

Joining Film Fight, Hungary Tries To Go Hollywood

Nation of Film Pioneers Wants to Lure Movies; Vin Diesel in Prague

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ETYEK, Hungary -- In Hollywood's early days, Hungarians helped build the movie business. Adolph Zukor founded Paramount, William Fox (born Wilhelm Fried) started 20th Century Fox, and director George Cukor blazed a trail from "The Philadelphia Story" to "My Fair Lady." In Hollywood legend, a sign on one studio door once warned, "It's not enough to be Hungarian, you have to have talent too."

During the Cold War, the flow of immigrants and influence died out. Now, in this lush valley 20 miles from Budapest, one of Eastern Europe's fastest-rising construction titans is planning Hungary's movie sequel. Mega-mall developer Sandor Demjan is getting ready to construct the world's biggest movie studio here in his hometown, near the site of a World War II tank battle. He has teamed with Hungarian-

born Hollywood mogul Andrew Vajna, known for producing "Rambo" movies and "Terminator 3."

Their plan is intensifying global competition for the film business, in which Eastern Europe increasingly is playing a starring role. Hungary last year adopted incentives for films and related projects that are viewed in Hollywood as among the most generous in the world. Its push comes as its neighbors, the Czech Republic and Romania, are becoming two of Hollywood's favorite movie back lots thanks to their low costs.

Prague studios have recently churned out as many as 10 films a year, including Tom Cruise's "Mission: Impossible" and the upcoming "The Brothers Grimm," with Matt Damon and Heath Ledger, while Romania nabbed last year's "Cold Mountain." They have joined Britain, Ireland and Bulgaria in the race for film projects in Europe.

The European Union, which Hungary and the Czech Republic joined in May, tries to prevent its members from propping up industries with government aid that creates an uneven playing field. But films and television receive a "cultural exception" originally won by France to protect its heavily subsidized film industry. That has opened a rare door for government incentives and spurred a studio-building boom. EU nations now use the exception to compete for Hollywood action flicks as

well as home-grown art films. Many countries also hope that movie exposure will boost their image, triggering tourist dollars.

Some are pushing the limit in efforts to lure movie makers. The EU's competition regulators recently started reviewing Hungary's policies to see if its aid package is too generous.

Etyek, where Mr. Demjan has been buying up land for years, qualifies for Hungary's highest level of tax discount. The country's filmmakers pushed successfully for up to 50% tax savings on studio construction and related projects, in addition to 20% tax breaks on film productions themselves.

Mr. Demjan, who already is reshaping the commercial-real-estate market with projects in Eastern Europe, hopes to take full advantage. He plans a \$181 million movie-making facility with six sound stages, including one that would be the world's largest, and a tank for underwater filming, amid the empty missile silos of a former military base here. He also intends to build a dozen "villas for the stars" at the complex. "They should be in good mood when they are shooting a film," he says.

Hungarians were part of a wave of Eastern European immigrants, many of them Jewish, who found success in Hollywood beginning in the early 1900s. Kept out of other occupations by prejudice, they were able to

make their mark in a brand-new business: the exhibition of short films in storefront theaters called nickelodeons.

Throughout the 1920s, Paramount's Mr. Zukor and his rivals made trips to Europe, scouting for talent, such as Hungarian Michael Curtiz, who directed "Casablanca." Hungary was among the European nations where a domestic film industry was already flourishing, partly through government support. Hungarian directors and writers benefited from training at formal film schools. Cinematography students were required to study painting, sculpture, classical literature and music.

Hungary's film industry continued to thrive under Communist rule, with plenty of state-funded work. Vilmos Zsigmond, who studied cinematography at the Budapest Academy of Drama and Film went on to shoot "Close Encounters of the Third Kind" and "The Deer Hunter."

But in the 1990s, the fall of communism and aging film studios sent the domestic industry into a tailspin. Some Hungarian films sold less than a thousand tickets, says Balazs Zachar, an official in Hungary's Ministry of Culture. Hungary's well-trained lighting technicians and camera operators found what work there was in TV commercials and a burgeoning pornography industry or left the business.

Mr. Vajna, 60, says he urged government officials for 10 years to build better studio facilities. Hungary's oldest studios date to 1911 and aren't soundproofed. He lobbied for more tax incentives to lure foreign filmmakers, and believes the new law will make Hungary's costs about 60% cheaper than those in the U.S. or Canada. He says it's now cheaper to film in Hungary than it was when he filmed parts of 1996's "Evita" in the country.

A former wig-maker who fled Hungary for Los Angeles in 1956 at age 12, Mr. Vajna went on to co-found Carolco Pictures, a pioneer of the Hollywood action blockbuster. Mr. Vajna and partner Mario Kassar spent heavily on some unworkable projects, and extravagances, such as giving Arnold Schwarzenegger a \$12 million Gulfstream III plane to star in "Terminator 2." Mr. Vajna pulled out of Carolco in 1989. The company filed for bankruptcy in 1995.

