Understanding Film Co-Production in the Era of Globalization: A Value Chain Approach

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Abstract
The film industry is closely linked to the nation’s culture and economy. With globalization, however, it has become more engaged in international operations through film co-production. Paradoxically, this instrument emerged as a type of discriminatory measure as well as reflected growing interest in regionalism, notably among European countries facing the dominance of US films. To strengthen this scheme, state subsidies have been widely offered, which has led to it being positively adopted in Europe and beyond. Given this political context, the double-facet of co-production should be carefully understood when this scheme is implemented to promote the film industry. In this regard, it is important to understand clearly how co-production functions and crucially its real impact on the film industry. This paper reveals that in contrast to the common perception, co-production leads easily to cultural paucity, rather than cultural diversity across various aspects. Additionally, subsidies to promote co-production distort it further and make it easier to be exploited. Therefore, such a consideration should be taken into account when redesigning the co-production scheme if governments wish to help promote the national film industry and cultural diversity in the era of globalization.

Policy Implications
- In contrast to the common belief that co-production regimes help globalization and cultural diversity in film industry, notable examples have shown that it has often been used as a discriminatory measure and has led to cultural paucity.
- Policy makers need to be aware that the provision of subsidies to promote co-production can distort the market and will often be easily exploited by various players in the film industry. Only by recognizing the negative outcome from past efforts in this regard will governments be able to truly help promote their country’s film industry and strengthen further cultural diversity in the era of globalization.
- When applying a co-production regime, governments should focus on fostering a business-friendly environment where the film industry and its companies can optimize both domestic and international business functions. This will help provide a healthy competitive environment instead of regulating the private sector through a co-production regime.
- By encouraging business to concentrate on producing attractive films, governments can ensure they have a more sustainable model to recoup production costs and maximize their profits. The benefits are more positive than when business seeks subsidies for co-production and thus becomes dependent on the state instead of focusing on the tastes of the film-going audience.

The end of World War II signified great challenges for Europe’s cultural industries. Its economies were in ruin while it faced the dominance of American films. As a response, several European countries imposed protectionist measures for their film industries since this sector is closely linked to national culture and economy. Co-production was one such approach and has become popular not only in Europe, but also in other regions.1 This scheme is often regarded as having derived from the Franco-Italian Co-Production Agreement of 1949. France and Italy signed this agreement as a way to share the burden of production costs in filmmaking following the end of World War II. The ultimate aim though was to increase the number of films produced in both countries and to enlarge their markets by combining their resources together. An examination of a few specific co-production films reveals some interesting aspects about the use of this policy instrument.

The film Gravity (2013) describes the story of two American astronauts seeking a way to return back to earth safely after their space shuttle encounters serious damage. Throughout the film, these two main actors wear uniforms that are clearly marked by the flag of the United States (US) and speak in American English. Yet, in contrast to the visual representation of its nationality, this film was directed by a Mexican director and won six awards at the British Academy of Film and Television Arts (BAFTA). Notably, it won a BAFTA in the category for ‘Outstanding British Film’ which shows that Gravity clearly passed the ‘cultural test’ to be classified as such. In this respect, it utilized state funds and featured significant British creative involvement including large input by the visual effects company Framestore and was filmed at Pinewood Studios in the United Kingdom (Gettell, 2014).

Another important example is Okja (2017) which created controversy at the Cannes Film Festival in 2017 regarding
the format of its premier release through Netflix. This practice was actually in violation of la chronologie des médias, a French law that prioritizes the release of a movie in theaters ahead of other media outlets. This film covers animal ethics and its story is set in Gangwon province in South Korea as well as New York. It was directed by a Korean director while a US company funded its production. A significant number of scenes were in English as well as in Korean, while the film featured a multinational cast from America, Australia, Canada, Korea, and the UK. Despite these characteristics, when the international media covered the issue of Okja at the 2017 Cannes Film Festival, the majority referred to it as a Korean film.

