book prices would weaken the competitiveness of Europe's book industry. Especially hard cover books are pricey, and the reason why the general trend goes towards paperback books. Fixed pricing agreements exist for example in Spain, Germany, and Austria, while the UK dropped fixed book pricing in 1995.

⁵ screen business online, 10/1999, p. 104

2.2 Broadcasting industry

Major trends

The development of broadcasting programmes during the past 10 years has been characterised by two major trends: the massive growth of commercial television (since the mid 80s) and the beginning of the digitisation of television (since 1996).

Commercialisation of television The emergence of commercial programmes in all countries has led to a debate about the role of broadcasting, trying to find a compromise between its public service obligation on the one hand, and the objective to establish a free market and competition on the other hand. The main trend, however, is clearly towards a further commercialisation of TV rather than protecting public service against competition.

Digital TV: morning has broken . . . The emergence of digital television has increased the number of channels available, but not yet the types of service. Digital pay-TV services are successful in markets with so far limited availability of free-to-air television programmes. In saturated markets such as Germany, digital TV has experienced difficulties to conquer an economically viable market share. Top movies and sports events are the most important assets in the pay-TV markets.

. . . but TV still remains a mass medium The proclaimed future of TV with hundreds of specialist channels has not materialised yet. Even the new services are targeted to a potentially large audience rather than to small communities. The strategy applied by most service providers is to bundle packages of "mainstream" types of programme (e.g. cartoon channel, western channel, sports channel), rather than breaking it down into smaller units (e.g. billiard channel). Even if the channels multiply, TV will clearly keep mass media characteristics.

Basic principles and value chain

Market definition In the context of this study, the broadcasting industry has been defined as the content related parts of the television and radio markets. The focus is on the operators of TV and radio programmes and their revenue sources (licence fees, advertising, pay-TV revenues). Network operators providing the infrastructure for distribution (cable, satellite, terrestrial) are only dealt with if they charge for content.

Manufacturers of consumer electronics such as TV sets, Hi-Fi equipment of decoders, and sales of satellite dishes are not being considered in this study, although they are clearly part of the overall broadcasting value chain (see chart below).

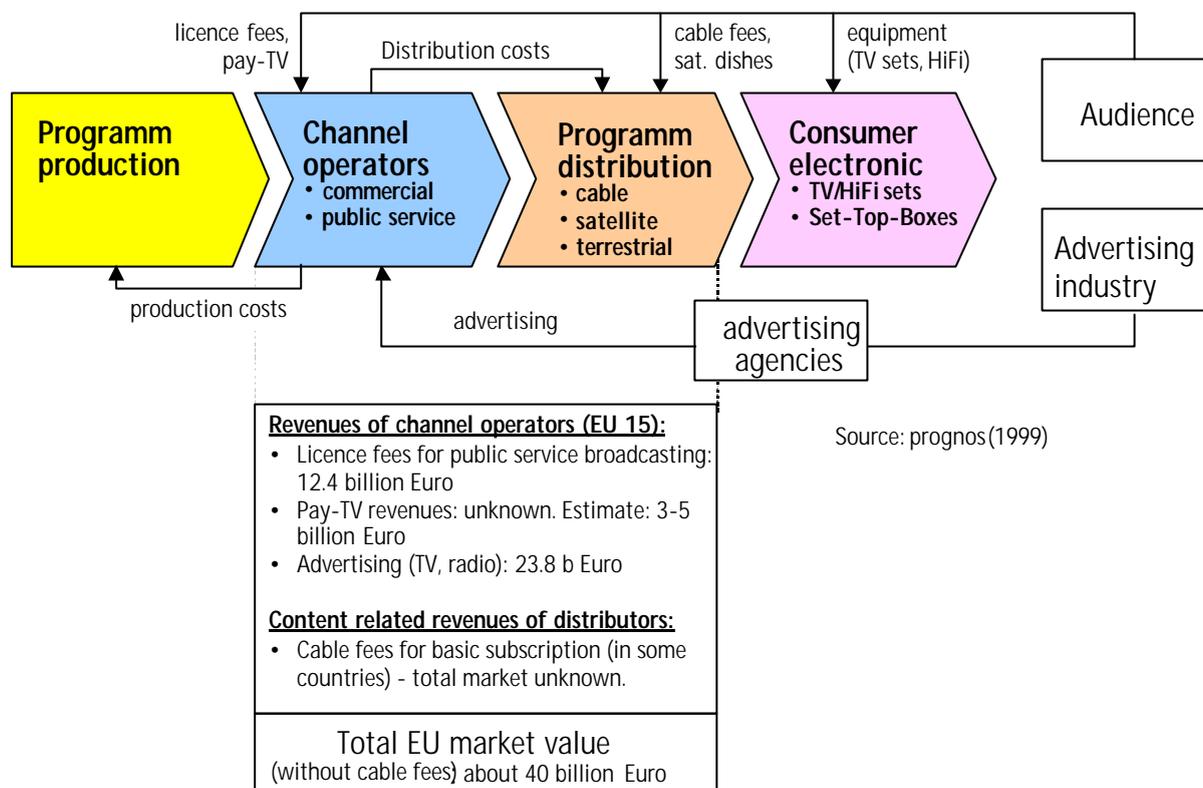
Value chain The value chain by Prognos⁶ presented below shows the revenue streams between players in the (traditional) analogue broadcasting industry. New players are involved in the digital pay-TV market. Prognos identifies six

⁶ from: Trappel, Josef (1999): Was die Mediamatik für die Unternehmen zu leisten vermag. In: Latzer, Michael; et al. (Ed.): Die Zukunft der Kommunikation. Innsbruck: Studienverlag, p. 90. Translated into English by Techno-Z F&E.

sectors in the digital TV value chain: programme production, programme (individual channel), programme packaging, distribution (digital, conditional access), subscriber management, equipment.

Figure 3:

Value chain of the broadcasting industry



© Techno-Z Forschung & Entwicklung GmbH (1999)

Facts and Figures

Overview

This chapter describes the European broadcasting markets from four perspectives:

- Starting from a demand side, the chapter analyses the **consumption patterns** of television and radio services in Europe.
- Second, it provides some key data about the supply side, i.e. the **programme offer** available to the audience (channels, types of programmes)
- Third, the report highlights national differences between European countries in terms of **distribution infrastructure**.
- And fourth, it provides key figures about the **market size** of the industry, based on the types of revenues described in the value chain above.

Finally, there is a short outlook on business TV as a potentially new market with promise for growth especially in a digital environment.

Demand for television services

There are different European 'media landscapes' in terms of television viewing patterns, but there is not a clear regional pattern. Differences are to be found in two ways:

- in terms of average daily viewing time
- in terms of viewing peaks

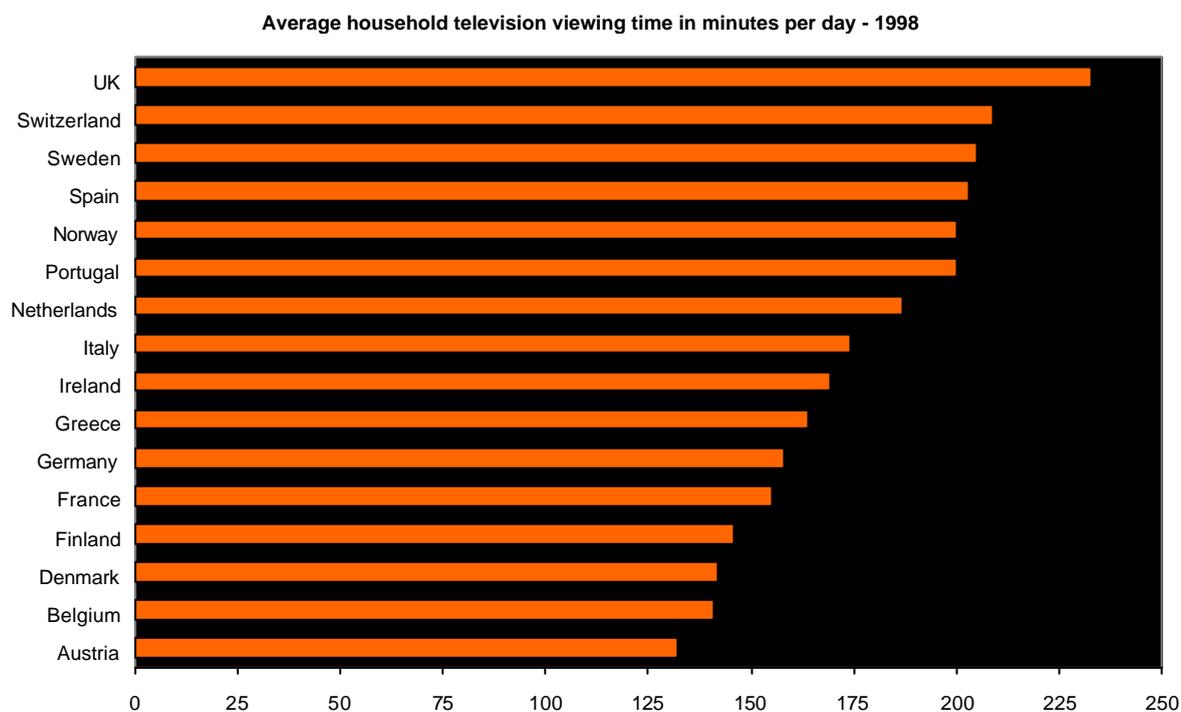
Viewing time

The group of countries with the highest TV consumption are the UK (> 225 minutes/day), Switzerland, Sweden, Spain, Norway and Portugal. The lowest consumption is measured in Austria, Belgium, Denmark and Finland (less than 150 minutes/day).

Peaks

Peaks in the consumption of TV programmes are usually between 19:00 and 21:00 hours. In Southern European countries, there is an additional peak between 12:00 and 14:00 hours, when many shops have closed and people turn on the TV during the work break.

Figure 4: Average daily TV viewing time in European countries



© Techno-Z Forschung & Entwicklung GmbH (1999). Source: Young & Rubicam

Programme offering

The development of broadcasting programmes during the past 10 years has been characterised by two major trends:

- the massive growth of commercial television (since the mid 80s)
- and the beginning of the digitisation of television (since 1996)

Commercial TV

The emergence of commercial programmes in all countries has led to a debate about the role of broadcasting, trying to find a compromise between its public service obligation on the one hand, and the objective to establish a free market and competition on the other hand.

Digital TV

Although the term "digital TV" refers to the mode of distribution rather than to a (necessarily) different kind of programme, marketing campaigns of digital services try to link "digital services" with an image of innovative, diverse and new content.

Although the nature of digital services offered in Europe up to now is not too different from the analogue television offer, the emergence of digital television has increased the number of channels available. Interactive services on TV have not been introduced in a significant amount and are usually limited to near Video-on-demand. The value added of pay-TV services is either premium content (mainly movies, sports and erotic programme) or a package of specialist channels otherwise not available.

Infrastructure for programme distribution

European broadcasting landscapes have developed in very different ways with regard to the underlying infrastructure used to distribute content. This will play an important role in the future development, as new types of (digital) services are offered. Basically, there are two distinct groups of countries:

- Countries, where terrestrial reception dominates. These are mainly the Southern countries (Italy, Greece, Portugal, Spain), but also France, the UK and Finland.
- Countries, where cable and/or satellite infrastructure is predominant.

Cable networks

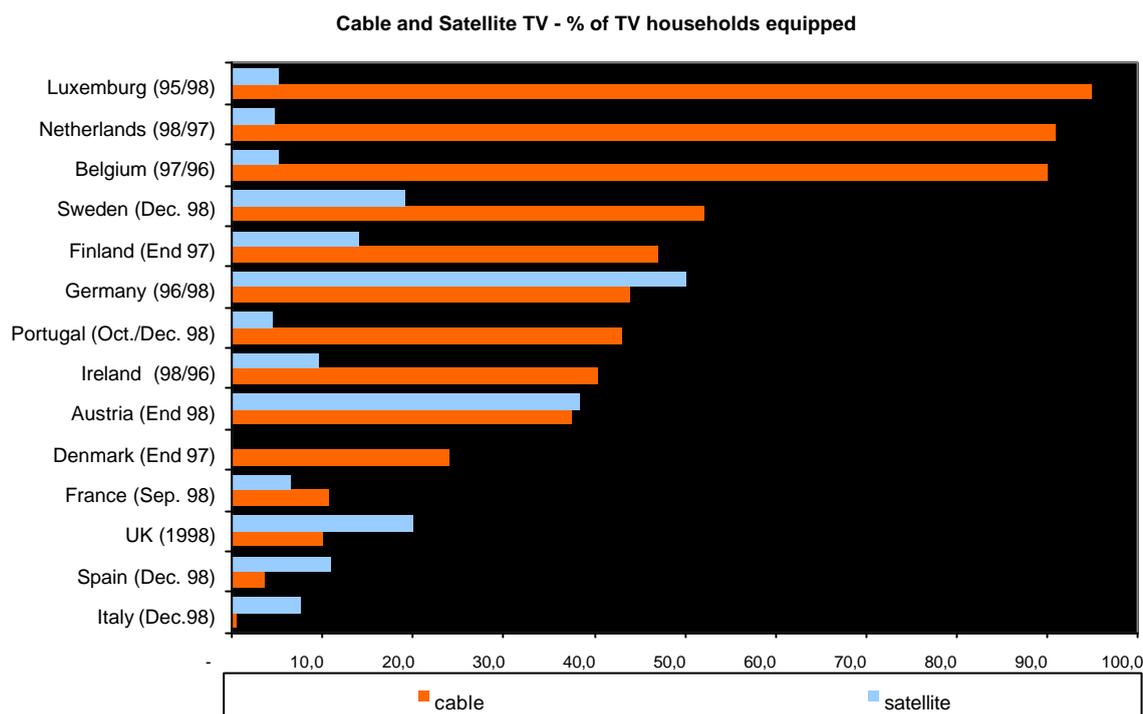
There are about 845 cable TV network operators in the EU member states. About 39.5 million households were connected to a cable network, which is about 27% of total TV households. More than 70 million homes are passed by a network.

A most probable scenario for the future development is that cable will continue to predominate in highly cabled countries like Germany, the Netherlands and parts of the Nordic region. However, in larger markets where satellite already has built a strong position – such as for instance in the UK, cable could find it difficult to break through.

Satellite

At the end of 1997, 23 million European households were equipped with satellite dishes. Diffusion of satellite dishes has experienced an average annual growth of 15% since 1994.⁷ Austria and Germany are the countries with the highest density. In these countries more than in others satellite has become a serious competitor for cable networks.

⁷ Development of digital television in the European Union (1998). Report by IDATE for the EC.

Figure 5: Percentage of cable & satellite households in European countries

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: ESIS - ISPO (www.ispo.cec.ce/esis)

A major issue in all countries is the digitisation of the networks – cable, satellite and terrestrial.

Digital cable

The upgrade of cable TV networks to enable the feeding of digital programmes is underway in most countries. At the end of 1997, 50% of the European cable networks had been digitised, with rapid progress. The cable network of *Deutsche Telekom* has been fully digitised in 1998. The next step, however, is to set up a digital back channel, and it is unclear who will bear the cost of these initial investments to open the market for interactive service provisioning.

Digital satellite

Digital satellite broadcasting covers almost the whole EU territory, mainly due to Astra's and Eutelsat's satellite systems. At the end of 1998, SES-Astra's satellite system was leading in the provision of digital satellite broadcasting capacities to service providers.

Digital terrestrial

The infrastructure for digital terrestrial television (DTTV) is less developed than the cable and satellite networks. Only a few member states have started to upgrade their networks. Field trials with DVB-T and DAB-T are underway, but switching the major broadcasting networks from analogue to digital is a complicated task to do. Major arguments in favour of DTTV are the enabling of portable reception and mobile reception (especially in regions where cable is predominant). Another aspect is that digital terrestrial broadcasting would multiply the capacity of programmes that can be distributed, compared to analogue terrestrial. There is some debate if DTTV, once it has been established, will compete with cable services, once the same amount of programmes can be delivered.

In UK, ON-Digital started in October 1998. In Sweden, the announced launch of digital terrestrial TV was late due to an argument who should be in control of the platform.

FACT BOX

Digital pay-TV: Fast growth in France and UK, slow market take-up in Germany

The first European commercial digital TV service was launched in France in April 1996. In the meantime, digital pay-TV services have developed into a significant market in France and UK. IDATE estimates the European digital TV market to be worth 810 million Euro (1997).⁸

A major success factor for digital (as well as analogue) pay-TV services is the amount of competition from free-to-air TV programmes.

Example 1: France

In France, the digital pay-TV venture of *Canalsatellite* and *TPS* attracted 1.7 million subscribers by 1998. The overall success of pay-TV has been facilitated by the limited offer of TV programmes in France, where 75% of the households have only access to six national TV stations. *Canalsatellite* has launched extensive marketing campaigns trying to lure the analogue Canal+ subscribers to upgrade their subscription to one of the digital packages. At the end of 1998, *Canal Plus* group possessed holdings in 6 digital TV platforms and is present in eight European countries.

Example 2: Germany

In Germany, Kirch Group launched *DF1* in June 1996 with very ambitious goals, announcing that TV would be 're-invented'. It soon became clear that *DF1* was a failure at least in the short term, because it could not provide a real added value to the large offer of free TV in Germany. After three years, *DF1* has about 347,000 subscribers. Kirch Group is reported to have made initial investments of more than 500 million Euro, without any perspective to earn back this money any time soon. However, Kirch Group made a new effort to conquer the pay-TV market in March 1999, when it bought the *Premiere* (the competing pay-TV service) shares from competitor Bertelsmann AG (i.e. from its subsidiary CLT-Ufa). Kirch Group now owns 100% of *DF1* (except for a rest of 5%) and 95% of *Premiere*. In October 1999, *Premiere* and *DF1* are merged into a new package, named "Premiere World". The tremendous marketing effort accompanying the launch reminds of the introduction of *DF1* in 1996.

Revenues of operators

Broadcasting companies may basically have four types of revenues with different importance:

- Advertising
- Pay-TV revenues (subscription, pay-per-view)
- Public funding, i.e. licence fees (in the case of public service broadcasters)
- Sales of programme rights

⁸ Development of digital television in the European Union (1998). Report by IDATE for the EC.