Mr. Vajna, who lives in Beverly Hills, Calif., is currently working on "Terminator 4" -- without Mr. Schwarzenegger, now the governor of California. He won't give details on how that will happen, but says "We will surprise the world." In addition, Mr. Vajna owns casinos, a dozen modern multiplexes and a film-distribution business in Hungary.

"He casts a large shadow over the place," says Richard Wright, executive producer of last year's "Underworld," one of the few

Hollywood features recently shot in Hungary. It starred Kate Beckinsale as a vampire.

Early on, Mr. Demjan showed a knack for Western-style marketing. In 1973, he asked a Kmart buyer visiting Budapest to sketch out the layout for a Kmart on a tablecloth over dinner. Three years later, Mr. Demjan opened a state-run store, Hungary's first one modeled after Wal-Mart and Kmart. Within five years, he had opened 10 large stores, called "Skala." When Politburo member Andrei Kirilenko visited one of the Budapest stores, he accused Mr. Demjan of defying Communist ideology by offering too many sizes and colors, as Mr. Demjan and others tell the story. "Empty stores have no ideology," Mr. Demjan replied.

Messrs. Vajna and Demjan met in Hungary some 15 years ago and have remained friends. Mr. Demjan's only previous foray into moviemaking was investing \$50,000 in a 1980 Hungarian film, "The Pagan Madonna."

In 1996, Mr. Demjan built an American-style mega-mall in Budapest. With Canadian gold-mining and real-estate titan Peter Munk, he went on a building spree in Central Europe. They built the 2.1 million-square-foot West End City Center, another mall in downtown Budapest, in 11 months. Mr. Demjan is developing malls, hotels and convention centers in eight countries in Central and Eastern Europe.

With the studio project, he is in a world-wide competition heavily dependent on subsidies. Ireland put in place income-tax deductions a decade ago that sliced a producer's budget by as much as 11%. Foreign companies rushed to take advantage, beginning with Mel Gibson's 1995 "Braveheart." By 2000, according to a study by the Irish film industry, 14% of American visitors cited movies as a source of information in choosing to vacation in Ireland.

When the Irish government moved to close tax loopholes two years ago, the film industry argued that the incentives had helped create 7,000 jobs and contributed \$129 million annually to GNP, including \$70 million through tourism. In the end, Ireland's finance minister extended the film tax breaks until 2008.

After heated debates last year, the EU decided in March to extend its exception allowing such government aid for film and television until mid-2007. The rules were set six years ago, after the EU cracked down on France when it required foreign film producers to spend 100% of a film's budget inside the country. The EU forced France to lower the requirement to a maximum of 80%.

In the Czech Republic, the government eliminated value-added tax in the early 1990s and began attracting Hollywood filmmakers to Prague's Barrandov Studios, a set of 11 stages that were expanded by the Nazis

during World War II. Movies including Vin Diesel's "XXX", Jackie Chan's "Shanghai Knights" and this year's "Van Helsing" with Hugh Jackman were made in the Czech Republic.

Romanian studios claim their costs are 30% lower than in Prague and Hungary, and Romanian officials -- who plan to join the EU by 2007 -- haven't needed incentives yet. But Hungary's recent move has them rethinking their competitive position. "I would expect the Romanian government to make an intelligent move very soon," said Bogdan Moncea, marketing director for Castel Film Studios in Bucharest, where "Cold Mountain" was filmed.

For the past several years Mr. Demjan has been urging his government contacts to follow Canada, where tax incentives for foreign filmmakers have long boosted the economies of Toronto and Montreal. After years of squabbling among themselves, Hungary's filmmakers finally came together last year to push for tax incentives ahead of the country's entry into the EU.

In addition to a tax-rebate scheme similar to the Irish model, Hungary provides tax incentives for private investors who construct film-related buildings. Any building within a studio "complex" intended for filmmaking, such as a hotel or apartments, is also eligible for tax savings of up to 50%.

Hungary's three major film distributors, including one owned by Mr. Vajna, lobbied for the maximum incentives. Hallmark Entertainment, which has made several television productions in Hungary, hired Ernst & Young LLP and Ireland's film tax consultant Pat Cleary for advice. Last November, Hallmark executive Janet Jacobson told Csaba Laszlo, Hungary's then-finance minister, that without 20% tax savings Hallmark would take those productions to lower-cost Romania, said three people familiar with the meeting. Hallmark didn't respond to requests for comment. Mr. Laszlo also declined comment.

The law was adopted with the 20% incentive. Hallmark's "A Christmas Carol," a TV movie starring Kelsey Grammer and Jason Alexander, is the first to test the new film law. Filming wrapped earlier this month in Budapest.

Mr. Demjan plans to name his studio after Sir Alexander Korda, a Hungarian-born producer and director who rejuvenated the British film industry, and who is credited with the legendary quote about Hungarians and talent. Mr. Demjan echoes that sentiment: "It is not enough anymore to be Hungarian," he says. "I will write it also on our studio. Right now, we need to learn from those who are better."