These films require further analysis on their cultural and economic aspects from the viewpoint of non-US partners as both films were co-productions with US film companies. Culturally, Okja can be considered to be more ‘successful’ as it expressed a noticeable amount of Korean visual elements although it was funded by Netflix. By contrast, Gravity is perceived as a US film despite the provision of significant amounts of British funding. Still, Gravity can be considered to be economically more successful as it achieved revenues of US$693 million at the global box office. It is assumed here that the UK co-production partners for Gravity would have received a significant share of these profits. By contrast, Okja only earned US$2 million (Nash Information Services, 2019). It is important to point out though that this Netflix film faced difficulties with a number of movie theaters who refused to screen it.

Why have there been culturally and economically different results for these films notwithstanding that both are examples of co-productions? What are the implications that can be drawn from this comparison to redesign a more beneficial co-production scheme for participating countries? Last but not least, is co-production effective enough to achieve cultural diversity, or rather does it end up favoring ‘cultural paucity’? This paper addresses these issues by using the business model known as the value chain and includes the following contents. The first section covers the related literature review on co-production. The second section presents the methodology used in this study. The third section analyzes various aspects related to co-production. The fourth section discusses the implications drawn from the analyses of the previous sections and other related issues. Lastly, the conclusion summarizes the findings of this paper coupled with policy implications and suggests areas for possible further studies.

Critical literature review

The Franco-Italian Co-Production Agreement in 1949 was conceived as a countermeasure to address the dominance of US films in Europe. Over the years though, this discriminative aspect has been ‘camouflaged’ under the name of cultural diversity and it has been considered to be an effective instrument toward achieving this objective. Co-production has even been promoted by the United Nations Educational, Scientific and Cultural Organization (UNESCO) through its report which describes mainly three forms of diversity that are achieved through co-production: diversity of film sources, diversity of feature films made, and diversity of feature film screenings. There is also a large body of literature that holds positive views of co-production. Among them, UNESCO (2016) provides the benefits more comprehensively. Thus, this section focuses on this study with a setting in the European Union (EU) where co-production was initiated.

The three forms of diversity are explained as follows. First, as the dominance of US films in many countries has been considered to be detrimental to cultural diversity, co-production is seen as one of the most effective ways to ‘overcome’ this problem by increasing the number of films produced with two or more countries sharing the cost of production. This aspect is also linked to the idea of reviving the national film industry in Europe. Second, diversity of feature films made means diversity in language and categories such as fiction, documentary, and animation. In the EU setting with its various languages and preferences among member states, these diversities can be better achieved through co-production. Last, co-production has been regarded as allowing easy access to the markets of participating countries and beyond. Therefore, these films can be screened to a larger audience (UNESCO, 2016).

Despite these positive appraisals, there are many studies that have presented doubts regarding the benefits of co-production. In relation to the diversity of the film’s sources, Taylor (1995) for example warns that co-production can be abused by countries with well-developed film industries. This argument can be supported by the fact that co-productions are concentrated on five countries, France, Spain, Germany, the UK, and Italy, in the EU during the period between 2007 and 2016. (Talavera, 2018) and only 11 countries managed to release more than ten co-production films a year on average during the same period (Blázquez et al., 2018). This trend still continues according to UNESCO Institute for Statistics (2019). In other words, there is diversity of film sources but it is only concentrated among a few countries which leads to another form of cultural dominance.