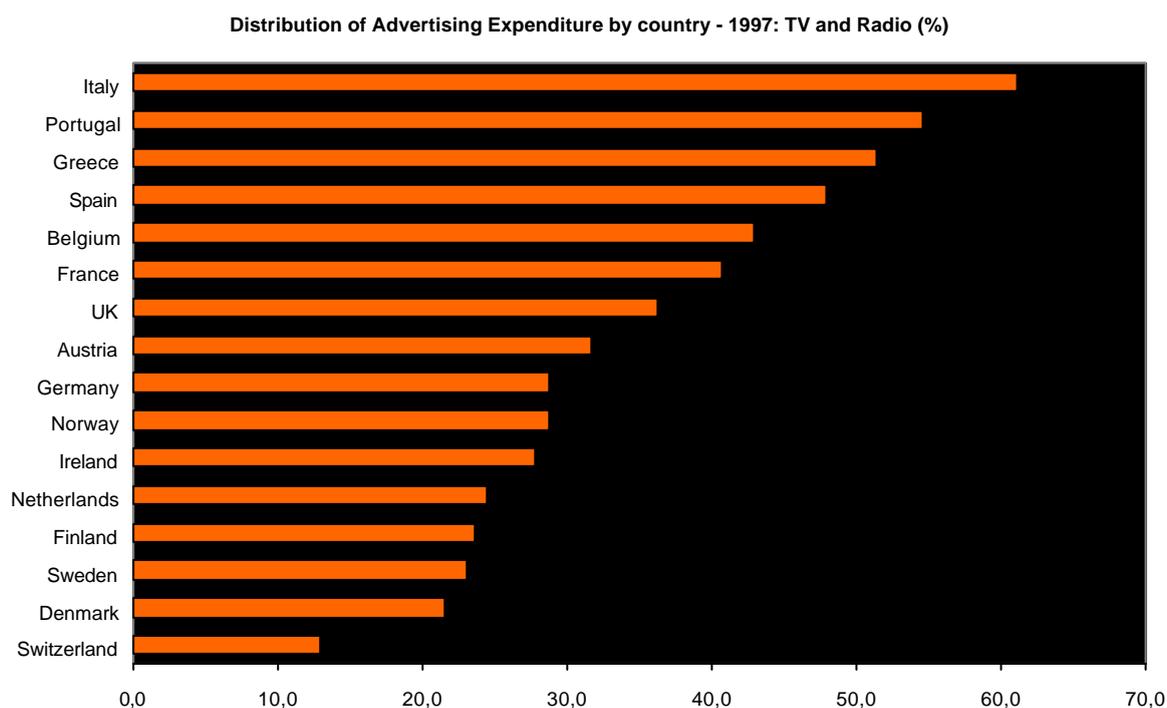
Advertising revenues

Advertising revenues play a most important role in most companies, commercial as well as public service broadcasters. Broadcasting typically accounts for between 25-40% of the total media advertising market, with exceptions in both directions. As a rule, the percentage of advertising budgets spent on TV and radio is higher in Southern Europe than in other countries, being lowest in the Scandinavian countries.

Table 2: Distribution of Advertising Expenditure – TV and Radio (1997)

Country	Total Advertising Expenditure (million Euro)	TV and Radio (million Euro)	%
Austria	1,529	484	31.6
Belgium	1,565	670	42.9
Denmark	1,381	297	21.5
Finland	1,016	240	23.6
France	8,888	3,611	40.6
Germany	18,402	5,299	28.8
Greece	961	493	51.3
Ireland	669	186	27.8
Italy	5,640	3,443	61.0
Netherlands	3,182	779	24.5
Norway	1,093	314	28.7
Portugal	849	464	54.6
Spain	4,241	2,034	48.0
Sweden	1,781	411	23.1
Switzerland	2,225	287	12.9
UK	15,090	5,460	36.2
EU (+ CH, N)	68,506	24,471	35.7

no data available for Luxembourg; Source: Young & Rubicam

Figure 6: Advertising share (%) of TV and radio in European countries (1997)

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: Young & Rubicam

Licence fees

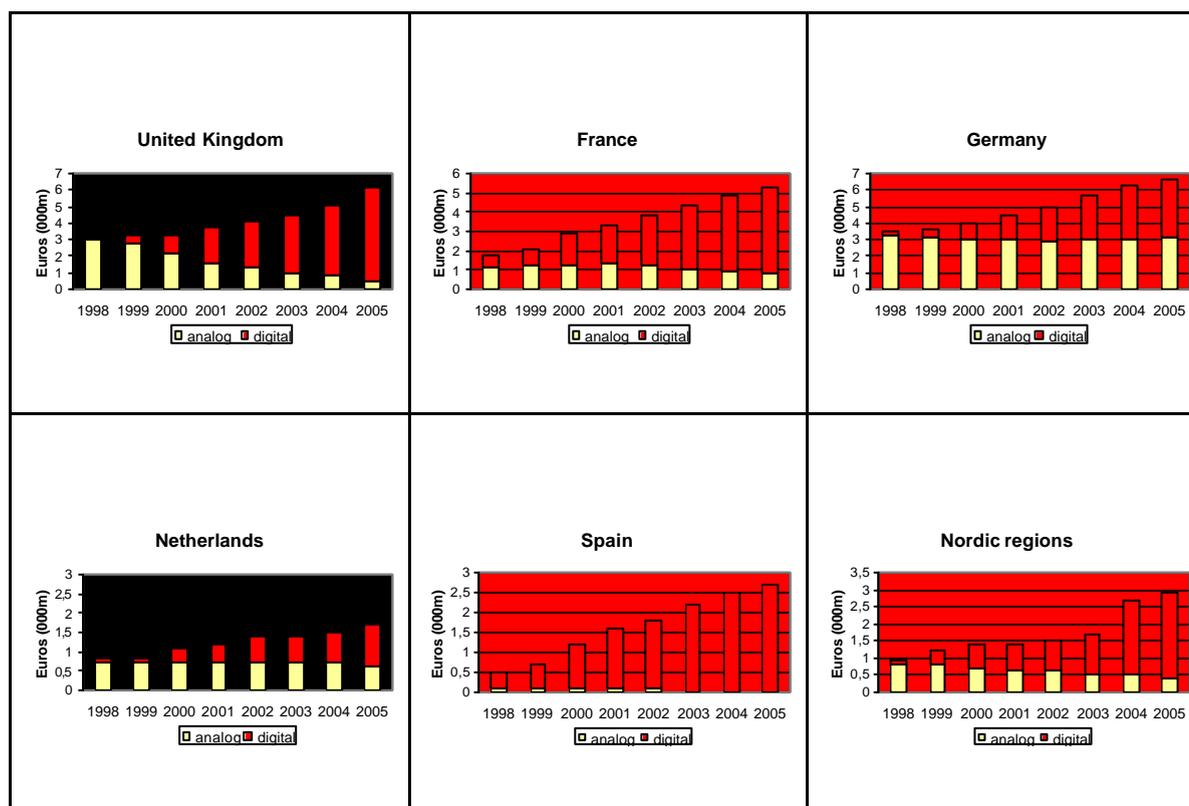
The public service broadcasters in Europe are financed to a different degree by (compulsory) licence fees collected from the audience and by advertising revenues. The relative importance of public funds (licence fees) differs largely between countries. Some examples of the percentage of public funds in financing public service broadcasting organisations are given below:⁹

- Sweden (SVT): 93%
- UK (BBC): 78%
- Germany (ARD/ZDF): 77% / 44%
- Finland (YLE): 74%
- France (France 2/3): 44% / 61%
- Italy (RAI): 56%
- Austria (ORF): 46%
- Ireland (RTE): 35%

Pay-TV revenues

There are no figures for pay-TV revenues available on a European scale. IDATE estimates that pay-TV revenues as percentage of total TV revenues vary between 47% in France and are below 5% in the middle European and Scandinavian countries (Germany, Austria, Sweden, Finland).

Figure 7: Cable and satellite television revenue forecasts 1998 – 2005



© Techno-Z Forschung & Entwicklung GmbH (1999). Source: Screen Digest/EMS March 99

⁹ European Audio-visual Observatory

Revenues of cable and satellite television

The charts above provide a forecast of revenues from cable and satellite television as the shift from analogue to digital occurs. The figures represent a combination of advertising and subscription income. In those countries where cable and satellite networks have already a high penetration rate, analogue networks will continue to play an important role in the near future. In France and Spain, revenues from digital cable and satellite are expected to grow fast.¹⁰

Business TV

Business TV (B-TV) could develop into a major growth broadcasting market, since the costs to operate a channel are supposed to decrease significantly due to digital streaming technologies. So far, only large corporations are in a situation to make use of 'corporate broadcasting'.

FACT BOX**Business TV: a growth market - or totally overestimated?**

Business TV (B-TV) is defined as the operation of a TV channel for corporate communication purposes, either for internal information (e.g. training programmes), or for external communication to customers. Technologically, B-TV is usually a point-to-multipoint transmission to a closed user group. Content produced in a studio is encrypted and transmitted via cable or satellite to several receivers which are able to decode the encrypted information.

Experts are disagreeing on the market potential of B-TV. Whilst some forecast that it will be an important future growth market, with opportunities not yet fully understood and not at all exploited, others argue that the importance of B-TV is completely overestimated by any standard.

Today, due to the high costs to operate a channel (German Hypo-Vereinsbank says it spends 5 million EURO per year¹¹), mainly large companies are employing B-TV strategies in their customer relations. With the improvement of streaming technologies, B-TV may become cheaper and thus more attractive to SMEs as well.

In the USA, about 500 companies are making annual investments of about 800 million US\$ into B-TV (in total).¹² The European market is less developed.

¹⁰ Screen Digest, March 1999

¹¹ screen business online, 10/1999, p.32

¹² screen business online, 10/1999, p.31

2.3 Interactive services

Major trends

Internet instead of broadband "information highways"

Market prognosis early in this decade said that broadband, interactive video services will dominate the near (rosy) media future. Flops of pilot projects launched by US-giant Time Warner in Orlando, Florida, or Deutsche Telekom and Alcatel in Baden-Württemberg proved that prediction wrong and demonstrate that such services are by no means the "killer application".

Instead, smaller and highly flexible services with value in daily life pave the way to the online world of interactive entertainment, information, and electronic commerce.

Digital broadcasting will pervade the mass market before broadband switched video

Terrestrial broadband infrastructure services for interactive video will not be widely available until 2005, except in a few urban areas. The "happy few" will be those connected to a cable TV network made bi-directional, i.e. users have a digital back channel to select and control entertainment and information videos. (For further information see part on audio-visual industry.)

The next mass market transmission technology might be digital broadcasting rather than on-demand multimedia infrastructure. End-user devices will gradually provide combined functionality for both online and digital broadcasting (e.g. set-top boxes). - The main reason that online and digital broadcasting will develop much faster than switched video is that the cost per content unit of long distance transmission (both for online and broadcast) is tending towards zero. Furthermore, narrow-band access costs per content unit are marginal compared to the high costs of switched video.

With the recordable DVD, both types of interactive video services (broadcasting and broadband distribution) will be confronted with the question of securing copyrights.

What is worth paying for ...?

Users of interactive services are not willing to pay for basic content such as general news, basic newsgroups or classified services.

Services for the mass market therefore have to be financed by advertising, while commissions on online transactions (paid by users or companies selling goods and services online) are of course the other important revenue stream.

Significant subscription and pay-per-use fees, and less dependence on advertising, can only be expected with premium services for example for professional and business users.

'Portalmomics' - The winners in the online economy.

On the internet, in the fight for the eyeballs and advertisers sure winners will be the so-called portals. These are primary sites where many surfers enter the Web or go first for links on broader themes as for example entertainment, travel or automobiles. For this trend especially in relation to advertising the term „portalmomics“ was coined. It applies to the big portals as well as secondary and niche sites, which will develop hierarchical relationship among themselves.

Big portals can expect a lot of money, as for example the online software dealer Software.net in a recent deal agreed to pay \$ 21 million to AOL (America) for semi-exclusive positioning at various computing and commerce areas of AOL's site. But, the relationship doesn't have to be based on the exchange of cash - reciprocal advertising or percentages of sales can be part of the deal.

Portals to the world of entertainment and information contents, located on the secondary level (after the big entry doors), are beginning to emerge right now. Due to the language barriers, most portals will be national ones, as for example the German www.buchhandel.de for books, magazines and music titles.

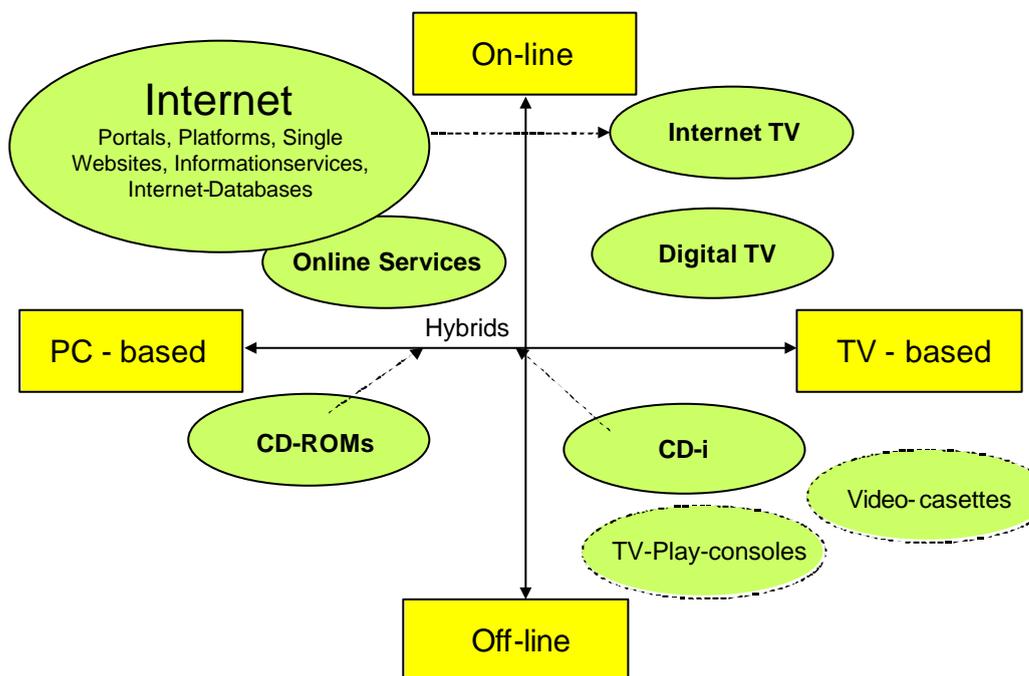
Basic principles and value chain

Definition: Content in interactive services

A broad definition of content includes everything that can be put on internet servers or various off-line media. Yet, when dealing with content industries, a clear distinction has to be drawn between content that is offered and used as such (e.g. entertainment or educational material) and content that serves to attract customers to goods and services (e.g. in electronic commerce or tele-banking). The distinction between these two types of content is often blurred (not only in the online world).

The following overview will focus on contents that are offered and used for their own sake with TV or PC, and, as far as internet access is concerned, with various other mobile devices.

With regard to off-line media the term interactive services seems inadequate, yet, CD-ROM and CD-i today are ever more hybrid products, i.e. they have links to information sources in the internet.



Source: Techno-Z FH Research & Development 1999

Basic Principles

Start small – scale up

Multimedia interactive services have to be seen as dynamic, allowing a step-by-step development of offerings and a scaling-up when more users join in. Simple, but valuable services can be made media-richer and even broadband provided there is a real market for them. This is a chance for small start-ups in the online world to find their niches in the competition with media-giants, especially when regional and target-specific competence is necessary.

It's the added value that counts

Users of interactive services look for added value regarding media richness, interactivity and functionality. Different target audiences as leisure seekers or business people, have their focus on specific types of added value, e.g. multimedia entertainment vs. hyperlinked, interactive content integrated with services. Understanding and serving users' preferences in the different target segments therefore is critical for gaining a market share and securing customer loyalty.

Serving communities of interest

A crucial factor for success in interactive services is the building of communities of interest. Fulfilling the needs of such communities requires integrating content, communication and relevant services in a platform, which also provides an "island of trust". Such islands are important in electronic commerce as well as in offering information services.

In the environment of such platforms, users are more willing to accept technologies which automatically trace and respond to user behaviour, allowing, for example, personalisation of content offerings.

Brands online

Brands are important to attract users and advertisers. In order to establish online brands targeted content quality, service reliability and depth are seen as key factors. The brand can have a global as well as regional grasp, e.g. the platform of a regional newspaper being "the place" to go for local information.

Value Chain

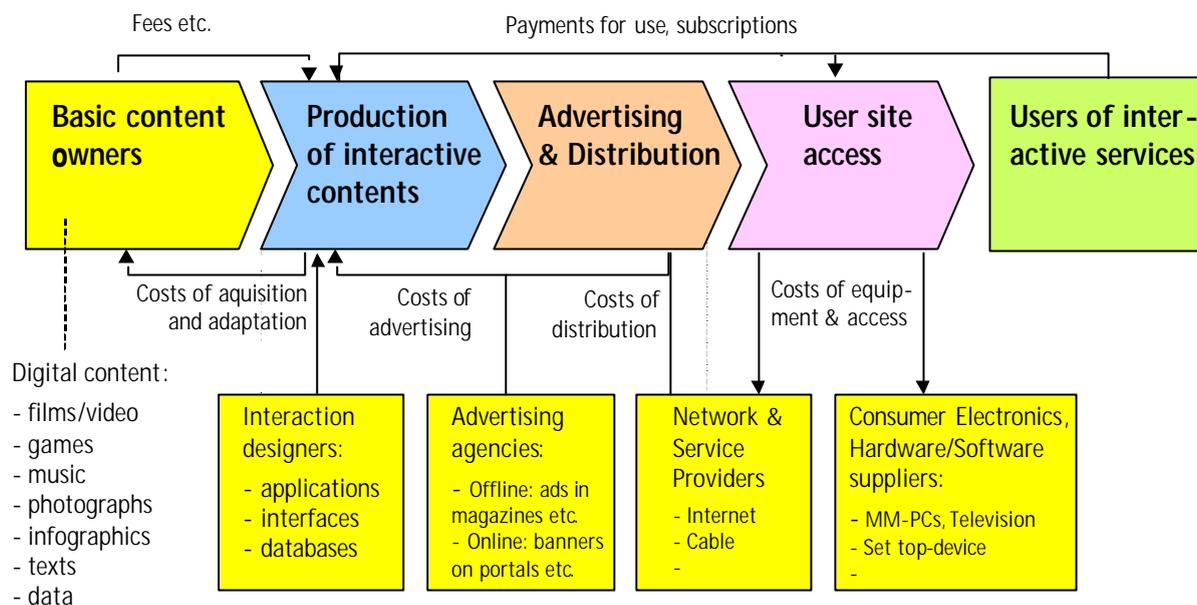
The interactive multimedia industry must be considered as a complex and converging field that embraces different sub-sectors:

- Owners of basic content, e.g. publishers, archives and agencies for digital photographs, infographics, sound and image etc.
- Other highly specialised suppliers which deliver commissioned services as computer animation firms or database architectures
- Creators that generate the overall idea for an interactive service, its performance and look, e.g. interaction and navigation designers
- Producers that develop the idea into a marketable service and bring in the necessary financial means
- Network & service providers which offer the technical infrastructure and necessary quality of service for the distribution and use of the interactive service.