As well as the country of origin, it is hard to argue whether the categories of films such as fiction, documentary, and animation can be further diversified through co-production. For example, based on data from 2007 to 2016, Blázquez et al. (2018) show that the total number of films has risen from 1,444 to 2,124; hence, a 47 per cent increase within the EU. Among them, the total number of co-productions has increased by 43 per cent, from 297 in 2007 to 425 in 2016. This shows that the trend of co-production did not outperform ‘national production’. Regarding categories, Talavera (2017, 2018) and Blázquez et al. (2018) clearly state that the boost in the number of documentaries is due to national production while co-production is more focused on the growth of fictional films. Therefore, the impact of co-production on the diversity of feature films is doubtful. It would be better to argue that for such categories periodical trends in the global film industry or the desire among production companies and/or filmmakers are more critical factors for the diversity of films made.
By engaging in co-production projects, it would be expected that a range of films in different languages can be produced. However, achieving true diversity in language is a fraught task as there is a large discrepancy between production and consumption as well as a clash of interests among participants. First of all, the attractiveness of films overrides the importance of language from the perspective of the audience regardless of whether a film was co-produced or not. Second, movie theaters share similar preferences; they prefer to exhibit lucrative films regardless of the language featured. Third, the focus of the filmmaking business is not about the language, but producing a film that will appeal to a large audience. Last, if a provision of a co-production agreement requires that a specific percentage of a language is used, producers will always find loopholes in such regulations; for instance, by significantly reducing the total amount of conversation while increasing a number of simple and/or repetitive phrases in the designated language in order to meet the percentage. This shows that it is mainly the signatory governments that take the language factor into account for co-production. In brief, only co-production films that are attractive enough to access movie theaters and draw in a large audience can truly contribute to the diversity of language; hence, attractiveness is the most important factor.

Concerning the diversity of feature film screenings, simply expanding the market, producing more films, or screening more films does not guarantee more exposure among audiences. Using EU data set, Talavera (2017, 2018) states that co-production films generate more admissions than national films. However, excluding UK data, different results can be drawn that show how national films in fact generate more admissions than co-productions. Given that the UK has co-produced a great number of films with Hollywood studios, it should be carefully considered which factor is more crucial for increased admissions. Is it the influence of co-production or the boxoffice power of Hollywood studios? The reality is that simply expanding the market to increase the number of films screened is not necessarily linked to attracting a larger audience. Again, the core factor is the attractiveness of the film itself.

All of these contractions regarding co-production are, in fact, derived from a misunderstanding of its true function. By establishing a better understanding of co-production schemes, more effective policies for the film industry can be developed. The following sections go beyond the existing literature and delve into the true functions of co-production by using the value chain analysis. It begins with an introduction of the value chain and then follows with the analysis.

**Methodology**

The value chain was developed by Porter (1985) and is a systematic way to examine all the activities a company performs. It further looks at their interactions which are closely linked to sources of competitive advantage that leads to international success. Each of the activities in this value chain is relevant to the company’s strategic movement and contributes toward its competitive advantage. A value chain consists of two main parts, primary activities and support activities (see Figure 1). The primary activities are involved in the physical creation of a product and its sale and transfer to the buyer as well as after-sale assistance. In any firm, primary activities can be divided into five generic categories as shown in Figure 1. Support activities work for the primary activities and each other by providing purchased inputs, technology, human resources, and various firm wide functions (Porter, 1985). All categories may be vital to a company’s competitive advantage, although the level of involvement for each activity can be different and vary by industry or even by individual company.

Among primary activities, inbound logistics is associated with receiving, storing, and disseminating inputs to the product as material handling, warehousing, and inventory control. Operations is a procedure for the transformation of inputs into the final product; for instance, machining, assembly, equipment maintenance, and facility operations. Outbound logistics is related to collecting, storing, and physically

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**Figure 1.** The value chain (Porter, 1985).
The allocation of activities, however, can be influenced by various factors such as novel attempts or unexpected constraints. Furthermore, as one or both partners should leave home for a co-production project, this reality may affect the optimal allocation of activities. As such, this complicity requires well-experienced film companies and filmmakers for effective management (Baltruschat, 2010). While co-production is a way to share the costs of production, the complicity of activity allocation actually increases transaction costs such as extra administration chores, management work, as well as the less-optimized allocation of activities. Therefore, given these factors behind co-production, it is evident that barriers exist which only the big companies are able to overcome smoothly. Such an environment, therefore, hinders the involvement of new entrants, particularly with small and medium-sized entities.