These different positions and functions in the value chain of interactive services are summarised in the chart below. Included in the picture are the potential users of the interactive service, who must be willing to pay for their equipment and access, and may be subscriptions or pay-per-view/downloads.

Figure 8:

Interactive services value chain:



Source: Techno-Z FH Research & Development 1999

Facts and figures

Overview

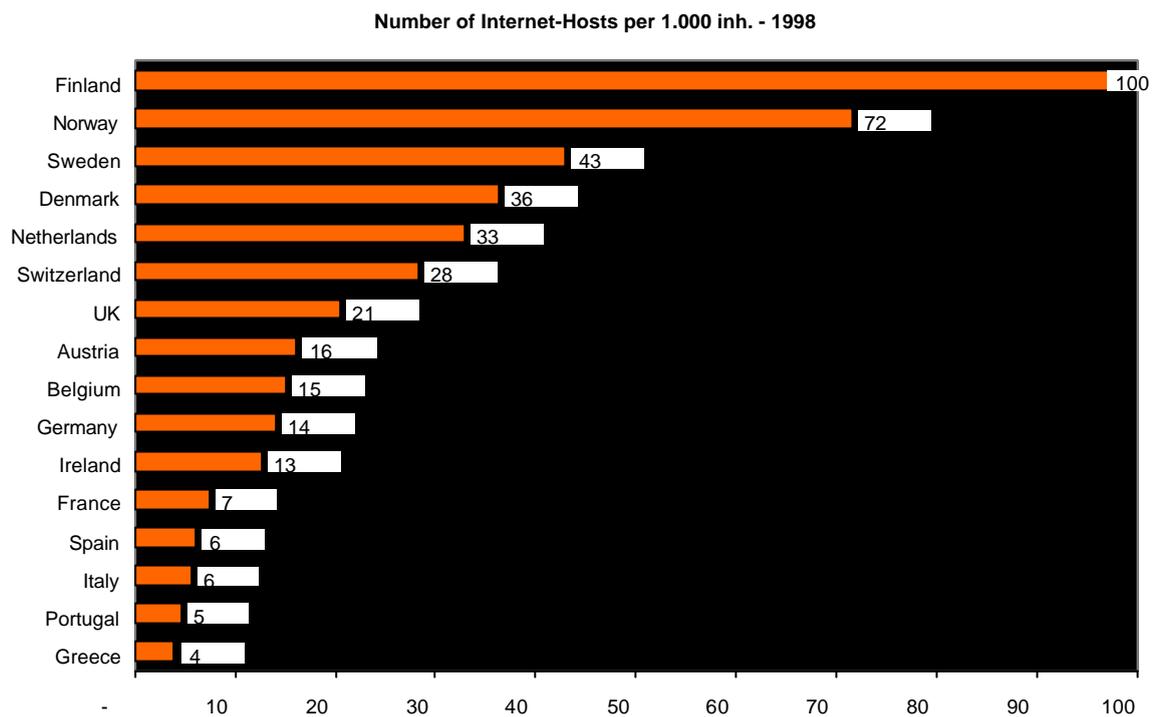
This chapter provides an overview of the diffusion of digital information and communication technologies in Europe. It focuses on the following key data:

- PC density as a measure of the potential base to use interactive services
- Internet density in European countries: host counts, users
- World-wide internet advertising revenues
- Consumer spending online at European sites

Also included is a flashlight on the status of internet-TV, which is today only in the testing phase.

Density of internet hosts

Currently, there are considerable differences regarding the density of Internet hosts. A clear "north-south gap" exists, with only 4 hosts/1000 inhabitants in Greece and up to 100 hosts/1000 inhabitants in Finland.

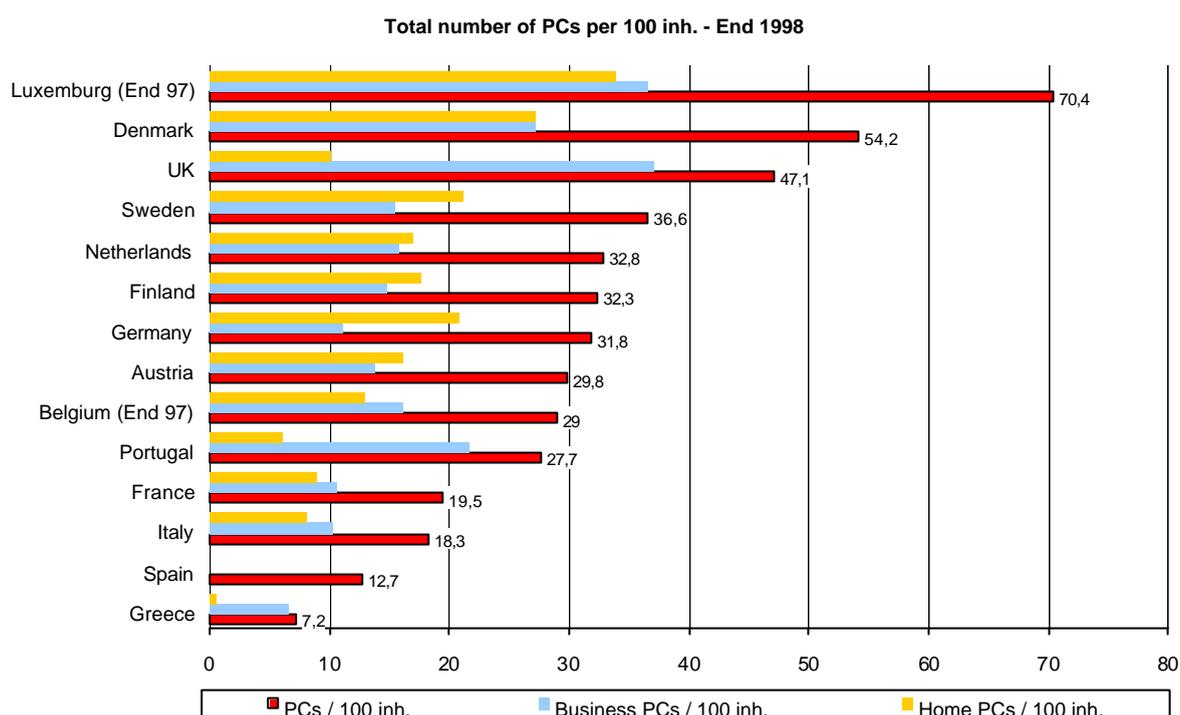
Figure 9: Internet host density in European countries (1998)

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: Network Wizards and OECD

Diffusion of personal computers

As with internet hosts, data for the PC density in European countries show "southern" countries as Spain and Greece lagging behind.

A distinction has to be made between home PCs and business PCs: in some countries as UK and Portugal there are more PCs installed in companies and institutions than in the private sphere, in others, as with Sweden and Germany, the diffusion of PCs in households is higher.

Figure 10: PC density in European countries (end 1998)

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: ESIS - ISPO (www.ispo.cec.ce/esis)

Internet usage

Internet usage in Europe has shown respectable growth rates in the last few years, with some countries reaching nearly one third or even half of the total population over 14 years old.

Table 3: Online users in EU member states (% of total population > 14 y.)

	Online user in % of the total population	reference date
Sweden	48,7 %	June 1999
Finland	41,8 %	May 1999
Denmark	32,0 %	May 1999
Austria	31,0 %	1999 2 nd Quartal
UK	18,0 %	December 1998
Germany	17,0 %	June 1999
Belgium	16,0 %	February 1999
Netherlands	13,7 %	March 1999
Ireland	11,0 %	October 1998
Italy	8,0 %	June 1999
Spain	7,7 %	September 1999
France	5,2 %	March 1998
Portugal	1,9 %	January 1998
Greece	1,0 %	January 1998

Source: ORF <http://www.orf.at/facts/inter_06.html>

Internet – TV

Today there exist very different devices to access the internet via TV: TVs or game consoles with inbuilt browsers, and still very expensive settop-boxes and complete TV-PC-sets (e.g. Loewe's TV-PC hybrid).

A comparison of the density rates for TV vs. PCs indicates, that there seems to be a big market for cheap "web-TVs", as many TV-users are not familiar with a PC. Yet, the format and business model to win a mass market are not ripe.

FACT BOX**Internet-TV is still in the testing phase: The German public broadcasters as examples**

In Germany the public service broadcasters ARD and ZDF are currently running pilots to bring the Internet onto the television screen and/or to offer web-TV services.

- **ZDF** is co-operating with **Intel Intercast** push technology to offer selected TV contents as regular news-flash on the computer screen.
- ARD is testing a service that combines the content of its website with TV programmes. The **ARD-Online-Kanal** is being tested in a trial. It is part of the digital ARD-Bouquet and offers selected Internet pages and multimedia content to be viewed on the television screen. Receiver technology is based on the set-top-boxes of OpenTV with conventional TV sets. A problem for introducing this service could be that the d-box of the Kirch Group may not be able to work with the ARD-Online-channel.
- OpenTV started as a joint venture of Sun Microsystems and the French combine Thomson Consumer Electronics to produce software solutions for digital television. In March 1996 the alliance began shipped its flagship product line, OpenTV 1.0. In the same year the alliance was restructured into an independent operating company named Thomson Sun Interactive LLC. In September 1997, the company changed its name to OpenTV, Inc, after adding a new shareholder to its Board.

Advertising on the web Internet advertising expenditure has increased fast and amounted to 1646 billion Euro in 1998, more than twice the amount of 1997.

Table 4: World-wide internet advertising revenues (billion Euro)

	1997	1998
total revenue	777 billion Euro	1,646 billion Euro
of which:		
consumer-related		29 %
computing		20 %
financial services		19 %
telecommunications		8 %
new media		7 %
other		17 %

Source: Screen digest May 1999

Consumer spending online

Consumer spending online at European sites from 1997 to 1998 has grown from 111 mio US\$ to 298 mio. US\$, with estimations for 770 mio. S in 1999. The biggest shares in 1998 came from Germany and UK.

Table 5: Consumer spending online at European sites (million US dollars)

5a) Total annual EU spending

1997	111 mio. \$
1998	298 mio. \$
Estimates:	
1999	770 mio. \$
2000	1970 mio. \$
2001	3360 mio. \$
2002	4978 mio. \$

5b) Breakdown for selected countries (1998)

Germany	160 mio. \$
UK	60 mio. \$
France	20 mio. \$
Spain	4 mio. \$
Italy	4 mio. \$
Sweden	10 mio. \$
Netherlands	10 mio. \$
Other	30 mio. \$
Total	298 mio. \$

Source: Datamonitor, NUA Internet surveys

(http://www.nua.ie/surveys/analysis/graphs_charts/comparisons/index.html)

2.4 Cinema and audio-visual industry

Major trends

US content dominates

The European film industry is clearly dominated by US content. The European trade balance is negative by 6 billion US\$. On the other hand, the European film industry is less fragmented than other media markets, also catering for the international market. Productions targeted for national markets go along with internationally oriented productions.

"Cinema new" – the revival of a public place announced to die

In spite of the competition from new media, the number of cinema admissions has increased from 707 million (1996) to 814 million in 1998. A main driver seems to be the emergence of large entertainment parks (Cineplexx, Cinemaxx) offering in one building cinemas, restaurants and bars in an 'all inclusive' manner. This has given new momentum to the cinema.

Decrease of video rentals

The increase in cinema attendance does not have an equivalent in the video market. The number of rental transactions has decreased by 4% in 1998, and the number of sales is stagnating. The question is if new digital formats such as the DVD, especially the recordable type, will encourage this market, like the CD has done in the music market.

MP3 – will it shatter the music industry?

The major trend in the music industry is the digitisation of distribution. The MP3 boom on the Internet has finally gained the attention of the music industry. Although it is not yet an alternative to the established market mechanisms (long download times, only little content legally available), MP3 has the potential to totally re-shape the music industry in the long run. It is popular especially among young Internet users and offers new possibilities to young artists, giving them a channel to make their music known. The first generation of MP3 walkman is now being introduced by all major providers of consumer electronics.

Basic principles and value chain

Market definition

The audio-visual industry comprises services and related commissions connected with cinematographic film production, radio and TV programmes and music recordings.

This chapter focuses on the sectors related to film production and distribution. It does not deal with the distribution of content produced in pay-TV (see chapter on broadcasting) and the music industry.

Value chain

The value chain below shows the players participating in the film industry and the types of investments and revenues they make. The chain is, of course, a simplification of the real market, and it does not show the revenue streams in terms of where they come from and where they go to. The commercial interactions between the sectors are following different patterns which cannot be described in detail in this overview study.

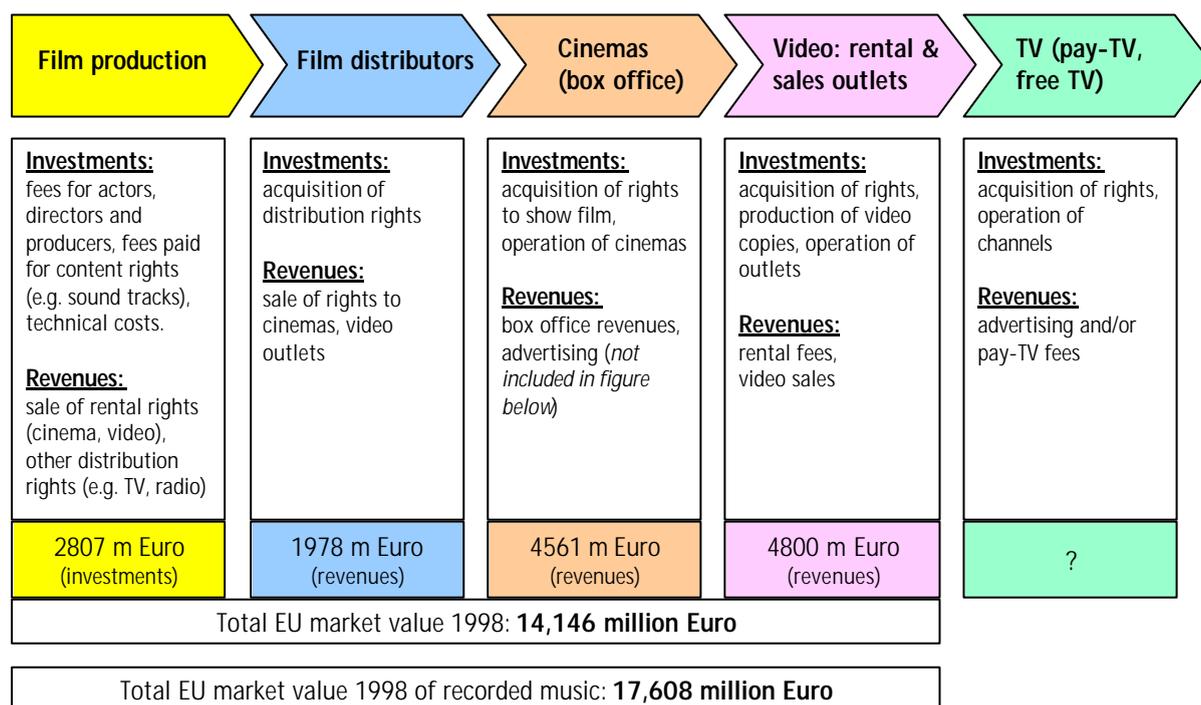
The market estimates relate to those investments or revenues directly concerning the production of content, the acquisition of rights and the sales of content to the audience (e.g. box office revenues). Other revenues such as cinema advertising or merchandising are not included in these figures.

Market value

The total market value of the European film industry in 1998 was about 14 billion Euro, the market value of the music industry (sales of recorded music) 17.6 billion Euro.

Figure 11:

Value chain of the film industry



© Techno-Z Forschung & Entwicklung GmbH (1999). Source: EAO

Facts and figures

Overview

International statistics on the film industry are facing methodological problems. Available data concerning international trade in films and audio-visual programmes are of a highly heterogeneous nature. Taking this into account, several sources provide data on the film industry.¹³

The information in this chapter will provide data on the key aspects of the European film industry, starting with an overview of the trade balance, and then following the value chain of the film industry:

- Audio-visual trade balance between EU and North America
- Film production in the EU
- Film distributors in EU

¹³ The European Audio-visual Observatory provides a detailed overview of sources for international film trades. Annual Yearbook 1999, p. 23f.

- Cinema admissions and box-office revenues in EU
- Video market (rental and sales)
- Recorded music

AV trade balance between EU and USA

The European Union is an important export market for audio-visual content produced in the USA. The European audio-visual trade net balance (including radio and TV programmes) with the USA is clearly negative, and the gap has widened since 1990. In 1997, North American revenues with audio-visual services in the EU surpassed EU revenues in North America by 6 billion US\$, compared to 3.5 billion in 1990.¹⁴

Film production

Film production in the European Union rose from 653 films in 1997 to 687 films in 1998. This is mainly due to a strong year in France and a methodology change in Germany. Without the German figure, which has practically doubled to 119 films in 1998, film production levels have actually dropped in several EU territories, including Spain, UK and Denmark.¹⁵

The total production value (film production investment) in the EU was 2,924 million US\$ in 1998. This is less than in 1997 (3,066 million).

Table 5: Feature films produced 1996 – 1998 in European countries

	1996	1997	1998	percentage change 1996 to 1998
Austria	15	15	12	-20,0
Belgium	8	6	7	-12,5
Denmark	21	23	18	-14,3
Finland	10	10	8	-20,0
France	134	163	183	36,6
Germany	64	61	119	86,0
Greece	20	16	20	0,0
Ireland	18	22	25	40,0
Italy	99	87	92	-7,0
Luxembourg	5	5	3	-40,0
Netherlands	16	15	18	12,5
Portugal	8	13	10	25,0
Spain	91	80	65	-28,6
Sweden	18	29	20	11,1
UK	111	108	87	-21,6
EU total	638	653	687	7,7

Source: Screen Digest (June 1999)

¹⁴ European Audio-visual Observatory, Annual Yearbook 1999, p.29

¹⁵ Screen Digest June 1999, p. 129

FACT BOX

Cinema: European films vs. Hollywood

The degree to which European movies succeed in their competition with Hollywood differs from year to year, mainly depending on the big smash hits. Due to the overwhelming success of blockbuster "Titanic", 1998 stood out in contrast to the previous years, which saw national films perform well in their local markets as well as on a European scale.

In 1997, exceptionally, three European films (*The Full Monty*, *Bean*, *Le cinquième élément*) featured in the top-five box office successes in the European Union market. With 11 million admissions (out of 760 million in total), *The Full Monty* was the most successful European film in 1997.¹⁶ *Titanic* in 1998 achieved a record-breaking 20.5 million admissions, 3 million more than the previous admission champ, the 1966 release of *La Grande Vadrouille*.

European film productions are operating with lower budgets than the US studios. The average investment per production in the USA was 14 million US\$ in 1998, compared to 8.25 million in UK, 5.26 in France and 2.88 in Germany.¹⁷

A clear trend is the growth of European / North American co-productions, accounting for 11% of admissions in 1997 (compared to 4.9% in 1996).

The relative international success of European movies demonstrates that national and cultural borders are less obvious in entertainment markets than in information markets.

Film distributors

The number of active distributors operating in a territory differs depending on population, box office and number of releases. However, the high number of 161 in France is of note: around two thirds of these companies release only one film a year.¹⁸

Rental revenues of EU distributors rose more than 10% in 1998, totalling 2,060 million US\$. The highest revenues per distributor as well as per release are earned in Italy and Germany.

¹⁶ European Audio-visual Observatory, Annual Yearbook 1999, p.78

¹⁷ Screen Digest, June 1999

¹⁸ Screen Digest June 1999, p. 135

Table 6: Active theatrical film distributors and their rental revenues (million Euro)

	1996		1997		1998	
	No.	Revenue	No.	Revenue	No.	Revenue
Austria	17	34,9	17	33,9	16	
Belgium	30	58,2	33	52,1	27	60,3
Denmark	22	32,1	22	31,8	21	34,6
Finland	8	16,4	8	16,1	11	19,7
France	163	368,4	156	351,0	161	399,9
Germany	45	357,1	49	342,2	56	366,8
Greece		18,7		21,4		
Ireland	6	19,1	8	18,4	8	19,0
Italy	23	315,5	26	302,3	28	446,4
Luxembourg	1	2,1	1	2,1	1	
Netherlands	25	46,0	22	45,7	---	49,8
Portugal	13	20,9	15	22,9	15	
Spain	42	209,5	45	192,3	---	206,9
Sweden	16	52,1	16	47,2	19	50,7
UK	54	256,1	55	311,5	---	341,9
EU	465	1807,2	473	1790,8	363	1978,2

Source: Screen Digest June 1999

Cinema admissions and box office revenues

The EAO¹⁹ reports that "1998 saw a new rise in admissions on most European markets" (Annual Yearbook 1999). The total number of cinema admissions in the EU in 1998 was 812 million, compared to 760 million in 1997 and 708 million in 1996.

The average European citizen goes to the cinema twice a year (2.18). Going to the movies is most popular in Ireland, Luxembourg, Spain and France (average attendance higher than 2.5), and less popular in Greece, Netherlands, Finland and Portugal (below 1.5). In contrast to the consumption of print media and broadcasting, there is no clear "cultural pattern" such as a North-South decline.

In total figures, France is Europe's number one cinema market. Admissions have increased in 1998 by 14.8% to 170 million. Germany is the only major market with less than 2 visits per year on average.²⁰

Box office revenues are mirroring the admission statistics, with France in the lead (975 million Euro in 1998), followed by UK (900 million) and Germany (873 million). The total market in EU was 4561 million Euro in 1998.

Another revenue source for cinemas is advertising. NTC reports that cinema advertising accounted for 484 million Euro in 1997.

¹⁹ European Audio-visual Observatory

²⁰ Screen Digest, September 1999

Table 7: Cinema admissions 1996 / 97 (in million visitors)

	1996		1997		1998	
	million admissions	per inhabitant	million admissions	per inhabitant	million admissions	per inhabitant
Austria	12.3	1.53	13.7	1.70	15.22	1.88
Belgium	21.2	2.09	22.1	2.17	23.72	2.33
Denmark	9.9	1.62	10.8	1.75	11.01	2.08
Finland	5.5	1.07	5.9	1.15	6.32	1.23
France	136.6	2.34	148.2	2.52	170.11	2.90
Germany	132.9	1.62	143.1	1.75	148.88	1.82
Greece	9.0	0.86	11.6	1.10	12.18	1.16
Ireland	11.5	3.18	11.5	3.18	12.39	3.38
Italy	96.5	1.68	100.4	1.74	117.90	2.05
Luxembourg	0.8	1.80	1.2	2.81	1.42	3.35
Netherlands	16.8	1.08	18.9	1.16	20.10	1.29

	1996		1997		1998	
	million admissions	per inhabitant	million admissions	per inhabitant	million admissions	per inhabitant
Portugal	11.5	1.16	13.5	1.36	13.94	1.40
Spain	104.3	2.65	105.1	2.67	108.44	2.75
Sweden	15.2	1.72	15.2	1.72	15.89	1.80
UK	123.8	2.10	139.3	2.36	136.50	2.31
EU	707.7	1.89	760.5	2.03	814.00	2.18

Source: Statistical Yearbook, European Audio-visual Observatory 1999; Screen Digest, September 1999

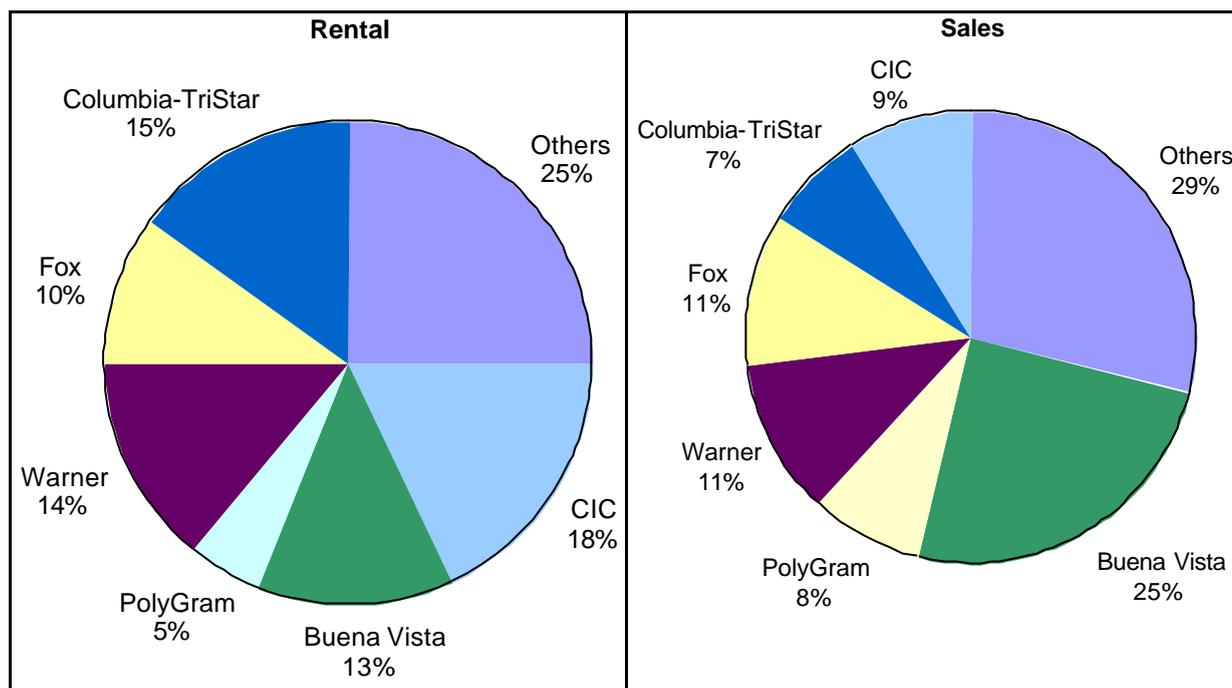
Table 8: Gross box office revenue (million Euro)

	1996	1997	1998	percentage change 1996 to 1998
Austria	82	81	90	9,5
Belgium	124	111	131	6,0
Denmark	73	71	77	5,7
Finland	41	40	43	4,9
France	893	846	975	9,2
Germany	838	813	873	4,2
Greece	47	53	60	27,0
Ireland	50	48	50	-0,2
Italy	544	521	634	16,6
Luxembourg	5	7	9	83,7
Netherlands	115	114	125	8,4
Portugal	42	46	54	28,0
Spain	419	385	414	-1,2
Sweden	130	118	127	-2,7
UK	694	874	900	29,7
EU	4096	4128	4561	11,3

Source: Screen Digest September 1999

Video distributors

The European video markets remain dominated by USA companies. Six distributors account for about 75% of the Western European rental video market and 70% of the sales video market.

Figure 12: Distributors' share of Western European video market 1997 (%)

© Techno-Z Forschung & Entwicklung GmbH (1999). Source: European Audiovisual Observatory

Video rental and sales market

After a movie was shown in the cinemas, the video market (sales and rental) is the next sector in the value chain of the film industry, and the last one before the film rights for television are becoming effective, i.e. the movie is shown on pay- or free TV channels.

In Western Europe, the video market has reached its maturity phase. Whilst in the USA rental is the prime source of distributor revenue, in Europe sales revenues have been outperforming rentals since 1992. The total value of the video market (sales and revenues) was 4.8 billion Euro in 1997.²¹

Recorded music

In 1998 the overall market sales of the recorded music industry within the European Union accounted for 17,608 million Euro and comprised about 1,034 million units.

In general, the music industry is underpinned by flourishing local repertoire and cultural diversity: All over the world, people are buying significantly more local music than they were at the start of the decade. In Europe, the share of the 12.2 billion Euro music market accounted for by local repertoire grew from 31% in 1992 to 40% in 1998.²²

²¹ European Audio-visual Observatory, Statistical Yearbook 1999

²² ifpi - International Federation of the Phonographic Industry (<http://www.ifpi.org>)

Table 9: European sales of recorded music (1998)

Country	Units (million)				Retail value (million Euro)
	Singles	LPs	MCs	CDs	
Austria	3.1	0.02	0.9	19.2	311.8
Belgium	8.7	0.05	0.3	22.4	330.9
Denmark*	1.1	0.001	0.2	16.9	236.3
Finland	0.5	0.010	1.3	10.5	125.9
France	40.9	0.3	14.5	108.9	1.920.0
Germany	51.8	0.5	25.0	193.3	2.710.0
Greece**	-	0.03	0.5	8.3	103.8
Ireland	1.9	0.02	1.5	5.6	101.2
Italy	3.5	0.1	14.1	34.2	7.466.2
Netherlands	6.6	0.2	0.4	34.2	505.1
Portugal	0.6	-	3.8	15.3	164.6
Spain***	1.5	0.03	12.9	50.2	611.3
Sweden	4.7	0.02	0.9	23.2	358.4
UK	79.4	2.2	32.2	175.7	2.662.5
EU 14	204.3	3.5	108.5	717.9	17,608

*currencies quoted against the Euro based on the foreign exchange reference rates from the 30th September 1999

Source: ifpi - International Federation of the Phonographic Industry (<http://www.ifpi.org>), no data available for Luxembourg

3 Public incentives and policy mechanisms

Public incentives for the content industry in order to counterbalance unwanted structural developments and for cultural reasons

Public incentives and policy mechanisms granted either nationally or on the European level have the purpose to counteract and balance unwanted structural developments in the market. They are mainly used as tools to mitigate concentration trends and prevent oligopolies of international industry conglomerates, to compensate a company's competitive disadvantage in a small home market with unfavourable market conditions, to support small and medium-sized companies, to stimulate market growth by making products more affordable and to help lowering the entry barriers for new market entrants.

Besides those purely economic motives, in the European tradition, the cultural and social motives have always been very strong. Especially on the national level, yet in increased frequency also on the European level, the argument to justify direct intervention by the public hand has been to maintain one's cultural identity and linguistic diversity. Both dimensions, the economic as well as the cultural underlie the currently existing national and European systems for public support.

Chapter overview: European and national support mechanisms

The following section provides a general overview on the European and national support mechanisms directly or indirectly relevant to the European content industry. As each European country has established rather unique systems of public aid that correspond to the country's economic and cultural requirements, not all the systems can be covered.

Instead, the chapter describes the common elements of the various systems, and then, centres on two or three countries and outlines the respective support mechanisms in more detail. For further details, the chapter provides a very comprehensive list of references and links.

The following section is structured into two main parts with two or three subsections:

- **European initiatives** relating to the content industries
 - Interactive digital media industries
 - Audio-visual industries
- **National initiatives** relating to the content industries
 - Interactive digital media industries
 - Audio-visual industry
 - Print industry

3.1 European initiatives relating to the content industries

Promoting the content industries in order to support social cohesion in the information society

Within the European Union, a functioning Information Society is seen as promoting social and economic cohesion, consolidating the single market and the European marketplace. Special attention is given to removing disparities between nations and regions, and their various structural problems.

Most initiatives and programmes on the European level have been launched out of the recognition that the European content industries need additional support to create a strong common market capable to face the international challenge. Essentially, European initiatives aim at overcoming the barriers of the linguistic and cultural market fragmentation by encouraging trans-national projects, international co-operation, knowledge exchange and networking. Since the mid-1990s, the European ICT programmes not only target the technology-centred industries, but with increasing attention, focus on the European content industries. As such, European initiatives to support the content industry generally complement initiatives taken by national governments.

The following section describes European initiatives and programmes in the interactive digital media and the audio-visual sector. There are not explicit European incentives for the print sector, yet, as more and more print publishers move their publications onto the web and become electronic publishers, EU funding programmes for the interactive digital media industry are also available to traditional publishers.

3.1.1 European initiatives to strengthen the interactive digital media industries

Shift from a technology-driven towards a content-driven approach

Within the last decade, the European Commission almost completely reversed its view on the importance of new information and communication technologies for society. While the first phase, starting in the mid eighties until the beginning of the 1990s, was marked by a technology-centred approach to ICT, in recent year the focus of EU-initiatives has clearly shifted to a more content-driven approach.

This development was based on a change in perception. In the first phase, the "European information economy" and the objective to strengthen the related infrastructure industries was at the centre of attention. In the new approach of European information policy, the Information Society is the focal point. New policies focus on the social dimension and reflect the need to expand knowledge and achieve greater clarity about how the Information Society is going to be shaped in the future. Citizens need to be qualified suitably to be able to participate in and create the Information Society, which implies to teach the necessary technology skills and improve education and training systems, while maintaining and nurturing cultural identity and heritage.

As a result, EU technology and research assistance programmes after 1990 showed a greater leaning toward demonstration projects that reflected market needs as well as user-friendly products and multimedia applications. Today, supporting content-focused projects is an integral part of the EU funding policy.

The "Bangemann Report": Europe and the global information society

The breakthrough in perception regarding the importance of information and communication technologies was brought forward by the Bangemann report entitled "Europe and the global Information Society"²³. The report, presented to the European Council in June 1994, highlighted the dramatic effect the convergence of technologies would have on all ways of living and working as well as the great economic potential of ICT.

The report concluded, that if the European Union would not take immediate action to stimulate development and growth in the economically promising new media sector, Europe would soon lag far behind the other players in the global economy.

Action Plan "Europe's Way to the Information Society"

In the following, the European Commission on behalf of the European Council drew the Action Plan "Europe's Way to the Information Society"²⁴, which outlined concrete steps in four areas to be realised immediately:

- Regulation: the regulatory framework for political action
- Infrastructure and services: networks, basic services, applications and **content**
- Society: the cultural and social dimension of ICT
- Raising awareness

Within the next four years, the European Union took some important steps to create the regulatory framework and define concrete programmes and initiatives to stimulate ICT market development and support the industry.

3.1.1.1 EU regulatory landmarks

The most important landmarks in EU policy after the Bangemann report, which also have relevance to the European content industry, are:²⁵

- October 1994/January 1995: Green Papers on the liberalisation of telecommunications infrastructure and cable television networks (COM (94) 440 and 682)
- March 1996: Green Paper on legal protection for encrypted services in the single market (COM (96) 76)
- July 1996: Green Paper living and working in the information society: people first. (COM (96) 389 final).
- October 1996: Green Paper on the protection of minors and human dignity in audio-visual and information services. (COM (96) 483 final).
- March 1997: Communication on Cohesion and the Information Society. (COM (97) 7/3)
- December 1997: Proposal for a Directive on the Harmonisation of certain aspects of copyright and related rights in the Information Society. (COM (97) 628 final)
- December 1997: Green paper on the convergence of telecommunications, media and information technology sectors, and the impli-

²³ Europe and the global Information Society: Recommendations to the European Council, May 26, 1994. Bulletin of the European Union, No. 2/1994.

²⁴ "Europe's Way to the Information Society". Action Plan by the European Commission. COM (95)347 final.

²⁵ The compiled list provides only a selection of regulatory measures taken by the EU and does not claim for completeness.

cations for regulation. Towards an Information Society approach. (COM (97) 623 final)

- February 1998: Communication on International policy issues related to Internet governance.
- January 1999: Green Paper on public sector information in the information society.

3.1.1.2 EU programmes and initiatives

The EU green papers, communications and proposals form the basis for actual EU funding programmes for research and development projects and initiatives.

Technology-focused programmes

The Fourth Framework Programme for Research and Development (1994 - 1998) allocated about 30% of the total budget to directly support the ICT sector. The focus within the 4th Framework Programme, however, was clearly on funding technology. Nevertheless, most of the technology programmes also dealt with the content industry in one or the other way, yet support for content-focused projects – in terms of budget – was marginal.

The most important ICT programmes within the 4th Framework Programme of the European Commission were:

ACTS (1994-1998)

Advanced Communications Technologies and Services (ACTS): The main focus of ACTS was the development of advanced trans-European communication systems and services, while taking account of the rapid technological changes. ACTS was organised into seven areas: 5 technology centred research areas, one horizontal action focusing on awareness raising, and only one area indirectly concerned with content. The Multimedia Domain of ACTS centred on the development of content management and interactive distribution tools as well as hardware components and multimedia transmission standards.

Esprit (1994-1998)

Similar to ACTS, the focus of Esprit (Information Technologies Programme) was on technology and not on content. Esprit funded industrial R&D projects and take-up measures in eight research areas. Multimedia Systems was one research area with focus on standardising systems for multimedia publishing, distribution and management, developing security systems, e-commerce systems, multimedia support networks, and related projects.

TAP (1994-1998)

Complementary to the technology-centred ACTS and Esprit programmes, the European Union launched the Telematics Applications Programme (TAP), which sought to apply newly developed technological solutions to specific application areas. Taking a user-driven approach, research and development within TAP was directly applied in areas of general interest, such as administration, transport, education and training, health care, and many others. As Esprit and ACTS, the programme only indirectly supported the content industry.

Other initiatives

In addition to ICT-focused initiatives within the 4th Framework Programme, the EC initiated other technology-based programmes. These programmes indirectly concern the European content industries, and will be mentioned as to the fact that calls for proposals are still issued:

- **IDA – Interchange of Data between Administrations** (1998-2000) aims at improving the efficiency of the data exchange between administrations nationally and internationally by building

interoperable telematics networks.