The issues of transaction costs and the allocation of activities can be further complicated as these factors tend to increase budgets and production costs. Under these circumstances, co-production films have to be at a certain level or above to make the project profitable. Unfortunately, producing profitable co-production films – or even for regular national films – cannot be guaranteed because success generally depends very much on the reaction of audiences (Parc, 2017a). Therefore, one of easiest ways for companies to achieve this goal can be either featuring internationally well-known stars and/or co-producing with big companies like the major Hollywood studios. Baltruschat (2013) even argues that without a star actor it can be particularly hard for co-production films to secure funds. These factors all help to explain why UK film productions have sought to increase further their collaboration with US film companies. In this regard, it is important to scrutinize the differences between national production and co-production in terms of cultural and economic aspects.

Another important point regarding co-production is the perceived nationality of films as presented with the cases of Gravity and Okja. This can be explained by distinguishing upstream and downstream activities of the value chain (see Figure 3). The downstream activities which exist on the left side of the value chain are closely linked to scenario, script, and scriptwriting, whereas the upstream activities located on the right side are associated with marketing and sales. Therefore, if the counterpart of US companies for a co-production project takes charge of the downstream activities, these films possess more sense of country specificity compared with a general Hollywood production. Notable examples are Okja and the Harry Potter series (2001–2011). If the counterpart’s activities are more associated with upstream activities, then the co-production films have less country specificity such as Gravity and X-Men: Days of Future Past (2014). By using inputs in different activities of co-production, the characteristics of films can be easily controlled.

Distortion of co-productions with subsidies

Despite the various ‘problematic issues’ for co-production, the choice of this approach depends purely on the companies (or entities). Candidate partners for co-production projects, thus, look for ways to overcome these hindrances through in- and out-sourcing. Meanwhile, as many governments believe that this can contribute toward efforts to revive their film industries and enhance cultural diversity, various forms of government incentives are further offered such as subsidies, cash rebates, tax credits, and tax exemptions in order to promote co-production and to gain the economic benefits from filmmaking. However, these incentives have made the situation even more hectic. On the face of it, they are regarded as different from simply giving away a grant or subsidy. Yet, in reality, they are not much different in terms of economics. Therefore, the terms ‘subsidy’ or ‘subsidies’ are interchangeably used for these incentive schemes.

When subsidies are offered from signatory countries to a co-production project, the partners will become more interested in receiving them as a way to support production costs. Because the film industry is very unpredictable and the success of a film cannot be guaranteed (Parc, 2017a), subsidies can be a good solution to minimize losses or maximize profits. In general, co-production agreements require stringent guidelines for minimum and/or maximum (financial) outlay. In order for a film to qualify as a co-production, the participants must follow these guidelines instead of optimizing the business function. All the administration costs and legal fees from two or more countries to receive subsidies further increases the costs of production. It can also cause a number of unexpected side effects (see Kim et al., [2019], Messerlin and Parc, [2017], and Parc and Messerlin, [2018a, 2018b] for further details).

Furthermore, the subsidy qualification requires a cultural test for co-production which was the case for the film Gravity. This process is very arbitrary even though it has several criteria for qualification provisions. To benefit from co-production subsidies, filmmakers usually have to adjust scenarios, filming locations, or other creative inputs in order for their production to qualify for subsidies. Therefore, it can be argued that this test functions as a form of ‘collective’ censorship which means that these films are then more focused on pleasing only a few members of the decision-making committee or governmental officials. The outcome is that these films are often very far from the expectations or tastes of the general audience who actually pays the taxes that are used for subsidies. In the real world, these films have to be in competition with other attractive films that appeal to a larger audience.

The aspect for diversity of feature films can be easily ‘abused’ by companies or individuals. Although films have a duality that exists between commercial goods and cultural products, the cultural aspect has been more emphasized among cineastes. Under this condition, experimental or auteurs films are warmly welcomed, such as Comrade Kim Goes Flying (Kimdongmu hanul rul nalida, 2012). This film was a Belgium, UK, and North Korea co-production which presents North Korea as a paradise where everyone is happy and enjoys a good life. The director’s creative and challenging spirit can be worthy of praise, and this can be an
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the effectiveness of their co-production and subsidy policies as a large number of film productions are seen as ‘best practice’ although they may not be commercially successful. All of these examples demonstrate clearly the true impact of co-production and how it has been distorted by the subsidy regime.