- **ISIS – Information Society Initiative in Standardisation** (projects launched annually from 1995 to 1999) supports application, demonstration and validation-centred projects concerned with the standardisation of Information Society domains such as multimedia, telework, health care, e-commerce, and transport.
- **TEN-Telecom, Trans-European Telecommunications Networks** (1998-2001), focuses on the three constituent layers of telecommunication networks: interoperability and access to networks, “generic”, mainly Internet-based services, and marketable, economically viable applications that satisfy user demand.

Content-focused initiatives

It took the European Union another year after the launch of the 4th Framework Programme for Research and Development, to set up initiatives that mainly supported the **European content industry**. As prestigious forums such as G7, the Information Society Forum²⁶ and the High Level Expert Group recognised the importance of content, the Industry Council in November 1995 invited the Commission to pursue initiatives for the advancement of the European content industry. The result was the INFO2000 Programme.

3.1.1.3 INFO2000 (1996-1999)²⁷

Objectives

The general goal of the INFO2000 programme was to strengthen the emerging **European information content industry** by stimulating awareness and market demand on the one hand, and by exploiting public sector information and catalysing high-quality multimedia content on the other hand. Additional support actions such as publication of (multimedia) standards and specifications as well as making available new skills to industry professionals were also part of INFO2000. Constant market monitoring and analysis should guarantee that the programme would keep in touch with market development over its four year life-span.

Budget

The overall budget of INFO2000 for the whole period was EUR 100 million.

Action line 1: Stimulating demand and raising awareness

Action line 1, stimulating demand and raising awareness, was endowed with a budget of EUR 25.5 million, about a quarter of the total budget. The objective was to encourage the creation of new markets by demonstrating the opportunities of the emerging information services sector in Europe. For this purpose, a European-wide network of Multimedia Information Demonstration and Support-nodes was established in all EU-member states. The so-

²⁶ The Information Society Forum brought together 125 industry experts from all sectors with the task to serve as advisory committee to the European Commission for a period of three years (1995-1997).

²⁷ The INFO2000 programme was actually a follow-up programme of the IMPACT (Information Market Policy ACTions) programme of DG XIII/E. IMPACT aimed to establish an internal market for electronic information services and to improve the competitiveness of European firms by promoting the use of advanced information services. The programme was approved by the Council of Ministers in 1988. Its two-year introductory phase, IMPACT 1, was implemented during 1989-1990. IMPACT 2, the second phase of the programme, ran from 1991 until the end of 1995 with a budget of EUR 64 million. In the second phase of IMPACT, the programme explicitly funded multimedia projects in three application areas: Business information systems, geographic information systems, and interactive multimedia projects. Despite their focus on multimedia, both IMPACT-programmes were technology-driven by encouraging the use of CD-ROM and CD-i technologies; content came only second place.

called MIDAS-Net is active nationally, as well as internationally, as a network to establish industry contacts, for information dissemination and knowledge transfer, to provide local support especially to SMEs, and to organise events with the effect to generally raise awareness within the industry and among the interested public.

Action Line 2: Exploiting Europe's public sector information

Action line 2, exploiting Europe's public sector information, received EUR 18 million. The objective was to create and establish mechanisms which grant European citizens and companies better access to the wealth of public sector information. In addition, the public information systems in the various member states should become interoperable as administrations should be enabled to more efficiently manage their information.

Action line 3: Triggering European multimedia potential

Triggering European multimedia potential through funding pilot products and services, the third action line, was allocated almost 50% of total budget (EUR 48 million) and received the largest piece of the cake.

The action line supported the production of high quality European multimedia content in four strategic areas: economic exploitation of Europe's cultural heritage, business services for firms in particular for SMEs, geographic information, and scientific, technical and medical information. Initially, 80 projects were funded for developing a prototype; in the second funding period, 29 of these projects were selected for implementing marketable products.

Besides funding concrete projects, within action line 3 two strategic studies were carried out. These market studies featuring scenarios of future development of the information services market have pointed the way for Europe's content industry:

- Content and Commerce Driven Strategies in Global Networks (CONDRINET)²⁸ (1998)
- Electronic Publishing: Strategic Development for the European Content Industry towards the Year 2000 (EL-PUB2)²⁹ (1996)

Action line 4: Support actions

The rest of the budget, EUR 4.6 million was used for funding support activities such as market monitoring, multimedia skills development and dissemination of information on multimedia standards. The results of this action line are, among others, the Information Market Observatory (IMO), and the Open Information Exchange initiative.

²⁸ Content and Commerce Driven Strategies in Global Networks. <http://www2.echo.lu/condrinet/>

²⁹ Electronic Publishing Strategic Development for the European Content Industry towards the Year 2000. Study by Andersen Consulting in co-operation with the Institute for Information Economy and New Media on behalf of the European Commission DG XIII. <http://www2.echo.lu/elpub2/en/home.html>

3.1.1.4 Information Society Technologies (1999-2002)

“Creating a user-friendly Information Society”

In the last three years, the European Union got even more occupied with promoting the European content industry and making better use of Europe's wealth of cultural contents. This becomes most obvious in the structure of the Fifth Framework Programme for Research and Development. By Council Decision from December 22, 1998, “Creating a user friendly Information Society” became an integral part and a focal point of the 5th Framework Programme and will be implemented over the next four years under the title “Information Society Technologies (IST) Programme”.

Budget for IST

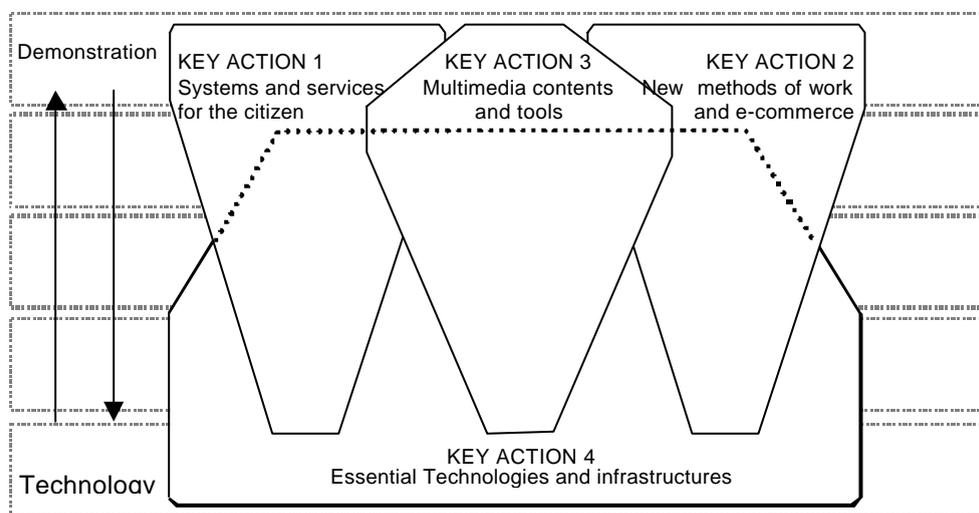
The importance that the European Union attributes to the development of the Information Society is also expressed in terms of budget. Of the four thematic programmes and three horizontal actions within the 5th Framework Programme, the largest amount is allocated to the IST Programme. Overall, EUR 3.6 billion are reserved for the implementation of a user-friendly information society until 2002 which accounts for about a quarter of the total 5th Framework budget of over EUR 13 billion.

Opportunities for Europe's content industry

Unlike the 4th Framework Programme, where the focus clearly was on technological development of ICTs, the IST programme offers many more opportunities for European content developers to tap into the R&D funding pools of the European Union. The focus of IST is

The IST-programme with its focus on user-friendliness, quality of content, applicability and marketability of service, and integration with other media, is structured into four key-actions:

Figure 13: The integrated architecture of the IST-Programme³⁰



Integrated Key Actions

Key Action III: Multimedia Content and Tools

Although all key actions inhere opportunities for content providers, key action 3, **Multimedia Content and Tools**, is particularly tailored to benefit the European content industry.

³⁰ IST Workprogramme 1999, Final Draft. European Commission DG XIII. <http://www.cordis.lu/ist/>

Objectives

*“The aim of this work is to improve the functionality, usability and acceptability of future information products and services to enable linguistic and cultural diversity and contribute to the valorisation and exploitation of Europe's cultural patrimony, to stimulate creativity, and to enhance education and training systems for lifelong learning. Work will cover new models, methods, technologies and systems for creating, processing, managing, networking, **accessing and exploiting digital content, including audio-visual content**. An important research dimension will be new socio-economic and technological models for representing information, knowledge and know-how. The work will address both applications-oriented research, **focusing on publishing, audio-visual, culture and education and training** and generic research in language and content technologies for all applications areas, and will include validation, take-up, concertation and standards.”*
(IST Workprogramme 1999, p.22)

Main Action lines of KA III The multimedia key action spans five key action lines focusing on

- spanning key actions, including social and business model for multimedia content,
- interactive publishing, digital content and cultural heritage,
- education and training,
- human language technologies, and
- information access, filtering, analysis and handling.

Content-focused action lines

Within key action 3, it is especially two actions lines that are of interest to European content providers.

Action line III.2. focuses on interactive publishing, digital content and valorisation of Europe's cultural contents. For 1999, call for proposals emphasis authoring and design systems for electronic publishing, as well as innovative ways of content management and personalisation. Regarding Europe's cultural heritage, the weight was put on better access to cultural and scientific contents as well as the digital preservation of cultural content. In both areas, facilitating content creation for new dissemination platforms is of utmost interest.

In addition, action line III.4 concentrates on the multilingual aspect of digital contents and services with the objective to overcome the obstacle of Europe's linguistically very fragmented market by developing language technologies for global information and communication systems.

The work programme of the year 2000 will slightly shift in focus and primarily pay attention, in the interactive publishing action line, to mass customisation and advertising, user-controlled publishing and personal media systems, cultural information systems, and high quality audio-visual and multi-sensory content. In the education and training-line, focus will shift to the school of tomorrow, advanced learning systems, and flexible life-long learning.

Funding mechanisms

Community contribution for research and development projects is up to 50% of total cost, while support and take-up measures are funded up to 100%.

3.1.1.5 Other initiatives related to the Information Society

In addition, the European Union has launched various other initiatives of interest to the content providers. A selection of initiatives of interest to the European content industry are presented here:

PROMISE (1998-2002)

The Programme to Promote the Information Society in Europe – PROMISE aims at increasing awareness and understanding of the potential impact of the Information Society (IS) and its new applications throughout Europe. The programme intends to optimise the socio-economic benefits of the IS and enhance Europe's role and visibility within the global dimension of the Information Society.

MLIS (1996-1998)³¹

Multilingual Information Society, a three year community programme endowed with EUR 15 million, stimulates multi-lingualism within the European market. On the one side, the programme encourages the development of multilingual services and technologies, tools and methods that help the European industry to reduce the cost of transferring information between languages. On the other hand, the programme promotes linguistic diversity.

Other initiatives

- Educational Multimedia Task Force: <http://www2.echo.lu/emtf/index.html>
- Consumerland Virtual World: <http://www.ispo.cec.be/consumerland>
- Electronic Commerce and the EU: <http://www.ispo.cec.be/ecommerce>
- European Survey of Information Society (ESIS): <http://www.ispo.cec.be/esis>
- Eurostat Experimental Home page: <http://www.ispo.cec.be/eurostat>
- Multimedia and Cultural Heritage: the Medici Framework: <http://www.medicif.org>
- Regional Information Society Initiative (RISI): <http://www.ispo.cec.be/risi>
- The Global Bangemann Challenge: <http://www.challenge.stockholm.se>
- Global Standards Conference: <http://www.ispo.cec.be/standards/conf97>
- Action plan on promoting safe use of the Internet: <http://www.echo.lu/iap/>

³¹ <http://www.linglink.lu/hlt>

3.1.2 European initiatives to strengthen the audio-visual industry

Cultural and economic motives to support the European AV industry

Initiatives of the European Commission to support the European audio-visual industry grew out of the recognition of the great importance of this sector which is to understand not only in economic terms but, to an even greater extent, in cultural and social terms. The audio-visual industry is a cultural industry which has major influence on citizens. Especially television and the broadcasting media have a significant effect on how people perceive the world, on the opinions they hold and on a society's value system in general. This is a well-known fact, yet with the advance of the new digital technologies this truism gains a totally new edge.

The new digital environment and the AV industry

Today, the European audio-visual industry is a minority in its own market. Imports, especially from the United States, dominate. The market is highly fragmented due to the cultural and linguistic diversity of the European countries, and economies of scale find their limits at national borders.

In this situation, the advance of new digital technologies will additionally challenge industry players, especially in the broadcasting sector. While the audience base remains the same, spectrum abundance and a multiplication of channels will further fragment the market. With the abundance of channels, the demand for content explodes.

It is very unlikely that the new channels will be financed by advertising revenues alone, which means that the audience will be asked to pay. New forms of financing such as pay-per-view and pay-TV will become more important to the content providers. According to a study of the European Commission, by 2005 some 48% of revenues of the audio-visual market will come directly from consumers, in comparison to 33% in 1995.³²

Further concentration to be expected in the market

In addition, digital technologies are very likely to accentuate the trend to concentration in the AV market due to the high production costs which keeps new market entries at a natural low. The convergence of networks and distribution platforms further encourages new alliances and concentration in the market.

Initiatives adopted by the European Commission exist as accompanying measures to policies on the national level of the member states which redress the above-mentioned issues. Nevertheless, it remains a tightrope walk to find the right balance between the objective to encourage development and support the industry to become more competitive without violating existing EU-regulations on anti-trust and distorted competition.

The following chapter provides an overview on the most important EU initiatives and concrete EU-programmes to promote Europe's audio-visual industry.

3.1.2.1 MEDIA I³³ (1991-1995)

First initiative of the EC MEDIA I was the first initiative of the European Commission that addressed

³² EC, March 1997: Economic Implication of New Communication Technologies on the Audio-Visual Markets. Study by NORTEL on behalf of the European Commission, DG X.
http://europa.eu.int/comm/dg10/avpolicy/key_docs/new_comm/new_comm.html (download Oct 5, 1999).

³³ cf.: Jarothe, Sabine: Die Filmpolitik der Europäischen Union im Spannungsfeld zwischen nationaler staatlicher Förderung und US-amerikanischer Mediendominanz. Frankfurt/Main: Peter Lang, 1998.

addressing the AV industry

the situation of the European audio-visual industry which is characterised by the preponderance of imported products in the European market. The main objective was to increase the competitiveness of the industry by supporting all audio-visual sectors, including film and television as well as video and new technologies.

From 1991-1995, MEDIA I funded 19 projects³⁴ with an overall budget of about EUR 230 million.³⁵

Objectives

The main objective of MEDIA I was, first and foremost, economic. Unlike national initiatives that aim to support productions with artistic or cultural significance even if it was clear that the production would never be a box-office hit, the MEDIA I-initiative put the potential commercial success of the funded projects first.

The goal was to stimulate industry development by improving the production environment, and thus, making the European audio-visual industry more competitive with regards to foreign competition, especially from the US. The program had two prime objectives:

- first, improving the competitiveness of the European content industry in Europe and abroad by overcoming market fragmentation within the Community,
- and second, fostering European integration through co-operation while keeping a healthy balance between countries, regions, markets and enterprises as well as preserving the national and regional identity of the participating countries.

Member states with small production capacity and small home were the main target group of the MEDIA I initiative. Besides, small and medium-sized producers should be preferred over European and international media conglomerates.

Economic objectives over cultural and artistic goals

While the EC decision on MEDIA I mentioned the importance of the cultural and identity-building motives of the programme, this objective was overshadowed by economic considerations. From the beginning, the European Commission made clear that MEDIA I was intended to support the *producers* and not the *directors* or *authors* of audio-visual productions.

Funding mechanisms

Although the MEDIA I programme directly funded companies - which could be interpreted as a measure distorting market competition - the European Commission claimed to only provide "seed money" for small companies and start-ups. Funds were granted on the obligation that revenues from future sales must be reinvested into new projects.

Projects were funded up to 50% of actual cost, while the remaining budget should be raised from other private and public sources. As such, MEDIA I was also compatible with national funding initiatives, as money from national public funds could be used to co-finance the project.

Programme evaluation

After two years, an independent consulting group evaluated the MEDIA I programme in terms of efficiency of project administration and with regards to programme objectives being reached. Overall, the programme was evaluated very positively, yet the consulting group especially criticised the

³⁴ EFDO, EURO, AIM, SCRIPT, CARTOON, MEDIA Business School, DOCUMENTARY, Club d'Investissement MEDIA, GRECO, Euro MEDIA Garanties, EAVE, EVE, LUMIERE, EFA, EUROPA CINEMAS, SCALE, BABEL, MAP-TV, MEDIA Salles.

³⁵ The 1995 budget of MEDIA I accounted for only 0.07% of the total EU-budget. In the same time period, agriculture would receive the same amount of money as daily subsidy.

inadequate budget of the programme which inhibited an effective realisation of project objectives. With its horizontal approach to finance projects in all European countries and also some Eastern European countries, the individual projects were too small to reach the critical mass necessary to effectively influence the structure of the European content industry.

The final recommendation of the evaluators suggested to give the MEDIA-programme a stronger focus and better financial equipment, otherwise the high-reaching objectives would not be reached.

3.1.2.2 MEDIA II (1996-2000)

*Three core areas:
training, production,
distribution*

The EC partly implemented the recommendations and instead of supporting all sectors indiscriminately, it limited funding to three core areas.

- the training of professionals (based on the Council Decision from December 1995)³⁶
- the development of production projects and companies (based on the Council Decision from July 1995)³⁷
- the distribution of cinematographic works and audio-visual programmes (based on the Council Decision from July 1995)³⁸

MEDIA II has been equipped with a budget of EUR 310 million, and only partly responded to the main recommendation of MEDIA I which has found the programme to be greatly under-budgeted.

While the development and distribution programme has been endowed with EUR 265 million, the programme to train industry professionals has been granted EUR 45 million.³⁹

Objectives

The MEDIA II programme has following objectives:

- recognition of the cultural and linguistic diversity in Europe,
- valorisation of the European cultural heritage,
- development of the potential of the audio-visual industry in the various countries and regions of the community,
- development of an independent audio-visual production and distribution industry with special focus on small and medium-sized companies.

Besides, within the core sectors of funding the programme follows specific objectives.

MEDIA II - Training

MEDIA II-Training aims at establishing pan-European training initiatives to give industry professionals the adequate training to increase their competence in project realisation, and provide the knowledge to manage audio-visual companies to increase international competitiveness. Artists and

³⁶ Decision 95/564/CE from December 22, 1995, implementing a training programme for professionals in the audio-visual sector.

³⁷ Decision 95/563/CE from July 10, 1995, implementing a programme to encourage the development and distribution of European audio-visual works.

³⁸ Decision 95/563/CE from July 10, 1995, implementing a programme to encourage the development and distribution of European audio-visual works.