Conclusion

With recognition of the film industry’s increasing globalization, co-production has been considered to be an effective way to support both the local film industry and the national economy as well as the broader goal of cultural diversity including film sources, produced films, and film screenings. As a result, a number of countries have adopted co-production and even established subsidy regimes to promote it further. Therefore, it is important to understand clearly the true function of co-production and crucially its real impact on the film industry. This paper addresses this issue by adopting the value chain approach with a focus on the production side.

Regarding the functionality of co-production, an analysis from the industrial viewpoint is necessary as business entities are the core actors that make this regime function. Thus, there are three points that need to be highlighted. First, co-production requires specialization which can limit the spillover effects and exchange of knowledge among partners, particularly given the short period for filmmaking. Second, co-production tends to favor large well-experienced film companies who can easily manage the complexity in coordinating the many activities in the value chain. The result is that this instrument unexpectedly discriminates against SMCs that one would normally expect to benefit from co-productions. Last, it is a strategic option to focus on either upstream or downstream activities in the value chain; the country specificity — or perceived nationality — can be enhanced or reduced.

Despite the various difficulties with co-production as analyzed, this paper is not against co-production per se as it is the choice of companies who simply seek to produce the ‘best’ films by optimizing the value chain. However, subsidies for co-production have been shown to significantly distort its function. There are three ways in which this happens. First, subsidies can hamper optimization of the value chain for co-production by clouding over the competitive advantages and disadvantages of the partner companies. Second, subsidies for co-production also act as a form of collective censorship which creates discrepancies in tastes and preferences between the decision-making committee and the general audience. Last, co-production subsidies can be exploited by individuals and companies for their own interest. All of these functions result in producing unattractive films that cannot access movie theaters and thus fail to draw in a large audience. In brief, the contribution of the current regime to cultural diversity is limited, but it may cause cultural paucity when it is misused.

In this regard, the endeavor to utilize the co-production regime to revitalize the national film industry and to achieve cultural diversity can be better established by coming back to the basic function of the market which consists of supply and demand. In this environment, the ultimate goal of business (or companies) is to maximize profits while the primary goal of consumers is to maximize the utility of products. For the film industry, these goals are not very different; companies need to produce attractive films that can draw in a large number of audiences by meeting their expectations. Seen in this way, co-production is not a pre-requisite condition, but rather one of many strategic choices for a company to produce films.

Given these factors, governments should focus on fostering a business-friendly environment where companies can optimize all the (domestic and international) business functions instead of regulating it through a co-production regime. More importantly, the promotion of co-production by using subsidies should be avoided; the choice for co-production should be based on the needs of companies operating in the market. In fact, by disconnecting co-production from subsidies, it becomes clear that co-production is purely a business strategy. As has been highlighted before, subsidies often distort the business function of co-production. Business therefore also needs to concentrate on its ultimate goal; producing attractive films in order to recoup production costs and/or maximize profits through market function, in lieu of supporting the production costs through subsidies of co-production.

The findings in this paper should be taken into account when redesigning co-production and supportive subsidy regime. This paper focuses on the operation of co-production. It will be interesting if other scholars analyze how co-production was initiated before 1949 and how it has evolved through time. Such studies will offer broader views under co-production and subsidies in the film industry, which will contribute toward true cultural diversity.

Notes

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1. International co-production can also be called ‘co-production’, while ‘international’ is added to highlight the ‘country to country aspect.’ UNESCO defines international co-production as a ‘feature film produced involving financial participation of one or more producers of national origin and one or more producers from other countries’, without mentioning about the use of an ‘official’ agreement although co-production is generally based on agreements between signatory countries. This study follows the definition of UNESCO (2019).

2. Depending on the share of contribution, co-production can be classified into majority, minority, and parity.

3. These numbers may include some double counts as different countries may consider the same film as a majority co-production.

References


Author Information

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