³⁹ MEDIA II web-site: http://europa.eu.int/comm/dg10/avpolicy/media/index_en.html (download Oct 6, 1999).

producers should learn new techniques of writing and producing, having in mind both the artistic as well as the economic dimension of audio-visual production.

In 1998, the Commission selected 36 training initiatives, with very different focus. 16 projects provide training on economic, financial, and commercial management, 9 projects centre on scriptwriting techniques, and 11 projects focus on the implementation of new technologies in audio-visual production. The last call in the MEDIA II-Training programme was issued in February 1999.

Projects are funded up to 50% of actual cost, with a maximum of EUR 200.000 per year in the case of initial training, and EUR 300.000 per year in case of continuous vocational training.

MEDIA II - Development The Development branch of the programme provides funding for new productions which promise to have real market potential. All genres are funded, i.e. fiction, documentaries, animation and multimedia as well as the foundation of independent production companies. Special attention is given to networking of companies on the European level, be in form of co-operate productions or distribution networks.

Budget and funding The European Commission reserved a budget of EUR 60 million for audio-visual production over the five year period of the MEDIA II programme.

Producers of individual film projects (fiction, documentary and animation) are funded in form of loans up to EUR 80.000 per production. On the other hand, multimedia projects are dealt with differently, as production companies may apply for funding for the design of a product, which receives a maximum funding of EUR 20.000, and, at the second stage, funding for development, which is financed up to a maximum of EUR 250.000 per project in the form of advances against receipts.

Besides funding the actual production of individual projects, MEDIA II Development also grants funds to production companies for major investments with the goal to ensure the development of the independent film industry. Support is given, on the one hand, for formulating a business plan (for start-ups), and, on the other hand, to support the development of an existing company.

MEDIA II - Distribution The primary focus of the MEDIA II programme is on the development of the Europe's distribution industry. The objective is the establishment of new and further development of already existing distribution networks to create a stronger presence of European audio-visual products in the international markets. Special attention is given to the international distribution of European productions, and special funds are made available to support festivals and events as one way to create more awareness for the audio-visual industry.

Within the distribution branch of MEDIA II, nine funding mechanism are available:

- *Automatic support for the cinema distribution* Subsidies are granted to distributors on the basis of the market performance of non-national European films distributed in the previous year. They must be re-invested in non-national European films either in co-production the purchase of rights, or in distribution costs.
- *Support for the transnational distribution of films* The objective of this mechanism is to encourage the creation of pan-European distribution networks. Loans are granted to groupings of at least three distributors of different countries for the distribution of one or more non-national films.

- *Support for video publishing and distribution* The support is granted to video publishers and distributors in form of a loan which varies according to the number of works included in the catalogue. The funds granted for localising products for different countries are non-repayable subsidies.
- *Support to multimedia distribution* An advance of receipts of a maximum amount of EUR 100.000 per title is granted for the publishing and distribution of recent and non-national multimedia products, according to their real market potential.
- *Support for TV broadcasting* MEDIA II funds independent producers who already work on a co-production that involves producers in at least two different member states of different language. Funds are granted as advances on receipts, up to EUR 500.000 per work.
- *Support to the marketing of licensing rights* Independent distributors may apply for loans up to EUR 100.000 to fund the compilation and marketing of catalogues of recent European audio-visual productions.
- *Support for promotion and access to the market* This support mechanisms grants funds to initiatives set up to facilitate the promotion of the European independent production industry at large trade markets and audio-visual festivals or specialised markets within the EU and internationally.
- *Support for events in the audio-visual field* Since 1992, the European Commission launches an annual call to support film festivals and audio-visual events which are carried out in partnership. This action has become a significant factor in developing this sector and has allowed many events to get started and get developed. The support action helps the organisers of festivals to guarantee a certain continuity for events to happen.
- *Support to cinema theatres* The aim is to establish a second distribution network besides commercial distributors by directly involving the movie theatres. The mechanism supports European cinema theatres presenting a common strategy for the promotion and marketing of European works.

Split among those nine funding mechanisms, the distribution branch of MEDIA II is endowed with an overall budget of EUR 167.5 million, whereas EUR 17.5 million are reserved for advertising and promotion, EUR 17.5 million for distribution through television and EUR 122.5 million for distribution in cinema theatres and through video.

EUR 47.5 million of the MEDIA II total budget have not yet been attributed to any particular funding mechanism.

3.1.2.3 Eurimages (1988 -)

First film production fund at European level

Eurimages was the first film production fund available at the European level and founded as an initiative of the European Council. Funding is limited to financing co-productions (with the participation of at least three different member states) and distribution of European fictional films and documentaries.

Objectives

Besides cultural and economic goals, the main objectives of Eurimages are:

- encouraging co-production on a European level,
- development of the distribution industry,
- localisation of productions in Europe through funding post-production such as dubbing and subtitling,
- exploiting the rights of European productions.

Organisation and funding

The Eurimages fund is based on direct multi-lateral agreements between the European Council and 24 European member states⁴⁰ which all contribute to the fund through payments. The payable amount is relative to a country's size and the strength of its film industry.

The fund is organised by a committee comprising one representative for each member state. The committee selects projects on basis of two thirds of votes from committee members who also need to represent at least 50% of capital paid into the fund.

In 1995, the committee agreed to also include the associative members into the Eurimages initiative; these states only need to contribute an affordable sum affordable, but are entitled to participate in programmes and calls of Eurimages.

Eurimages exclusively funds full length films; it does not fund TV series. Projects are funded to a maximum of 15% of total cost through repayable, non-interest loans, and are only granted if the applicant can prove that the project has already 50% financing.

Budget

Since the foundation of the fund in 1988, the budget of Eurimages has almost tripled, from EUR 8.4 million in 1988 to EUR 24.4 million in 1995. In the same time, the number of member states doubled from 12 to 24. From 1988 to 1995, 298 full length films and 56 documentaries have been support with budgets considerably higher than the EU-average.

3.1.2.4 Action Plan for the Introduction of Advanced Television Services (1993-1997)

Based on the Action Plan for the Introduction of Advanced Television Services established in July 1993 by Council decision, the EC set up a four year Community programme (July 1993-1997). The plan aimed at ensuring the acceleration of market development for advanced television services in Europe using the wide-screen 16:9 format and addressed both technical as well as content production.

The objective was to serve as catalyst for the development of the advanced

⁴⁰ The 15 EU member states as well as Bulgaria, Cyprus, Hungary, Iceland, Norway, Poland, Switzerland, the Czech Republic and Turkey.

television services market, regardless of the TV standards used (digital and analogue), and irrespective of the method of transmission (terrestrial, satellite and cable).

Support for the content industry

With regards to the content industry, the objective of the Action Plan was to develop a critical mass of programmes in order to make them generally available at European level. A second emphasis was on the European dimension of the programme. The Action Plan was based on a Council Decision from July 1993 (see above for details).

As considerable investments for both finance and equipment are necessary to broadcast and produce 16:9 material, the 16:9 Action Plan supplied the European broadcasters and producers with funds to cover the additional costs. The programme co-financed 50 to 80% of additional cost.

Budget and funding

With regards to supporting Europe's content industry, over the four year period EUR 116.2 million was allocated to European producers to produce and remaster programmes in the 16:9 format. 80% of the programme were new content, about 20% were remastered programmes. Overall, the EC co-financed 25 422 hours of 16:9 programming.⁴¹ While at the start of the programme, the remastering of content prevailed, the significant increase of new production towards the end of the programme was considered a positive success and a sign that producers increasingly turn to the 16:9 format.

3.1.2.5 Alternative funding mechanisms (1997 -)

European Guarantee Fund: support fictional works with a European market potential

Complementary to the MEDIA II-programme, the European Commission in 1997 proposed to set up new financial mechanisms to raise additional resources for the European audio-visual industry. The European Guarantee Fund should solely benefit fictional works with a clear European and international market potential.

While the proposal was unanimously adopted by the European Parliament it failed to convince the Council. With the "Audio-visual/Culture" Group of the Council suspending its work in autumn 1997, the proposal seemed to die, yet it was revived at the Birmingham Audio-visual Conference in April 1998 by high level industry representatives.

As a result of the Conference, a newly-founded high level expert group was asked to investigate and examine alternative financial support mechanisms for the audio-visual industry. The High Level Group under the chairmanship of Marcelino Oreja, Commissioner for Culture and Audio-visual Policy, delivered its report in October 1998.

Recommendations for support measures by the High Level Group

Regarding support measures for the audio-visual industry, the report made the following recommendations:⁴²

- *Current support measures should be adapted and completed.*
- *A mechanism for attracting more investment into European production,*

⁴¹ For more details see: Final annual report on progress in implementing the action plan for the introduction of advanced television services in Europe. <http://ispo.cec.be/infosoc/telecompolicy/en/com441en.html> (download, Oct.5, 1999)

⁴² "The Digital Age: European Audio-visual Policy." Report from the High Level Group on Audio-visual Policy, chaired by former Commissioner Marcelino Oreja. 26.10.1998. http://europa.eu.int/comm/dg10/avpolicy/index_en.html (download October 6, 1999).

such as a "securitisation" scheme, should be introduced;

- *A network of European film and television schools should be established to link centres of excellence, perhaps with a symbolic "centre of centres";*
- *A European showcase event should be encouraged;*
- *The MEDIA II programme should be strengthened and provided with resources appropriate to the size and strategic importance of the industry. Particular emphasis should be placed on training, distribution, script development and marketing. There is a need to act urgently in this respect;*
- *Partnership agreements between broadcasters, including private broadcasters, and public authorities should be developed (with possible Community support for the transnational dimension).*

Until now, the recommendations of the High Level Group have not been followed by a concrete action plan.

3.2 National initiatives relating to the content industries

National incentives in the context of existing EU regulation Public incentives on the national level are an oddity – at least if considered on the background of current EU-regulations which prohibit any incentives granted by national governments which may favour individual market players or distort competition. As such, public incentives are incompatible with Article 87 (ex Article 92) Paragraph 1 of the Treaty on establishing the European Community.

„Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market.“⁴³

Conditions for public incentives The Treaty states two characteristics of public incentives and two criteria that must apply in order to violate EU regulation. Accordingly, public incentives are only given if

- the incentive is **selectively** provided to and thus **favours** individual companies, and
- the incentive is financed through **public funds**.

Such incentives are incompatible with existing EU-regulation if

- they **distort** or have the **potential to distort** competition,
- and if they **interfere with free trade** between member states.

Exemptions Article 87 (ex Article 92), paragraphs 2 and 3 list exemptions and possible exceptions to this general rule. Accordingly, state governments are entitled to support culture under certain conditions, given that existing trade and competition regulations are not violated to a degree that interfere with the common good of the Community. In addition, state governments need to inform the European Commission about the introduction of new or the re-organisation of existing incentives. It is up to the Commission to examine the case, while member states have to wait for approval.

All European countries are providing public incentives to the content industry Despite the rather complex regulatory situation, all European countries are providing public incentives to their content industry in one or the other form. On the one hand, public incentives may not be more than a national white paper or action plan which announces a government's determination to support a particular industry sector – most commonly, this is the case with the ICT-sector – while, on the other hand, governments can pursue a proactive, interventionist form of providing public incentives, which can be observed in the audio-visual and print sector.

The following section provides an overview on European models of public incentives for the content industry, with focus on the interactive digital media industry, the audio-visual industry, and the newspaper industry.

⁴³ Consolidated version of the Treaty establishing the European Community.
<http://ue.eu.int/Amsterdam/en/traiteco/en1.htm> (download October 13, 1999).

3.2.1 National incentives to strengthen the interactive digital media industry (multimedia and online)

Europe on the way to the Information Society – but few incentives for the interactive industry compared to the traditional media sector

Within the last four years, Europe has set the course into the Information Society. Without exception, all European governments have put the development of the Information Society on the national agenda and launched programmes and initiatives to stimulate its growth. Yet, unlike the traditional media sector in most European countries, the interactive digital media industry cannot rely on the same, sometimes rather sophisticated funding mechanisms.

Almost all EU member states adopted the European Commission's view and take a rather neo-liberal approach towards information society technologies. They assume that the creation of the Information Society is best left to the market forces and private finance.⁴⁴

The role of the state, on the other hand, should be limited to creating the necessary framework in which market mechanisms can operate to optimal effect. In particular and in coherence with EU regulation, this includes opening up the media markets to all and privatise former state monopoly companies.

As a result, most EU countries have limited their engagement to drawing national actions plans and selectively set initiatives. Financial support for the content industry is provided mostly as part of the technology funding programmes. However, with the exception of France, most European countries have not yet established regular funding mechanisms for their digital content industry that are comparable to the established financial aid systems for the print and audio-visual media. The following section, as an example, describes national activities and projects aiming at stimulating the growth of their content industry.

National action plans

In response to the Bangemann report, all European countries drew national action plans. These plans established the Information Society as area of national interest and outlined the strategy for the development of the Information Society in all its dimensions. Sweden published a national action plan under the title "Communication without Frontiers", in Spain it is called "Comisión Interministerial de Ciencia y Tecnología", Denmark laid out its "Information Society in the Year 2000", and the UK announced "Information Society: Agenda for Action in the UK".⁴⁵

Common objectives of national initiatives: secure competitiveness of the national industries

All these national action plans pursue the same goals. On the one hand, they seek to encourage economic development and ICT market growth to secure the competitiveness of the national ICT industries, and, on the other hand, the action plans stress the importance to monitor the social-economic impact of information technologies on society. Focus of the action plans is on both developing the technological infrastructure (mobile, ISDN and computer networks) as well as user-friendly applications and information services. In addition, the action plans stress the importance of improving the skills and

⁴⁴ In Finland, for example, the developmental and operational investments necessary to implement the Information Society were estimated at 0.2% of GNP or about EUR 170 million annually. The Finnish action plan foresaw that "the major proportion of the additional investments would be realised in the marketplace, in response to rising demand". Source: <http://www.tieke.fi/tieke/tikas/indexeng.htm> (download: October 14, 1999).

⁴⁵ A more comprehensive list on national action plans can be found at <http://www2.echo.lu/telematics/education/en/projects/publics/planspub.html>

knowledge of the citizens and enable them to participate in the Information Society.

The majority of the national action plans confirm universal service policies to secure public access to information and interchange of information for all citizens, and address moral and ethical issues, such as protection of minors, and protection of the rights of individuals.

To implement the national action plans, most of the European countries have established special ICT commissions or departments to advice national governments and suggest course corrections, initiate and support ICT projects, and actively disseminate information on current topics in the field of ICT. For example, in the UK the Information Society Initiative of the Department for Trade and Industry (www.isi.gov.uk) takes this role, in Ireland it is Forfas (www.forfas.ie).⁴⁶

Public incentives for the European content industry

Beside the national action plans, most European countries employ ICT-related initiatives that directly and indirectly benefit the content industry. The most common forms of public incentives found in the various European countries are:

- **Technology funds:** most European countries have established national technology funds, and content companies may apply for financial aid within those funds. Selection criteria vary from country to country, yet some criteria, like innovative character, high quality content, and transferability to other industries are almost universal. Among the countries providing technology funds are Austria, Germany, the UK, Finland, Sweden, Denmark, and others.
- **Technology or innovation awards:** many European governments have established technology awards for outstanding innovation in the technology R&D.
- **Multimedia awards** and competitions as a way of building up the market and raise public awareness for new media (Finland, Austria)
- Funding provided within **specific application areas**, such as education. All European governments proactively support education, be it by directly financing schools or by funding the development of educational (multimedia) material. In many cases, the financial contribution of the public hand towards education outnumbers other initiatives.

Austria: multimedia business austria

The Austrian Ministry for Economic Affairs in 1997 launched **multimedia business austria - mba**⁴⁷ as national initiative for the interactive digital media sector with the goal to give impulses and foster the development of the national multimedia market.

The current focus of activities is on providing information about national public incentives for multimedia producers, assist national companies to penetrate the European market, support technology transfer and market preparation. In addition, mba functions as central co-ordination and information point for the multimedia industry in Austria. The "Programm

⁴⁶ For a more detailed list, see <http://www.ispo.cec.be/ecommerce/initiatives/national.html>

⁴⁷ For more information see <http://www.mba.at/index.html>

Management" of multimedia business austria further serves as one stop shop for multimedia producers who seek information on public funding sources and internationally financing opportunities.

Public incentives for the Austrian content industry

For multimedia companies and content providers, the "Innovation and Technology Fund ITF" which was founded by the Ministry for Economic Affairs in the framework of its "technology offensive" in 1996, is the single most important source for funding. With its focus on information society technologies, the fund aims at helping multimedia companies to become more competitive, to secure market growth and employment.

Despite these broad objectives, the fund explicitly intends to support the content industry and not other ICT-related sectors. Selection criteria for ITF-funding are, in the one hand, the high quality, innovation in concept and high production risk and, on the other hand, the possibility to transfer new knowledge and applications into other economic sectors. Content providers of all application sectors may apply for funds, no matter if they focus on business-to-business solutions or educational multimedia.

Multimedia projects selected for funding need to prove high quality with regards to the technical and didactic solutions, systems integration, combination of various media, innovative product ideas, new techniques of content management and usability. Projects are considered innovative if they demonstrate essentially new features in one of the following areas: new contents, unique overall concept, or innovative use of technology. The fund favours multimedia pilot projects with a strong demonstrational character which may be implemented in cross-sectors.

Funding mechanism

In general, the share of funding support must be in compliance with current EU-regulations. Accordingly, multimedia companies are granted a non-refundable subsidy of 25% of fundable cost (which may be different to total costs). Transfer measures involving small and medium sized companies may be supported with up to 50% of fundable costs.

Germany:
Gründerwettbewerb
Multimedia⁴⁸

Unlike Austria, Germany does not fund individual multimedia projects but multimedia **companies**. For the German government, a growing market for innovative multimedia products and services requires innovative companies that develop new solutions to satisfy new market demands. It is especially newly found small and middle-sized businesses that are flexible enough to respond to the special characteristics of the multimedia market, such as short innovation cycles, new user profiles and purchase habits, and different distribution and diffusion channels. In addition, this companies are also responsible for positive effects on the employment market by offering high skilled jobs.

Therefore, the German government focuses on funding multimedia entrepreneurs and new market entrants with its "Gründerwettbewerb" (multimedia entrepreneur award).

The "Gründerwettbewerb Multimedia", which has been initiated in 1997 by the Ministry for Economy and Technology, addresses especially those entrepreneurs who have been drawing up a business plan which puts innovative, user-oriented multimedia products and services in all application areas (education, health, e-commerce, public information, etc.) at the heart of the

⁴⁸ <http://www.gruenderwettbewerb.de>

business concepts. As such, innovation as selection criteria is defined as the competitive advantage the new product or service has over other market products.

The best 100 business ideas which are selected by an independent jury receive monetary prizes between EUR 5000 and 10.000. In addition, the awarded entrepreneurs receive another EUR 20.000 and the support of an experienced consulting company to implement their business idea and set up their start-up company. The 10 best future business founders also are given the opportunity to present their ideas at the German Investment Forum to potential investors. In addition, winners agree to participate in an evaluation which appraises favourable and unfavourable conditions on company growth in a long-term study.

France

Following its tradition to pro-actively support the national content industry, France is the only European country so far that has set up a funding mechanism for multimedia companies.

The Multimedia Fund benefits print publishers who want to go online, and set up an electronic edition of their papers. Money is also granted for electronic archives and catalogues published in different formats, including CD-ROM and CD-I.⁴⁹

3.2.2 National incentives to support the audio-visual industry (television and film)⁵⁰

*500 million Euro
annual public funding*

Each year, more than EUR 500 million in public funding are assigned by the national and regional bodies of the European Union to the audio-visual industry. France and Germany are the single most important providers of public incentives, the former allocating about EUR 300 million annually while the latter supports television and film production with about EUR 130 million. The remaining EUR 70 million are spread among the other European countries.⁵¹

While all European countries provide public support for their audio-visual industries, these support systems may vary considerably. Each country has its own way of organising its funding system and the proportional balance of its different elements. The ensuing complexity and diversity lead to caution in making numerical comparisons. Yet, while the models of national incentives in the EU countries are marked by originality, they also have elements in common.

Among the elements in common are the reasons why the audio-visual industry is funded in first place. Through the strong influx of the American

⁴⁹ For more details, see the section of national incentives for the print industry.

⁵⁰ As most countries where television projects are not excluded from public funding, do not differentiate specifically between television and film funding, both areas are covered in this chapter.

⁵¹ Centre National de la Cinématographie, European Audio-visual Observatory: Public Aid Mechanisms for the Film and the Audio-visual Industry in Europe. Volume 1: Comparative Analysis of National Aid Mechanisms. Volume II: National Monographies. 1999. If not stated otherwise, figures quoted in this chapter are cited from this publication.

film industry on Europe, European countries are very much concerned with maintaining their own cultural identity, not to mention the negative economic impact the "Hollywood-isation" has on the European film and television industry as a whole.

Funding agencies

To meet the international challenge, all European countries have set up funding systems for their audio-visual industries. Public aid is granted by various national and regional funding agencies whose policies and regulations governing aid vary considerably. These public sector agencies include:⁵²

- national film centres
- institutes which finance film/television production
- special public funds for the audio-visual industry

Types of aid: direct subsidies and loans with low interest rates

Public-sector financing for the audio-visual may be provided in various forms. It can either be a direct subsidy where the beneficiary is not obliged to return the funds obtained unless the project has not been realised, or a loan.

Subsidies may be received automatically, which means that the aid is granted to all audio-visual productions without distinction and without the need to fulfil special requirements. Usually, the aid is calculated on the basis of the number of box-office receipts. Non-automatic subsidies, on the other hand, mostly demand the fulfilment of specific requirements, and funds are granted only to selected projects.

Besides subsidies, loans with especially low interest rates are the most common type of aid. The beneficiary is required to repay the funds obtained, following a repayment schedule which is often based on the gross or net revenues generated by the project. Sometimes, loans are even interest-free.

3.2.2.1 Common elements

Creation and production as single most important funding areas

Public funding for the audio-visual industry, which spread in Europe at the end of the 1960s, mainly focused on the production sector. Creation and production are still at the heart of all national mechanisms for supporting film and television industries in Europe and account for almost 90% of public funding, except in Germany and France. Nevertheless, in these two countries the amount of money given is even higher than in other European countries. Some countries like Belgium, Greece, Ireland and Luxembourg totally concentrate their public funding effort in this sector.

From the early 1990s onwards, all European countries have established funding systems prior to production, i.e. project development, script writing and pre-production funding systems of differing sophistication. However, funds allocated to the pre-production phase are minimal in comparison to production funds. Luxembourg, for example, devotes up to 16% of its funds to pre-production, while France, Norway and Italy dedicate about 1%.

Undoubtedly, the huge majority of funds is devoted to individual projects. Luxembourg, Norway, the Netherlands and Portugal assign up to 100% of their public funds to single productions. In comparison, with up to 79% France allocates proportionally less to individual productions.

Production prioritised over company funding

Historically, the approach of selectively funding individual projects evolved from the perception that individual projects, and especially film productions,

⁵² Andersen, Arthur: The European Film Production Guide. London: Routledge, 1996, p. 161.

are works of art. Single production funding was the prevailing incentive model until the beginning of the 1980s. Since then, the focus of funding has slightly moved to funding individual production companies as an attempt to strengthen the audio-visual industry as an economic sector by supporting small and medium-sized production firms.

The direct and indirect funding of media aims at bringing about structural change, which only strong and durable companies can guarantee. Models of company funding may be direct or indirect, through regulatory measures or banking and financial engineering as well as fiscal arrangements.

English National Lottery scheme

One of the most innovative models of public support directly favouring individual companies has been introduced in Great Britain in 1995. The main objective of the new English National Lottery scheme is the media company itself. While the funds for supporting national film and television production are derived from receipts of the National Lottery, the model also guarantees a re-structuring of the industry by supporting groups of companies through franchises with a central unit responsible for the editorial and distribution policy.

Television funds in most EU countries

With the rapid development of the television industry at the beginning of the 1980s, which prompted the foundation of many privately-owned, commercial television stations, the funding policies for television changed, too. Today, the majority of countries in Europe have established support mechanisms for television production; nevertheless, the levels of funding vary and smaller countries like Greece, Iceland, Sweden and Italy do not provide any television funding at all.

Only France makes a clear distinction between television and film projects, with television receiving a majority of the funds. About 66% of all funding goes towards television, while the rest is allocated for film production. Television funding in France also differs from film funding in that it is an automated system at the regional level (with a few exceptions), whereas film funds are not automatically attributed.

Finding a balance between cultural and economic objectives

Public funding policies attempt to find a balance between economic objectives and the cultural ambitions inherent in selective support. In most countries these two factors coincide regularly. As in many countries selective funding is used to correct the functioning of the market by supporting new creative talent as well as artistic experiment in film production, the cultural aspect is predominant.

Nevertheless, the credentials of the director and the financial standing of the production company, as well as the requirement for the assessment of having minimum guarantees in place, play an increasing role and assure that film funding pays the necessary attention to market realities. The way in which selective funding is awarded is increasingly dependent on the financial credibility of projects.

3.2.2.2 Special characteristics

Major funding source for public funds: public contributions

Although there exist numerous models of how film funds are distributed in the European countries, the sources from where public funding agencies receive their funds are more or less the same. Funds stem primarily from four sources, i.e. state contributions, income from special taxes on the sectors of cinema and television funding, contribution from television companies and own income (reimbursements, etc.)

Nonetheless, the public purse is the single most important source of funding in most European countries. In five European countries, including Spain and Denmark, state money accounts for 100% of public funds, in another six countries, including Italy, Sweden and Switzerland, funds from the public hand account for 50% of funding sources. It accounts for between 30% - 10% in Norway, the Netherlands, France and Portugal. The regional funds are primarily financed by the regional authorities.

Contributions from the market

Despite the fact that public contributions account for the majority of funds available to public funding agencies, some countries re-organised their funding systems and put more weight on contributions from the market. The emergence of new formats and markets for television and film productions at the beginning 1980s was partly responsible for this reorganisation of funding systems.

Market "contributions" are mainly raised in form of a tax, either at the point of exhibition, the box-office receipt or, as in France, as a tax collected from the turnover of television companies.

In some countries, taxes raised in the market account for a primary source of income of the public funding agencies. In Norway, taxes raised at the point of exhibition constitute about 70% of public funds and in Sweden, they still account for more than a third of the public funding. In Italy, this tax accounts for 8% of the income which automatically flows into the fund for film production.

With the objective to stabilise the finances of their public funds, France, Portugal, the Netherlands and other countries have created taxes on the advertising income and turnover of the television companies. In the case of Portugal, this accounts for 90% of public funds, in the Netherlands for 69%. In France, 59% of public funds comes from a tax raised at 5.5% on the turnover of the television companies.

Public fund financing through television

Film and television production is increasingly financed through the contributions of the broadcasters, which accounts from between 30% to 74%, depending on the country. Contributions may be direct or in form of a tax, or in other cases, indirect by commissioning works to independent film production companies as practised by Channel 4/UK, TV2/Denmark, Norway, and ARTE/France, Germany.

In Sweden and Germany, the contributions of the television companies towards public film funds are based on renewable contracts signed between the private/public broadcasting companies and/or the State, and/or the public funding agencies. Negotiation of these contracts may be complicated, as the German case exemplifies. In 1995, the private television stations refused to sign the contract to contribute to the German public fund, unless the contract would contain an agreement that the equivalent of 25% of funding would go towards the broadcasting industry for funding television drama, documentaries and children's films.

In several countries, television companies are involved through co-productions or pre-sales, and resources invested in European and national productions.

Limited use of automatic support mechanisms

Automatic funding mechanisms are rarely used, and operate differently to serve several functions. While automatic funding represents 71% of all production funding awarded in France, 48% in Spain, and 10% in Germany, they are primarily used at national level. Other countries have set up automatic funding mechanisms for other stages than production, i.e. exhibition and distribution.

Conditions for automatic funding Automatic funds are used in a variety of ways:

- there is not always the obligation to reinvest in future productions in sectors other than feature film (Austria, France, Germany, Italy, Portugal)
- funds are not always raised from taxes on the box-office income (Austria, Belgium, Denmark, Spain, Switzerland)
- automatic support is not always proportional to a film's receipts

Overemphasis on production – other sectors underdeveloped

In most European countries, the funding of the production sector accounts for the lion's share of public funding of the audio-visual sector. The only exemptions are France and Germany who also considerably fund the distribution and exhibition sectors, making up to 24% and 20% of total public support respectively.

The disproportionate support of the production sector and the comparable neglect to fund other sectors has partly to do with the value chain of film production per se, where film productions are usually paid *after* the film has been released. Hence, automatic funding mechanisms would not have the desired effect. Short term bank loans at reasonable interest rates are one solution to overcome this disadvantage of automatic funding.

Financial weight of the regions differs widely

While in some countries it is nationally established funding agencies that distribute most of the funds available, in several European countries, independent regional funding agencies play a more important role. This is especially true in federal states, such as Germany, Austria, Switzerland.

In Germany, for example, the regional funding agencies of the Länder are even more important than the national agency and the majority of funds (64%) are distributed through regional agencies. In France, on the contrary, only 2% of film and television incentives are spread regionally.

In most cases, regional funds are provided for individual productions, in form of a grant, on a selective basis. Selection criteria are, besides regional interest, the importance of the production in terms of its influence on the regional economy, its cultural impact and the regional image it creates. As on the national level, the cultural and economic aspects are in the forefront.

Some regional support systems like the Filmstiftung Nord-Rheinwestfalen (Germany) and the Wiener Filmförderungsfond (Austria) are based on the principle of economic return. The producer is obliged to spend the equivalent of 150% of the funded sum on local suppliers and the regional economy. This is the pre-condition to be funded in first place. Other conditions set up by regional agencies include shooting in the region, employment of local film technicians and use of local companies, or creation of event that promote not only the film but also the region.

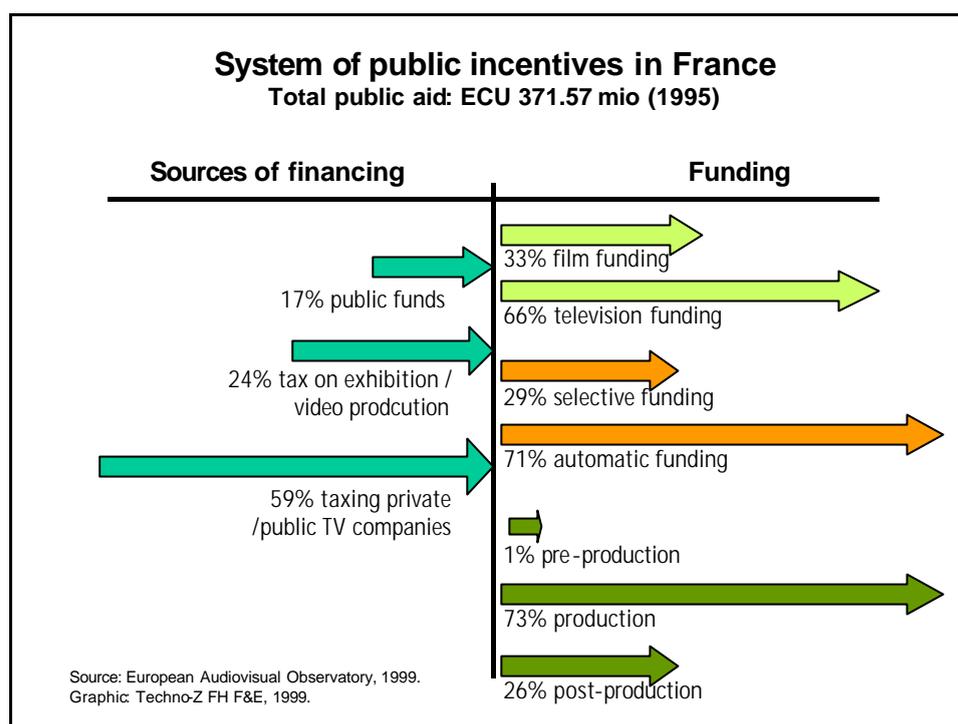
3.2.2.3 Selected models of national funding systems

Germany, France, Spain, Italy and the UK are the major players in the European audio-visual market, where both the television and film industry are the most developed. These five countries produce over 80% of all feature films in Europe, with France allocating the majority of public funds, followed by Italy and Germany. Due to their importance to the European film industry, this chapter will feature the public funding mechanisms of these countries.

France	France leads the European audio-visual industry both in number of productions as well as public aid made available to the AV industry.
<i>Funding sources</i>	Unlike in other European countries, it is the market that contributes the majority of funds. In 1995, 83% of total funds available came directly from the market, either in form of a tax from cinema exhibition and video production (24%), or from taxing the annual revenues of private and public television companies (59%) ⁵³ . This system secures the French audio-visual industry more than EUR 370 million each year. The market's high contribution to the national public funds guarantees a great stability of the system, which can be seen as one reason why the audio-visual industry in France has been so successful.
<i>Allocation of funds through the CNC</i>	<p>Allocation of funds happens mostly automatically, mostly as box-office aid based on box office receipts. Automatic subsidies do not only benefit the production sector, but also the post-production sector (distribution, exhibition, dubbing, copy production, etc). With 26%, France – among all European countries – allocates the highest percentage of funds to the post-production industry. Additionally, the amounts allocated by the selective funds are also larger than in the other European countries.</p> <p>Most funds are channelled nationally, through the Centre National de la Cinématographie (CNC). In addition, the audio-visual industry in France is also heavily protected through a system of institutional investments and tax incentives.</p>
<i>Types of incentives</i>	<p>Interest-free loans and guarantee funds for private sector loans are the most common initiatives to provide public aid besides direct subsidies. However, indirect incentives arising from the tax relief for private investment into the French audio-visual industry are also noteworthy.</p> <p>The French audio-visual industry is further strengthened through a regulatory regime that, for example, obliges public and private television networks to re-invest part of their revenues to set up subsidiary companies for co-productions or to devote substantial portions of its revenues to acquiring and co-producing French productions.</p>
<i>Effectiveness</i>	Despite the complexity of the system, the French support mechanisms for its audio-visual industry are very effective. It not only ensures a healthy balance in supporting all industry sectors in audio-visual production, including pre- and post production, but also has proven to effectively respond to both dimensions of film funding, the cultural as well as the economic.

⁵³ The high contribution of the television companies is partly compensated by the fact, that two third of the annual public funds raised are flowing back into television production.

Figure 14: The French system of public incentives – overview



Germany

Germany has established one of the most complicated systems of public-sector incentives in the European Union. Besides funds from the federal government which are mainly channelled through three federal funding agencies, the Ministry of Interior (Bundesministerium des Inneren), the Commission for the Young German Film (Kuratorium Junger Deutscher Film), and the Film Industry Support Agency (Filmförderungsanstalt), the German system relies primarily on the public aid systems established by the 16 Länder. 64% of all public funds are distributed through the regional agencies.

A public aid system carried by regional initiatives

While federal funds for film and television funding have been cut back considerably due to the country's economic crisis, the increase of funding by the Länder has more than compensated that loss.

Especially five Länder, North Rhine-Westphalia (Filmstiftung Nordrhein-Westfalen), Bavaria, Baden-Wurtemberg, Hamburg and Brandenburg (Filmboard Berlin-Brandenburg) declared the development of their regional media industries a state priority and set up substantial funds to attract productions into their regions. Copying the model of North Rhine-Westphalia, the state of Brandenburg is the most noteworthy success story of recent years.

Revitalising the former UFA-film production studios (Defa Film studios during the existence of the German democratic Republic), the state government of Brandenburg spent alone EUR 75 million in 1994 on infrastructure and television production facilities. Today, North Rhine-Westphalia provides the largest budget for funding to the regional audio-visual industry, followed by Bavaria and Brandenburg. A smaller but still considerable fund is the one of Lower Saxony which was created through the contribution of public service broadcaster NDR.

Funding mechanisms

On the federal level, an automatic funding mechanism based on box-office receipts is the single most important way to raise funds. The selected beneficiaries agree to invest the granted funds into future projects. In addition, the federal funding agencies grant mostly interest-free loans to the film industry.

State funding works similar with the requirement that beneficiaries re-invest a majority of the grant in the donor state.

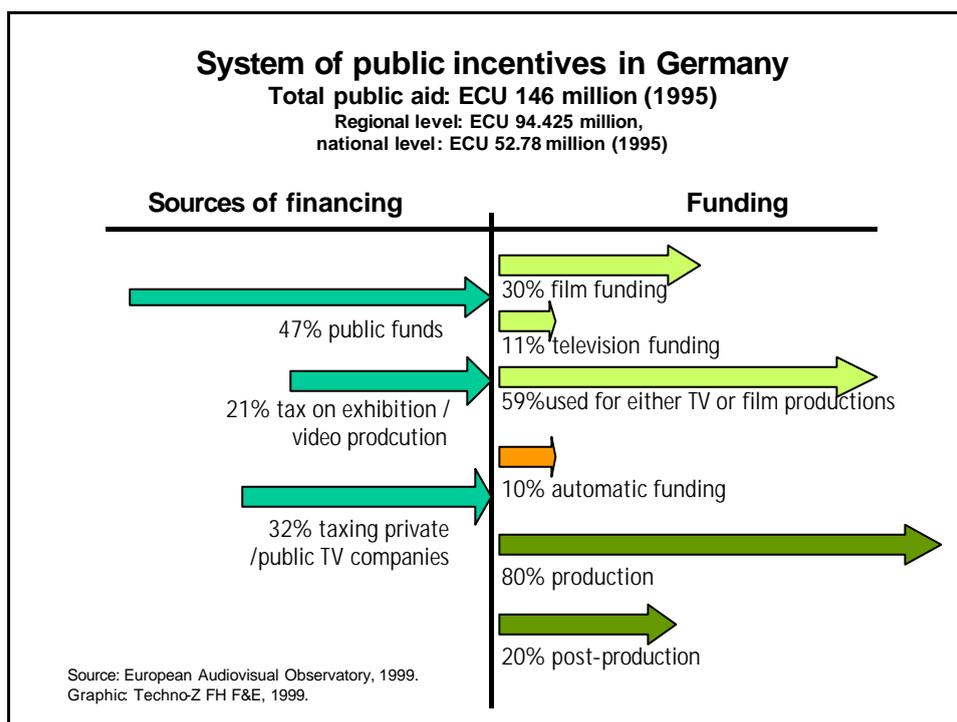
Funding sources

Funding for national and regional aid comes from several sources, including contribution from public, and since 1994, also from private television networks (over 30%), taxes raised from exhibitors and video production (over 20 %), as well as the public hand. Money raised by taxing TV networks is solely channelled through the federal Film Industry Support Agency (Filmförderungsanstalt).

*Special characteristic:
cross-financing through
public service
broadcasters*

Since the regional programming stations of the German public service broadcaster ARD still hold shares in film studios such as Bavaria Film, these studios – indirectly – gain access to the budgets of the public service broadcasters. In the past, Bavaria Film released many productions that have been cross-financed through the public service broadcasters, especially feature film productions like "Das Boot" intended to be broadcast in Germany as well as abroad.

Figure 15: The German system of public incentives – overview



United Kingdom

The United Kingdom established one of the most interesting and novel models for funding its film and television industry. The system is innovative in terms of both how money is raised to fill the film and television funding pools, and the way the funding agencies are organised and how they operate.

Funding resources

In the UK, the budget for funding the AV-industry stems to 100% from market contributions. The decision, to support the British audio-visual industry through contributions from the National Lottery, turned out to be most advantageous for the industry with regards to both the amount of budget available and the stability of the funding system. Since the introduction of the system in 1995, public support for television and film production has increased by 173%.

Funding agencies and types of funding

The British Screen Finance Ltd. (BSF) and BFI Production are the largest funding agencies, besides many regional funding agencies which are organised as private limited companies. The BSF even involves other public-sector intermediaries in the management of its films, i.e. the National Film Trustee Company for revenue management and The Sales Company for the management of foreign sales. In comparison to the other European countries, these funding agencies, which are mainly involved in financing co-productions, take a very active role in their co-operation with the audio-visual industry.

Film production companies primarily receive funding in form of loans for financing complete projects, including the writing of scripts and pre-production. To receive funds, companies are required to be completely open as far as their accounting procedures are concerned. Companies receiving public funds need to set up a joint account with the funding agency, which enables the agency to keep control of accounts and receipts. In addition, the agency also acts as financial advisor to the AV production company. This control mechanisms guarantees that 70% of all loans granted are actually paid back. The system as such, favours an active partnership between funding agencies and funded production companies.

Medium-budget films are often co-produced with the British television networks, in particular Channel 4 which indirectly finances the UK audio-visual industry by commissioning work to independent film makers. In addition, the British system encourages the involvement of private investors by granting tax incentives under the UK tax legislation.

In the UK, 92% of all state-funding goes towards film productions, while only 8% are used for television productions.

Italy

The Italian system of public incentives to the audio-visual industry is based on mechanisms of loans and bank guarantees. In 1995, EUR 91 million were channelled to film production companies, while television production does not receive any state support. The majority of funds goes towards production, while the pre- and post-production industries receive only 1% of the funding, respectively. 92% of the funds available come from the public purse including 8% raised in form of taxes on exhibition.

Funding agencies

The private film production sector receives all state-support via the FUS, the single fund for entertainment in Italy. The FUS, which obtains 100% of its budget from state grants, has the remit to finance all the arts, not just the audio-visual industry. To receive funding, companies need to apply for (sometimes low-interest) loans which are administered by the Banco Nazionale del Lavoro (BNL).

3.2.3 National incentives to support the print industry (newspapers)

A diversified newspaper landscape in Europe has always been considered the epitome of living and working democracies. The democratic process and the agenda-setting role of the press are closely intertwined. This is why the national press enjoys special status within the media industry, and has received such close attention by state governments and national regulators.

Changing economic environment

The dramatic changes currently taking place in the European media landscape however, might have a great effect on the role of European newspapers and finally, on the democratic processes.⁵⁴

On the one hand, the converging technologies introduce new market players such as the financially strong software and telecommunications industry. This results in new market structures, new media oligopolies and new gateways to the audience. On the other hand, the digital media are not as democratic as suggested: information comes largely unprocessed and content is greatly commercialised. In addition, certain social groups do not have access to the new technologies and are currently marginalised. In the future, these potentially undesirable effects need to be closely monitored if the role the press takes in our societies should be maintained.

Direct supports for press in eight European countries

Traditionally, countries in Europe established direct or indirect financial press support systems to guarantee a plurality of independent newspapers as the basic mainstay of democracy.

Eight European countries, namely Belgium, Finland, France, Italy, Luxembourg, the Netherlands, Austria, and Sweden support their national press industries directly.⁵⁵ The total amount of funding for the European newspaper industry each year is hardly quantifiable, especially since the majority of countries employs indirect support measures which are almost impossible to calculate. A diverse newspaper landscape is considered a warranty for a plurality of opinions, and European nations have developed partly very sophisticated systems to maintain the plurality of printed voices within their countries.

Therefore, the following section will concentrate exclusively on currently existing **press support systems** and their many facets. What becomes obvious in the description of the selected national models however, is that many support measures do not just benefit the press, but all printed media.

3.2.3.1 Common elements

The European press landscape has traditionally known a wide variety of regulations and subsidies for the print industry, and although the mechanisms may vary considerably from state to state, the overall objectives are the same.

Common objectives

The basic motive for national governments to provide direct or indirect incentives to the press is the attempt to sustain a plurality of opinions through a diversified press. More concrete, state governments try to keep the number of titles in the press landscape artificially high by employing measures that spare not economically viable papers from dying or mitigate concentration

⁵⁴ cf. Monique van Dusseldorp: "The Internet Age: Threat or Opportunity For European Printed Press?" <http://www.jmc.kent.edu/futureprint/1998fall/vandusseldorp.html>. (download October 9, 1999)

⁵⁵ Josef Trappel: Weißbuch zur Presseförderung in Österreich. Erarbeitet im Auftrag des Bundeskanzleramtes Wien. Basel, 1998, p. 51.

trends. This can be achieved in many ways.

States may create favourable - regulatory, tax, or financial - conditions to lower the entry barriers for new market entrants. State support can also revive and restore competition by supporting the second-ranked publication in a particular market with the goal to avoid local monopolies.⁵⁶

Dual market economy

All state measures need to be evaluated against the dual market which sets the economic paradigm for newspaper production. The press serves two customers, the reader and the advertising industry which are closely intertwined. As such, the leader in a particular market enjoys a competitive advantage over his competitor, as a higher circulation guarantees an disproportionately high share of advertisements, and as a result, more revenues for the publisher. National governments try to intervene and correct the market economies through direct and indirect public incentives which are granted either automatically or selectively.⁵⁷

Indirect aid mechanisms

Among indirect types of aid are all forms of tax incentives, such as reduced value added or sales tax, special forms of tax deductions, tax exemptions in case of re-investment, concessions on the advertising tax, or reduced customs. Other indirect support mechanisms are reduced transport rates for postal and train service, subsidies on paper purchase, or the financial support for news agencies. Indirectly, regulations concerning the advertising market may also benefit the newspaper industry, such as the limitation of advertising hours on television or the total ban of certain advertising contents on TV.

Direct aid mechanisms

In addition to indirect forms of support, about half of the EU member states also grant direct aid to their newspaper industries, through low interest loans, or – even more importantly – by automatically or selectively granting direct subsidies for production, distribution, general investments or for marketing national newspapers abroad.

While all players in the newspaper market benefit from the indirect funding mechanisms, the various European countries employ different selection criteria for granting direct subsidies, such as circulation, position in the market and market strength, frequency of publication, the financial position or a newspaper's relative importance for opinion diversity.

Regulatory framework for state intervention

The regulatory background to justify intervention in most European countries are anchored in the constitution, such as constitutional guarantees of freedom of opinion and the individual's right to publish and disseminate information, as well as freedom of the press.

3.2.3.2 Selected models of national press funding systems

While some countries, like the UK, Switzerland and Germany, employ a rather non-interventionist and almost liberal approach to supporting the press, other nations like Sweden, France, Austria and Norway proactively intervene in the market.⁵⁸ As all European countries employ some or the other form of **indirect** support, the following section will introduce the national models of

⁵⁶ cf. Paul Murschetz: State Support for the Daily Press in Europe: A Critical Appraisal. European Journal of Communications. Vol 13(3), p. 292-313.

⁵⁷ Christina Holtz-Bacha: "Presseförderung im westeuropäischen Vergleich." In: Peter A. Bruck (Hg.): Medienmanager Staat. München: Reinhard Fischer, 1994; S. 444-458.

⁵⁸ Paul Murschetz: State support for the daily press in Europe: a critical appraisal. In: European Journal of Communication. Vol 13(3), p. 292-313.

direct public incentives in France, Sweden and Austria.

France⁵⁹

No other European country applies such a variety of funding mechanisms than France. With a variety of measures, the press support system in France, which already exists since the French Revolution, aims to realise economic as well as cultural objectives.

On the one hand, public incentives intend to fight market concentration and enable readers to purchase newspapers at the lowest possible price, in all parts of France. State support aims at helping publishing houses to invest in modern equipment to remain competitive in the digital age. On the other hand, the goal is to protect the independence of publishing houses to guarantee a plurality of opinions in the national press.

*Indirect aid:
modernising fund,
multimedia fund*

In France, the system of indirect funding mechanisms is especially developed, with the effect to reach highest distribution. All printed media –and not just newspapers – benefit from reduced postal rates (28% of normal rate) which amounted to a total of EUR 800 million in 1997. Since 1998, newspaper publishers pay only 30% of normal rates for transportation by train (other print media pay 80% of normal fair).

The national press further benefits from various forms of tax commission. The value added tax on newspaper sales is reduced to 2.1%. Also, to protect the independence of publishing houses, the state grants a variety of tax and fiscal incentives. Unique in Europe, France supports the marketing of national papers abroad, and since 1996, newspaper sellers are granted special tax deductions and the state pays the social security fees for sellers of national newspapers.

In addition, the state finances two funds which are of special interest to content providers in the digital age. Since 1998, publishing houses may apply for money from the **modernising fund** for investment in new technologies. The fund is financed through a 1% tax on advertising revenues; funds are granted as refundable, low-interest loans.

Unequaled in Europe is also the **multimedia fund**. Publishing houses can tap into this fund to finance the online editions of their papers as well as electronic archives on various publication platforms. Funds of up to EUR 0.65 million are partly refundable loans (40% must be paid back) which may be used to finance 50% of the hardware, software and personnel costs.

*Direct aid:
39 million EUR
selective support*

Parallel to indirect measures which benefit the entire print industry, the French systems selectively funds particular companies directly. In 1995, direct support in France amounted to EUR 39 million. Not all newspaper companies are eligible to receive funding and various selection criteria apply: Newspapers are eligible to receive money from different funds if

- less than 25% of revenues comes from advertising, print run does not exceed 250.000 and **national** circulation does not exceed 150.000 (support currently benefits three opinion dailies),
- less than 5% or 15% of advertising revenue comes from classified ads and applicants must not be market leader in the region of distribution; in addition, print run must not exceed 70.000 and **regional** circulation not 50.000 (mechanism currently benefits 9

⁵⁹ cf. Josef Trappel: Weißbuch zur Presseförderung in Österreich. Erarbeitet im Auftrag des Bundeskanzleramtes in Wien. Basel, 1998, p. 64 ff.

regional papers).

- **Weeklies** receive financial support in relation to their circulation.

In all cases, the amount of funding in these selective systems is bound to the circulation of the paper; the circulation figure is multiplied with a specific factor which then makes the total amount of funding.

Sweden⁶⁰

Besides France, Sweden is one of the European countries with the longest tradition of a nationally supported newspaper industry. Since the beginning of the 1970s, Sweden experiments with different support models and has gained considerable experience over the last 30 years.

The Swedish model is based on the relative market success of the players, which takes into account that it is not the position in the **entire** circulation area that determines economic success, but the circulation in the city where the paper is market leader.

Direct aid

In 1998, direct public incentives for the Swedish press amounted EUR 61 million. The Swedish government grants two forms of direct subsidies to the newspaper industry: first, operative subsidies calculated on circulation and ad revenues, and second, distribution aid.

For operative grants, the Swedish funding system functions as a two step, mechanistic model: operative grants are given to all papers which are not market leaders and which reach less than 40% of the households in a particular region. These direct grants to secondary dailies aim at counterbalancing the competitive disadvantage of smaller papers for advertising revenues, thus, reducing the risk of local monopolies. Papers generally worthy of receiving subsidies must then, in a second step, fulfil certain criteria. Papers must at least reach a circulation of 2000 copies sold primarily on a subscription basis. The price for the paper must be within the industry range, and the share of advertising may not exceed 49% of the content of the paper. Generally, special interest publications are exempted from state funding.

In 1998; operative subsidies amounted for EUR 53.5 million and were used to support about 60% of the almost 170 Swedish newspapers.

In 1970, the Swedish government introduced distribution subsidies to benefit especially secondary newspapers. For this purpose, the Swedish state subsidises joint delivery systems to counteract the advantage of larger papers which can benefit from large scale distribution. Papers utilising this distribution systems pay fees which are calculated according to the weight of the paper. Hence, low circulation newspapers pay less and gain more than high circulation papers. Participating papers are not allowed to run their own distribution system.

Currently, the Swedish government funds five joint distribution systems with EUR 7.34 million (1998); one such system is the post office.

Indirect aid

Besides direct cash incentives to secondary dailies, Sweden funds its press indirectly, through tax incentives on the sales tax and government aids which are placed strategically in economically weaker papers. However, the relieve on sales tax introduced to maintain a high level of consumption is

⁶⁰ cf. Josef Trappel (1998), *ibid.*

financed through an advertising tax which constitutes particular hardship on both, the newspaper and advertising industry. The 4% advertising tax on papers (EUR 114,7 million in 1996) amounts for twice as much money as the sales tax subsidy. Unlike other EU countries, Sweden does not grant reduced postal tariffs for newspapers. Instead, the post office offers the state-supported joint distribution services.

Austria⁶¹

Unlike other European countries, Austria automatically grants funds to all newspapers, based on the "Presseförderungsgesetz". In addition, since 1985, the Austrian government also selectively grants a "special subsidy for the maintenance of variety" to papers in secondary market position. Only those papers are eligible for funding which reach a maximum of 15% of the regional population or a maximum of 5% of the national population. In addition, advertising must exceed 22% of the total yearly page volume.

Direct aid

In 1998, direct press subsidies in Austria totalled EUR 15.7 million, with EUR 4,76 million allocated to the general subsidy and EUR 10.97 million granted as special subsidy to secondary papers. Besides national subsidies, some of the Austrian provinces additionally support the daily press. Depending on the province, funding mechanism and amount may vary. In 1998, regional subsidies provided by the provinces amounted for EUR 2.9 million.

The Austrian government also supports training institutions for journalists.

Indirect aid

Austrian newspapers further benefit from indirect aid mechanisms, such as reduced VAT and reduced postal tariffs. Especially the postal tariff reduction may cause difficulties in the future and needs to be reviewed in the light of current EU-regulation addressing the liberalisation of the postal services market.

In addition, newspapers indirectly benefit from restrictive advertising regulations of the public service broadcaster ORF.

⁶¹ cf. Josef Trappel (1998), *ibid.*; Paul Murschetz (1997), *ibid.*

Table 10: International comparison of public press incentives⁶²

Country	Focus of indirect incentives	Direct incentives	Focus of direct incentives	Evaluation of effectiveness
Austria	Value added tax Postal rates Through advertising market Training of journalists	yes	Automatic Selectively for economically weak papers	no
Finland	Valued added tax Postal rates Through advertising market	yes	Selectively, for economically weak newspapers Distribution	no
France	Various taxes Postal rates Telecommunication rates Transportation (train) Through advertising market	yes	Selectively, for economically weak newspapers French press abroad	no
Germany	Value added tax Postal rates Through advertising market	no	-	-
Ireland	Value added tax	no	-	-
Italy	Value added tax Postal rates Telecommunication rates Through advertising market	yes	Selectively, for political press; papers of co-operations of journalists Italian press abroad	no
Norway	Value added tax Postal rates Through advertising market	yes	Selectively, for economically weak newspapers	yes (limited)
Netherlands	Value added tax Through advertising market	yes	Selectively, for economically weak newspapers	yes
Sweden	Value added tax Through advertising market	yes	Selectively, for economically weak papers Distribution	yes
Switzerland	Sales tax Postal rates Through advertising market	no	-	-
United Kingdom	Value added tax Postal rates Through advertising market	no	-	-

⁶² Christina Holtz-Bacha: "Presseförderung im westeuropäischen Vergleich." In: Peter A. Bruck (Hg.): Medienmanager Staat. München: Reinhard Fischer, 1994; S. 547.

3.2.3.3 Future of state incentives in the print publishing market

Is there still a need for grants to publishers in the age of information abundance?

The new digital technologies put the principles and practicalities of the currently existing interventionist models under pressure. How can states further support an industry (and actively distort competition), if the argument used to justify public aid is constantly undermined? The legitimacy of providing state funding to sustain plurality of opinions needs to be reconsidered in the face of a medium that offers a sheer unlimited wealth of information.

In addition, as the efficacy of existing support systems is not uncontroversial and most treasuries are empty, governments currently review funding mechanisms for the press in order to reduce costs.

Net migration

In the meantime, many European print publishers in Europe take the initiative. Instead of waiting until the new technologies impose a threat to the economic viability of newspapers by stealing away advertising revenues as well as readers, papers themselves embrace the new digital technologies and migrate to the Internet.

Pioneer France

State regulators need to become aware of these trends and need to include new technologies in their funding schemes. Here, France has taken on a pioneer role by introducing its multimedia fund in 1996. This fund allows newspapers to apply for grants to fund the online editions of their publications as well as electronic archives.